SaskGaming

Second Quarter Report 2011

For the six months ended June 30, 2011

Contents

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:

SaskGaming is the recognized leader in providing gaming entertainment in Saskatchewan.

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 June 30, 2011. 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, 2010.

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 Charted 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 SaskGaming, to adopt IFRS. The impact of the transition to IFRS is disclosed in Note 19 of the interim financial statements.

OUTLOOK

The Corporation's net income before payment to GRF target for 2011 is $51.1 million. At the end of the second quarter, net income before payment to GRF is ahead of budget by $1.4 million. At this time, SaskGaming believes it will achieve its net income target for 2011.

FINANCIAL RESULTS

The following information provides details of the corporation's financial performance for the period January 1 to June 30, 2011, with comparable figures for the same period last year.

	Three months ended June 30				Six months ended June 30			
(in 000's)	2011	2010	Change	%	2011	2010	Change	%
Revenue	$ 34,209	$ 29,876	$ 4,333	14.5%	$ 66,507	$ 61,841	$ 4,666	7.5%
Expenses	20,969	20,243	726	3.6%	41,243	40,534	709	1.7%
Income before payment to General Revenue Fund	13,240	9,633	3,607	37.4%	25,264	21,307	3,957	18.6%
Payment to GRF	6,620	4,754	1,866	39.3%	12,632	10,567	2,065	19.5%
Net Income	$ 6,620	$ 4,879	$ 1,741	35.7%	$ 12,632	$ 10,740	$ 1,892	17.6%

SaskGaming's net income for the second quarter of 2011 was $6.6 million, an increase over the same period in 2010 of $1.7 million. Revenues increased $4.3 million, and expenses increased $2.6 million.

Year to date net income was $12.6 million, an increase of $1.9 million. Revenues increased $4.7 million and expenses increased $2.8 million.

1. Revenue
   Revenue for the second quarter was $34.2 million, an increase of $4.3 million over the same period in 2010. Gaming revenues increased $3.9 million and ancillary revenues increased $0.5 million. 2010 had lower revenues than anticipated due to strike action that occurred between June 3 and July 26, 2010. 2011 did not have similar job action. This resulted in an increase in revenue year-over-year. In addition, guest counts at Casino Regina increased 1.5% in the April and May period compared to the same period last year.

2. Expenses
   Expenses for the second quarter were $21 million, an increase year over year of $726,000. Operating expenses increased $1.1 million. This was due primarily to salaries and employee benefits increasing $1.4 million. Salaries and employee benefits were lower than normal in the second quarter of 2010 due to the strike action that occurred. Finance expenses decreased approximately $0.1 million as SaskGaming continues to repay down its long term debt.

FINANCIAL STATEMENTS

SASKATCHEWAN GAMING CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Unaudited)

As at (in 000s)	June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash	$ 16,265	$ 9,993
Accounts receivable	277	309
Inventory	325	314
Prepaid expenses	1,385	414
	18,252	11,030
Property, plant and equipment (Note 4)	68,445	71,965
	$ 86,697	$ 82,995
LIABILITIES AND EQUITY		
Trade and other payables	$ 8 392	$ 8,798
Payable to the General Revenue Fund (Note 5)	6,556	5,086
Dividend payable	5,109	2,825
Current portion of long-term debt (Note 6)	1,260	2,616
Current portion of finance lease obligation (Note 7)	900	900
	22,217	20,225
Long-term debt (Note 6)	12,768	13,407
Finance lease obligation (Note 7)	6,596	6,661
	41,581	40,293
Equity advance (Note 8)	19,805	19,805
Retained earnings	25,311	22,897
	45,116	42,702
	$ 86,697	$ 82,995

Commitments and contingencies (Note 9)

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

(in 000s)	Three months ended June 30 2011	Three months ended June 30 2010	Six months ended June 30 2011	Six months ended June 30 2010
Revenue (Note 10)	$ 34,209	$ 29,876	$ 66,507	$ 61,841
Operating expenses (Note 11)	17,281	16,192	33,760	32,559
Depreciation	1,703	1,951	3,508	3,743
Taxes (Note 12)	864	883	1,709	1,772
Contractual obligations (Note 9)	754	754	1,508	1,508
Finance expense (Note 13)	367	463	758	952
Income before payment to the General Revenue Fund	13,240	9,633	25,264	21,307
Payment to the General Revenue Fund (Note 5)	6,620	4,754	12,632	10,567
Net income	6,620	4,879	12,632	10,740
Other comprehensive income	---	---	---	---
Comprehensive income	$ 6,620	$ 4,879	$ 12,632	$ 10,740

(See accompanying notes)

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

(in 000s)	June 30, 2011			June 30, 2010		
	Retained Earnings	Equity Advance	Total	Retained Earnings	Equity Advance	Total
Balance as at January 1	$ 22,897	$ 19,805	$ 42,702	$ 20,205	$ 19,805	$ 40,010
Comprehensive income	12,632	---	12,632	10,740	---	10,740
Dividends	(10,218)	---	(10,218)	(12,618)	---	(12,618)
Balance as at June 30, 2011	$ 25,311	$ 19,805	$ 45,116	$ 18,327	$ 19,805	$ 38,132

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(in 000s)	Six months ended June 30, 2011	Six months ended June 30, 2010
Operating activities:		
Net income	$ 12,632	$ 10,740
Adjustments for:		
Finance expense	758	952
Depreciation	3,519	3,776
Gain on sale of property, plant and equipment	(11)	(33)
Changes in non-cash working capital balances:		
Accounts receivable	32	99
Inventory	(11)	28
Prepaid expenses	(971)	(970)
Trade and other payables	(406)	(942)
Payable to the General Revenue Fund	1,470	(811)
	17,012	12,839
Investing activities:		
Proceeds from sale of property, plant and equipment	12	166
Purchases of property, plant and equipment	---	(5,241)
	12	(5,075)
Financing activities:		
Dividends paid	(7,934)	(12,127)
Interest paid	(758)	(966)
Repayment of finance lease obligation	(65)	(59)
Repayment of long-term debt	(1,995)	(2,695)
	(10,752)	(15,847)
Increase (decrease) in cash	6,272	(8,083)
Cash, beginning of period	9,993	14,482
Cash, end of period	$ 16,265	$ 6,399

(See accompanying notes)

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* (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.

SaskGaming operates under the direction of its owner, the Crown Investments Corporation of Saskatchewan (CIC). CIC is the provincial government'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 consolidated interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. These are SaskGaming's first International Financial Reporting Standards (IFRS) consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of SaskGaming is provided in Note 19.

The consolidated interim financial statements were authorized for issue by the Board of Directors on August 26, 2011.

b) Basis of measurement

The 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 consolidated interim financial statements are presented in Canadian dollars, which is SaskGaming's functional currency.

d) **Use of estimates and judgements**

The preparation of financial statements in conformity with IFRSs 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 consolidated interim financial statements is included in the following notes:

- Useful lives of property, plant and equipment (Note 3(e) and Note 4)
- Customer loyalty program (Note 3(c))

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS. The accounting policies have been applied consistently by SaskGaming and its subsidiary.

a) Basis of consolidation

The consolidated interim financial statements include the accounts of 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.

b) Revenue

Gaming revenue (table and slot revenues) represents the net win from gaming activities, which is the difference between the amounts wagered and pay-outs by the casino. Gaming revenues are net of accruals for anticipated payouts of progressive jackpots and liabilities under the Players Club Program.

Ancillary revenues include food, beverage, parking and Show Lounge revenue.

Food, beverage and parking revenue is recognized when the good and services are provided. Show Lounge revenue is recognized when the event occurs.

Revenues exclude the retail value of food, beverage and other promotional allowances provided on a complimentary basis to guests. The cost of providing the complimentary items is included in direct operating expenses.

c) Customer Loyalty Program

As part of its customer loyalty initiative, SaskGaming offers a Players Club Program to patrons. Under the program, club members accumulate reward points or dollars based on the amounts wagered and time spent playing on slot machines and tables. Members can redeem their points for cash or vouchers. SaskGaming records the points earned as a reduction of gaming revenue. A liability is accrued for the estimated cost of the earned points balance at the end of the period under the Player Club Program using a historical weighted average of expected point redemption. If the patron chooses to redeem their points for a voucher, the promotion is part of a current gaming transaction and the patron can redeem the promotional voucher for free or discounted goods or services, the revenue is determined by the fair value of the undelivered goods and services related to a customer loyalty program is deferred until the promotional consideration is provided under IFRIC 13.

d) Inventory

Inventory is stated at the lower of cost and net realizable value. The cost of inventory is determined using the most recent cost.

e) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets. The Corporation ceases to capitalize borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

Assets are depreciated commencing in the year in which they are available for use, using the straight-line method over their useful lives as follows:

Building and renovations, including leased building	5 - 40 years
Furniture and equipment	3 - 5 years

Depreciation methods and useful lives are reviewed at each financial year end and adjusted if appropriate.

f) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to SaskGaming. All other leases are classified as operating leases.

Assets held under a finance lease are initially recognised as assets of SaskGaming and are measured at their fair value at the inception of the lease, or if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between interest expense and reduction of the lease obligation so as to achieve a constant rate on the remaining balance of the liability. The interest component is included in finance expense.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

h) Employee benefits

(i) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to the defined contribution pension plan are recognized as an employee benefit expense in the consolidated statement of comprehensive income when services are rendered by employees.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

i) Foreign currency

Transactions in foreign currencies are translated to the functional currency of SaskGaming at exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. All gains and losses on translation of these foreign currency transactions are included in income in the current period.

j) Financial Instruments

(i) Non-derivative financial assets and liabilities

SaskGaming classifies its financial instruments into one of the following categories: fair value through profit or loss; loans and receivables; and other liabilities. All financial instruments are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below.

Cash is classified as fair value through profit or loss and is recorded at fair value. Accounts receivable are classified as loans and receivable. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

SaskGaming has the following non-derivative financial liabilities which are classified as other liabilities: trade and other payables, payable to the General Revenue Fund, dividend payable and long-term debt. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

SaskGaming derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by SaskGaming is recognized as a separate asset or liability. SaskGaming derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, SaskGaming has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(ii) Embedded derivatives

Derivatives may be embedded in other host instruments and are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, when the embedded derivative has the same terms as those of a stand-alone derivative, and the combined contract is not held-for-trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in net income.

SaskGaming had no contracts with embedded derivatives as at June 30, 2011.

k) Impairment

i. Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ii. Non-financial assets

The carrying amounts of SaskGaming's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

l) Finance income and finance costs

Finance income comprises interest income on bank balances. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

m) New standards and interpretations not yet adopted

Certain new standards, interpretations and amendments to existing standards were issued by the International Accounting Standards Board (IASB) or International Financial Reporting Interpretations Committee (IFRIC) that are mandatory for annual accounting periods beginning after December 31, 2011 or later periods. SaskGaming is assessing the impact of these pronouncements on its results and financial position. These include:

- IFRS 9 Financial Instruments – establishes principles for the financial reporting of financial assets.

4. Property, Plant and Equipment

(in 000s)

	Land	Buildings and renovations	Furniture and equipment	Finance lease	Total
Cost					
Balance at January 1, 2010	$ 15,154	$ 40,560	$ 28,685	$ 8,743	$ 93,142
Additions	---	1,316	4,636	---	5,952
Disposals	---	---	(3,958)	---	(3,958)
Balance at December 31, 2010	$ 15,154	$ 41,876	$ 29,363	$ 8,743	$ 95,136
Balance at January 1, 2011	$ 15,154	$ 41,876	$ 29,363	$ 8,743	$ 95,136
Additions	---	---	---	---	---
Disposals	---	---	(331)	---	(331)
Balance at June 30, 2011	$ 15,154	$ 41,876	$ 29,032	$ 8,743	$ 94,805
Depreciation					
Balance at January 1, 2010	$ ---	$ ---	$ 19,050	$ ---	$ 19,050
Depreciation for the year	---	2,728	4,461	489	7,678
Disposals	---	---	(3,557)	---	(3,557)
Balance at December 31, 2010	$ ---	$ 2,728	$ 19,954	$ 489	$ 23,171
Balance at January 1, 2011	$ ---	$ 2,728	$ 19,954	$ 489	$ 23,171
Depreciation for the year	---	1,501	1,774	244	3,519
Disposals	---	---	(330)	---	(330)
Balance at June 30, 2011	$ ---	$ 4,229	$ 21,398	$ 733	$ 26,360
Carrying Amounts					
At January 1, 2010	$ 15,154	$ 40,560	$ 9,635	$ 8,743	$ 74,092
At December 31, 2010	$ 15,154	$ 39,148	$ 9,409	$ 8,254	$ 71,965
At June 30, 2011	$ 15,154	$ 37,647	$ 7,634	$ 8,010	$ 68,445

SaskGaming leases building and land under a finance lease agreement. At June 30, 2011, the net carrying amount of leased building was $6,834,000 (December 31, 2010 - $7,078,000) and the leased land was $1,176,000 (December 31, 2010 – $1,176,000).

5. Payment to the General Revenue Fund

SaskGaming pays monies to the General Revenue Fund to the extent required to meet the Government's obligations under the *The Saskatchewan Gaming Corporation Act, 1994* to the First Nations Trust, the Community Initiatives Fund, and the Métis Development Fund.

6. Long-Term Debt

(in 000s)

	June 30, 2011	December 31, 2010
Land and building loan, repayable in monthly instalments of $256,715 including interest at 9.2%, due April 1, 2011	$ ---	$ 1,007
Building loan, repayable in monthly instalments of $76,572 including interest at 6.48%, due December 1, 2016	4,242	4,558
Building loan, repayable in monthly instalments of $67,790 including interest at 6.17%, due December 1, 2016	3,786	4,071
Equipment loan, repayable in monthly instalments of $129,529 including interest at 4.527%, due March 28, 2011	---	387
Debt from the General Revenue Fund, bearing interest at 2.85% per annum, due December 1, 2014. Interest is paid semi-annually	6,000	6,000
	14,028	16,023
Current portion	(1,260)	(2,616)
	$ 12,768	$ 13,407

The above loans, excluding the debt from the General Revenue Fund, are secured by assets and a general security agreement and may only be repaid early with a penalty.

Principal repayments required in the next five years are as follows:

(in 000s)	
2012	$ 1,260
2013	1,342
2014	1,430
2015	7,523
2016	1,622
2017 and subsequent	851
	$ 14,028

7. Finance Lease Obligation

Beginning in September 2002, SaskGaming leased the Casino Moose Jaw property for 25 years at an annual cost of $900,000 for the first ten years, and $955,000 annually thereafter. At the end of the lease, SaskGaming will acquire the property for the sum of one dollar.

(in 000s)	June 30 2011	December 31 2010

Total future minimum lease payments	$ 15,375	$ 15,825
Less: future finance charges on finance lease	(7,879)	(8,264)
Present value of finance lease obligation	7,496	7,561
Less current portion of finance lease obligation	(900)	(900)
Finance lease obligation	$ 6,596	$ 6,661

As at June 30, 2011, scheduled future minimum lease payments and the present value of finance lease obligation is as follows:

(in 000s)	1 year	1 – 5 years	More than 5 years
Future minimum lease payments	$ 900	$ 3,811	$ 10,664
Present value of finance lease obligation	140	988	6,368

Fair value of the finance lease obligation is $8,818,000 (2010 - $8,714,000).

8. Equity Advance

As a Saskatchewan Provincial Crown Corporation, SaskGaming's equity financing is in the form of equity advances of $19,805,000 (2010 - $19,805,000) from CIC.

9. Commitments and Contingencies

a) Agreement with Regina Exhibition Association (Association)

On April 1, 1997, SaskGaming entered into an agreement with the Association to fulfil previous commitments made to the Association regarding the maintenance of a certain level of its income.

The Association terminated the agreement effective November 23, 1997. Under the termination provisions of the agreement, SaskGaming agreed to pay the Association monthly payments of $235,417 for the first year following termination of the agreement and, subject to certain conditions, monthly payments of $216,667 until 2027.

b) Agreement with Moose Jaw Exhibition Company Ltd. (MJEX)

On July 31, 2001, SaskGaming entered into an agreement with MJEX regarding the maintenance of a certain level of income upon the opening of Casino Moose Jaw.

Under this agreement, SaskGaming agreed to pay MJEX $34,583 monthly, subject to certain conditions, starting in 2003 and continuing until 2028.

c) Litigation and claims

SaskGaming is involved in litigation and claims that arise from time to time in the normal course of business. In the opinion of management, any liability that may arise from such contingencies would not have a material impact on the consolidated financial position or the consolidated results of operations of SaskGaming.

10. Revenue

(in 000s)	2011	2010
Gaming revenue	$ 61,257	$ 57,089
Ancillary revenue	5,091	4,653
Other	159	99
	$ 66,507	$ 61,841

Ancillary revenues include revenue from food and beverage, parking, Show Lounge, and other non-gaming related activities.

11. Operating Expenses

(in 000s)	2011	2010
Salaries and employee benefits	$ 20,092	$ 18,466
Employee future benefits	942	850
Maintenance and supplies	2,651	2,873
Advertising and promotions	2,319	2,306
Food and beverage cost of goods sold	1,561	1,352
Lease and rental	1,106	1,476
Professional services	1,026	740
Entertainment	967	1,278
Printing and communication	799	978
Utilities and insurance	770	722
Uniforms, recruitment and training	713	635
Sponsorships	379	379
Other direct operating	435	504
	$ 33,760	$ 32,559

12. Taxes

SaskGaming is on the prescribed list of lottery corporations pursuant to Section 188 of *The Excise Tax Act*. In lieu of collecting Goods and Services Tax (GST) on revenue at the retail level, SaskGaming calculates and remits GST according to a formula prescribed by the Canada Revenue Agency (CRA). The formula requires SaskGaming to pay 10 per cent on the purchase of goods and services related to gaming activities.

GST and provincial sales tax on leased equipment is expensed over the term of the lease. Also included in taxes are grants in lieu of property tax.

As a provincial Crown corporation, SaskGaming is not subject to federal or provincial income or capital taxes.

13. Finance Expense

(in 000s)	2011	2010
Interest on long term debt	$ 373	$ 560
Interest on finance lease obligation	385	392
	$ 758	$ 952

14. Pension Plan

Substantially all of SaskGaming's permanent employees participate in the Capital Pension Plan (the Plan), a defined contribution pension plan administered by the Plan's Board of Directors. The Plan sponsor is CIC. The Capital Pension Plan is registered under *The Income Tax Act (Canada)* and is governed by the Superintendent of Pensions (Saskatchewan) in accordance with *The Pension Benefits Act (1992)*. SaskGaming's financial obligation is limited to making the employer's required contributions for current service. During the period, SaskGaming expensed $942,000 (June 30, 2010 - $850,000) for the employer's required contributions.

15. Bank Indebtedness

SaskGaming has established a line of credit of $3 million with its financial institution. The line of credit is unsecured. Interest is charged on the line of credit at the bank's prime rate.

SaskGaming did not have any amount owing on the line of credit at June 30, 2011 (December 31, 2010 - nil).

16. Capital Management

SaskGaming's objectives when managing capital are to ensure adequate capital to support the operations and growth strategies of SaskGaming, and to ensure adequate returns to the shareholder.

SaskGaming funds its capital requirements through internal operating activities and debt. By Order-in-Council, SaskGaming may only borrow up to $56.2 million, which includes finance leases and temporary loans. SaskGaming also has an available line of credit of $2 million at a financial institution.

SaskGaming monitors capital on the basis of the debt to equity ratio. The ratio is calculated as total debt divided by total capital. Total debt includes long and short term debt and finance lease obligation. Capital includes total debt, equity advance and retained earnings at the period end.

For fiscal 2011, SaskGaming's goal is a debt to equity ratio of less than 50%.

The debt ratio is as follows:

(in 000s)

	June 30, 2011	December 31, 2010
Long term debt	$ 14,028	$ 16,023
Finance lease obligation	7,496	7,561
Total debt	21,524	23,584
Equity advance from CIC	19,805	19,805
Retained earnings	25,311	22,897
Total capital	$ 66,640	$ 66,286
Debt ratio	32.3%	35.6%

17. Financial Risk Management

SaskGaming has exposure to the following risks from its use of financial instruments: market risk (foreign currency and interest rate risk), credit risk and liquidity risk

a) Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of SaskGaming's risk management framework and is responsible for developing and monitoring SaskGaming's risk management policies.

SaskGaming's risk management policies are established to identify and analyze the risks faced by SaskGaming, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and SaskGaming's activities.

SaskGaming's Board of Directors oversees how management monitors compliance with SaskGaming's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by SaskGaming. The Board is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors.

b) Fair Value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties 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.

The following table presents the carrying amount and fair value of SaskGaming's financial instruments. The table also identifies the financial instrument category and fair value hierarchy.

(in 000s)			June 30, 2011		December 31,2010	
Financial Instruments	Classification [1]	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	FVTPL	Level One	$16,265	$16,265	$ 9,993	$ 9,993
Accounts receivable	L&R	N/A	277	277	309	309
Trade and other payables	OFL	N/A	8,392	8,392	8,798	8,798
Payable to the General Revenue Fund	OFL	N/A	6,556	6,556	5,086	5,086
Dividend payable	OFL	N/A	5,109	5,109	2,825	2,825
Long-term debt	OFL	N/A	14,028	14,987	16,023	16,916

[1] Classification:
FVTPL – Fair value through profit and loss
L&R - Loans and receivables
OFL - Other financial liabilities

c) Foreign Exchange Risk

SaskGaming faces exposure to the U.S./Canadian dollar exchange rate through the purchase of goods and services payable in U.S. dollars. The risk is not considered significant.

d) Interest Rate Risk

Interest rate risk is the risk of financial loss resulting from changes in market interest rates. SaskGaming may be exposed to interest rate risk on future borrowings, however this risk is not considered significant. SaskGaming has not provided a sensitivity analysis of the impact of interest rate changes on net income as all of SaskGaming's debt is at fixed interest rates.

e) Credit Risk

SaskGaming does not extend credit to its gaming customers. Credit risk is limited to its accounts receivable balance which consists primarily of credit extended to business entities for business functions held at the Show Lounge. Credit risk is not considered significant.

f) Liquidity Risk

Liquidity risk is the risk that SaskGaming is unable to meet its financial commitments as they become due or can only do so at excessive cost. SaskGaming manages its cash resources based on financial forecasts and anticipated cash flows. The following summarizes the contractual maturities of SaskGaming's financial liabilities.

At June 30, 2011 (in 000s)			Contractual cash flows				
Financial Liabilities	Carrying Amount	Total	0-6 months	7 – 12 months	1 – 2 years	3 -5 years	More than 5 years
Trade and other payables	$ 8,392	$ 8,392	$ 8,392	$ ---	$ ---	$ ---	$ ---
Payable to GRF	6,556	6,556	6,556	---	---	---	---
Dividend payable	5,109	5,109	5,109	---	---	---	---
Debt	14,028	16,126	952	952	1,903	11,453	866
Finance lease obligation	7,496	15,375	450	450	946	2,865	10,664
	$ 41,581	$ 51,558	$ 21,459	$ 1,402	$ 2,849	$ 14,318	$ 11,530

At December 31, 2010 (in 000s)			Contractual cash flows				
Financial Liabilities	Carrying Amount	Total	0-6 months	7 – 12 months	1 – 2 years	3 -5 years	More than 5 years
Trade and other payables	$ 8,798	$ 8,798	$ 8,798	$ ---	$ ---	$ ---	$ ---
Payable to GRF	5,086	5,086	5,086	---	---	---	---
Dividend payable	2,825	2,825	2,825	---	---	---	---
Debt	16,023	18,495	2,369	952	1,903	11,539	1,732
Finance lease obligation	7,561	15,825	450	450	918	2,865	11,142
	$ 40,293	$ 51,029	$ 19,528	$ 1,402	$ 2,821	$ 14,404	$ 12,874

Management believes its ability to generate funds will be adequate to support these financial liabilities.

18. Related Party Transactions

The Corporation is indirectly controlled by the Government of Saskatchewan through its ownership of the Corporation's parent, Crown Investments Corporation of Saskatchewan. Included in these consolidated interim financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "government-related entities"). The Corporation has elected to take a partial exemption under IAS 24 Related Party Disclosures which allows government related entities to limit the extent of disclosures about related party transactions with government or other government related entities.

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

In addition, SaskGaming pays provincial sales tax to the Saskatchewan Ministry of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases. SaskGaming also collects liquor consumption tax from customers and remits to the Saskatchewan Ministry of Finance.

Other amounts and transactions due to and from related parties are described separately in these consolidated financial statements and the notes thereto.

Key Management Personnel Compensation

In addition to salaries, SaskGaming provides non-cash benefits to key management personnel, defined as the President, Vice-Presidents and Board members of SaskGaming. Key management personnel compensation is comprised of:

(in 000's)

	2011	2010
Short term employee benefits	$ 792	$ 696
Post-employment benefits (defined contribution pension plan)	33	31
	$ 825	$ 727

19. Transition to IFRS

SaskGaming's consolidated financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS and these consolidated interim financial statements were prepared as described in Note 2, including the application of IFRS1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Corporation will make this statement when it issues its 2011 annual financial statements.

The accounting policies set out in Note 3 have been applied in preparing the interim financial statements for the six months ended June 30, 2011, the comparative information presented in these interim financial statements for both the six months ended June 30, 2010 and the year ended December 31, 2010, and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (SaskGaming's date of transition).

In preparing its opening IFRS statement of financial position, SaskGaming has adjusted amounts reported previously in financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles. Explanations of how the transition from Canadian Generally Accepted Accounting Principles to IFRSs has affected SaskGaming's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables, for significant transition adjustments.

Reconciliation of Equity
(in 000s)

	Note	As at June 30, 2010 GAAP	IFRS Adjustments	IFRS
ASSETS				
Current:				
Cash		$ 6,399	$ ---	$ 6,399
Accounts receivable		246	---	246
Inventory		329	---	329
Prepaid expenses		1,403	---	1,403
		8,377	---	8,377
Property, plant and equipment	a	63,953	11,471	75,424
		$ 72,330	$ 11,471	$ 83,801
LIABILITIES and EQUITY				
Current:				
Trade and other payables		$ 8,167	$ ---	$ 8,167
Payable to GRF		4,753	---	4,753
Dividend payable		6,309	---	6,309
Current portion of long-term debt		4,789	---	4,789
Current portion of finance lease obligation		900	---	900
		24,918	---	24,918
Long-term debt		14,029	---	14,029
Finance lease obligation		6,722	---	6,722
		45,669	---	45,669
Equity advance		19,805	---	19,805
Retained earnings	a	6,856	11,471	18,327
		26,661	11,471	38,132
		$ 72,330	$ 11,471	$ 83,801

Reconciliation of comprehensive income for the three months ended June 30, 2010 (in 000s)

	Note	GAAP	IFRS Adjustments	IFRS Reclassifications	IFRS
Revenue	b	$ 31,914	$ (1,843)	$ (195)	$ 29,876
Ancillary cost of goods sold		619	---	(619)	---
Promotional allowances	b	1,843	(1,843)	---	---
Operating expenses		15,768	---	424	16,192
Depreciation		2,076	(125)	---	1,951
Taxes		883	---	---	883
Contractual obligations		754	---	---	754
Finance expense		463	---	---	463
Income before payment to the General Revenue Fund		9,508	125	---	9,633
Payment to the General Revenue Fund		4,754	---	---	4,754
Net income		4,754	125	---	4,879
Other comprehensive income		---		---	---
Comprehensive income		$ 4,754	$ 125	$ ---	$ 4,879

Reconciliation of comprehensive income for the six months ended June 30, 2010 (in 000s)

	Note	GAAP	IFRS Adjustments	IFRS Reclassifications	IFRS
Revenue	b	$ 66,111	$ (3,798)	$ (472)	$ 61,841
Ancillary cost of goods sold		1,352	---	(1,352)	---
Promotional allowances	b	3,798	(3,798)	---	---
Operating expenses		31,679	---	880	32,559
Depreciation		3,916	(173)	---	3,743
Taxes		1,772	---	---	1,772
Contractual obligations		1,508	---	---	1,508
Finance expense		952	---	---	952
Income before payment to the General Revenue Fund		21,134	173	---	21,307
Payment to the General Revenue Fund		10,567	---	---	10,567
Net income		10,567	173	---	10,740
Other comprehensive income		---	---	---	---
Comprehensive income		$ 10,567	$ 173	$ ---	$ 10,740

Explanation of transition to IFRSs

a) Property, plant and equipment

IFRS 1 provides the option to measure an item of property, plant and equipment at the date of transition at its fair value and use that fair value as its deemed cost at that date. SaskGaming has elected to measure its buildings and land at fair value on the date of transition. Under Canadian Generally Accepted Accounting Principles, these properties were measured on the cost basis. This election resulted in an increase to the cost of the property, plant and equipment of $11.298 million as at January 1, 2010. In addition, at the time of transition, the asset components and corresponding useful lives of the components were reviewed and adjusted. As a result, depreciation expense has decreased $173 thousand for the period ending June 30, 2010.

b) Revenue

Under Canadian Generally Accepted Accounting Principles, the retail value of goods and services provided to guests without charge was included in revenue and then deducted as promotional allowances. Under IFRS, revenue is reported net of promotional allowances. There is no impact to net income.

In addition, internal food and beverage charges have been removed from revenues and expenses. Revenues and direct operating expenses have decreased by $472 thousand for the period ending June 30, 2010. There was no impact to net income.