



Third Quarter Report
2018

For the nine months ended December 31, 2017

Contents

CORPORATE OVERVIEW	3
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
OUTLOOK	4
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	5
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	8

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. 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 number one entertainment choice in our markets.

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, 2017. 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 year ended March 31, 2017.

FINANCIAL RESULTS

The following information provides details of the Corporation's financial performance for the periods October 1, 2017 to December 31, 2017 and April 1, 2017 to December 31, 2017 with comparative information for 2016.

	Three months ended December 31				Nine months ended December 31			
	2017	2016	Change	%	2017	2016	Change	%
(Thousands of Dollars)								
Revenue	\$ 29,186	\$ 31,086	\$ (1,900)	-6.1%	\$ 91,086	\$ 94,190	\$ (3,104)	-3.3%
Expenses	18,598	19,028	(430)	-2.3%	54,376	57,012	(2,636)	-4.6%
Income before payment to General Revenue Fund	10,588	12,058	(1,470)	-12.2%	36,710	37,178	(468)	-1.3%
Payment to GRF	5,294	6,029	(735)	-12.2%	18,355	18,589	(234)	-1.3%
Net Income	\$ 5,294	\$ 6,029	\$ (735)	-12.2%	\$ 18,355	\$ 18,589	\$ (234)	-1.3%

SaskGaming's year to date income before payment to the GRF for the third quarter of fiscal 2018 was \$36.7 million, a decrease over the same period in fiscal 2017 of \$0.5 million. Revenues decreased \$3.1 million, offset by a decrease in expenses of \$2.6 million.

1. Revenue

Revenue for the third quarter was \$29.2 million, a decrease of \$1.9 million over the same period in fiscal 2017. Year to date revenue was \$91.1 million, a decrease of \$3.1 million over the same period in fiscal 2017. Gaming revenues decreased \$2.5 million from fiscal 2017. The gaming revenue decrease is largely due to a \$2.0 million decline in slot revenue and a \$0.5 million decrease in table revenues. Guest counts at Casino Regina decreased 0.2% from the prior year and at Casino Moose Jaw guest counts increased 7.7%, which resulted in an overall increase in guest counts year to date of 1.3% from fiscal 2017. Although overall guest counts have increased, the average spend per slot guest is below fiscal 2017 levels.

2. Expenses

Total expenses for the third quarter were \$18.6 million, a decrease year over year of \$0.4 million. Year to date expenses were \$54.4 million, a decrease year over year of \$2.6 million. The decrease is due primarily to reductions in SaskGaming's salaries, wages & benefits of \$1.0 million, advertising & promotions of \$0.3 million and food & beverage cost of goods sold of \$0.3 million.

OUTLOOK

SaskGaming's income before payment to the GRF target for fiscal 2018 is \$47.1 million. At the end of the third quarter, income before payment to GRF is slightly above budget by \$0.2 million. Net revenues are below budget by \$4.4 million, offset by expenses being ahead of budget by \$4.6 million. The casino gaming market in Saskatchewan and Canada has matured, resulting in flattening or declining revenues in most jurisdictions. SaskGaming is expecting this industry trend to continue for the remainder of the fiscal year. While at the end of the third quarter income before payment to the GRF is on budget, gaming revenues are forecasted to remain below budget. In addition, timing of expected expenses has resulted in a lower forecasted income before payment to the GRF for fiscal 2018 of \$45.5 million.

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at (Thousands of Dollars)	December 31, 2017 <u>(Unaudited)</u>	March 31, 2017 <u>(Audited)</u>
ASSETS		
Current assets:		
Cash	\$ 16,660	\$ 21,705
Accounts receivable	293	131
Inventory	261	281
Prepaid expenses	<u>522</u>	<u>440</u>
	17,736	22,557
Property, plant and equipment	<u>56,035</u>	<u>56,948</u>
	<u>\$ 73,771</u>	<u>\$ 79,505</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	\$ 9,828	\$ 8,951
Payable to the General Revenue Fund	5,293	5,786
Dividend payable	4,014	14,803
Current portion of finance lease obligation	<u>374</u>	<u>346</u>
	19,509	29,886
Finance lease obligation	<u>5,501</u>	<u>5,785</u>
	25,010	35,671
Retained earnings	<u>48,761</u>	<u>43,834</u>
	<u>\$ 73,771</u>	<u>\$ 79,505</u>

(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	
	2017	2016	2017	2016
Revenue	\$ 29,186	\$ 31,086	\$ 91,086	\$ 94,190
Operating expenses	15,549	15,979	45,318	47,827
Depreciation	1,425	1,406	4,198	4,174
Contractual obligations	753	753	2,261	2,261
Taxes	720	726	2,139	2,231
Finance expense	151	164	460	519
	<u>18,598</u>	<u>19,028</u>	<u>54,376</u>	<u>57,012</u>
Income before payment to the General Revenue Fund	10,588	12,058	36,710	37,178
Payment to the General Revenue Fund	<u>5,294</u>	<u>6,029</u>	<u>18,355</u>	<u>18,589</u>
Net income	5,294	6,029	18,355	18,589
Other comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Comprehensive income	<u>\$ 5,294</u>	<u>\$ 6,029</u>	<u>\$ 18,355</u>	<u>\$ 18,589</u>

(See accompanying notes)

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

(Thousands of Dollars)	2017	2016
Retained earnings, beginning of period	\$ 43,834	\$ 48,959
Comprehensive income	18,355	18,589
Dividends	<u>(13,428)</u>	<u>(14,697)</u>
Retained earnings, end of period	<u>\$ 48,761</u>	<u>\$ 52,851</u>

(See accompanying notes)

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

(Thousands of Dollars)	<u>2017</u>	<u>2016</u>
Operating activities:		
Net income	\$ 18,355	\$ 18,589
Adjustments for:		
Finance expense	460	519
Depreciation	4,186	4,159
Loss on sale of property, plant and equipment	12	15
Changes in non-cash working capital balances:		
Accounts receivable	(162)	16
Inventory	20	19
Prepaid expenses	(82)	(115)
Trade and other payables	877	(1,213)
Payable to the General Revenue Fund	(493)	203
	<u>23,173</u>	<u>22,192</u>
Investing activities:		
Proceeds from sale of property, plant and equipment	45	1
Purchases of property, plant and equipment	(3,330)	(3,157)
	<u>(3,285)</u>	<u>(3,156)</u>
Financing activities:		
Dividends paid	(24,217)	(14,608)
Interest paid	(460)	(519)
Repayment of finance lease obligation	(256)	(231)
Repayment of long-term debt	-	(1,266)
	<u>(24,933)</u>	<u>(16,624)</u>
Change in cash	(5,045)	2,412
Cash, beginning of period	<u>21,705</u>	<u>17,721</u>
Cash, end of period	<u>\$ 16,660</u>	<u>\$ 20,133</u>

(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 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 is an agent of Her Majesty in Right of the Province of Saskatchewan, and, as a provincial Crown corporation, is not subject to provincial or federal income and capital taxes.

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, 2017 audited financial statements.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on February 15, 2018.

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, 2017 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 the finance lease obligation is 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)		Fair Value Hierarchy	December 31, 2017 (Unaudited)		March 31, 2017 (Audited)	
			Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Instruments	Classification ¹					
Finance lease obligation	OFL	Level Two	5,875	6,856	6,131	7,339

¹Classification:

OFL - Other financial liabilities