



Second Quarter Report
2020

For the six months ended September 30, 2019

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 parking facilities.

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 six month period ended September 30, 2019. 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, 2019.

FINANCIAL RESULTS

The following information provides details of the Corporation's financial performance for the periods July 1, 2019 to September 30, 2019 and April 1, 2019 to September 30, 2019 with comparative information for 2018.

(Thousands of Dollars)	Three months ended September 30				Six months ended September 30			
	2019	2018	Change	%	2019	2018	Change	%
Revenue	\$ 29,507	\$ 30,091	\$ (584)	-1.9%	\$ 60,409	\$ 60,113	\$ 296	0.5%
Expenses	18,445	18,563	(118)	-0.6%	36,649	36,831	(182)	-0.5%
Income before payment to General Revenue Fund	11,062	11,528	(466)	-4.0%	23,760	23,282	478	2.1%
Payment to GRF	5,531	5,764	(233)	-4.0%	11,880	11,641	239	2.1%
Net Income	\$ 5,531	\$ 5,764	\$ (233)	-4.0%	\$ 11,880	\$ 11,641	\$ 239	2.1%

SaskGaming's year to date income before payment to the GRF for the second quarter of fiscal 2020 was \$23.8 million, an increase over the same period in fiscal 2019 of \$0.5 million. The increase over the prior year was due to increased revenues of \$0.3 million and decreased in expenses of \$0.2 million.

Revenue

Revenue for the second quarter was \$29.5 million, a decrease of \$0.6 million over the same period in fiscal 2019. Year to date revenue was \$60.4 million, an increase of \$0.3 million over the same period in fiscal 2019. The increase in year to date revenue was driven by increased gaming revenues, which increased by \$0.3 million from fiscal 2019. The gaming revenue increase was largely due to a \$0.2 million increase in slot revenue and a \$0.1 million increase in table revenues. Slot revenue has increased primarily due to increased spend per guest compared to the prior year. Table revenues have increased due to increased demand and utilization of the Roulette and Poker product lines.

Expenses

Total expenses for the second quarter were \$18.4 million, which was a slight improvement from the same period fiscal 2019. Year to date expenses were \$36.6 million, a decrease year over year of \$0.2 million. The overall decrease in expenses was as a result of SaskGaming's ongoing commitment to controlling costs.

OUTLOOK

SaskGaming's income before payment to GRF for the three month period was \$11.1 million and \$23.8 million year to date. At the end of the second quarter, income before payment to GRF was above budget by \$1.4 million. At this time, SaskGaming has increased its income before payment to GRF target for fiscal 2020 from \$43.7 million to \$44.2 million.

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at (Thousands of Dollars)	<u>September 30, 2019</u> (Unaudited)	<u>March 31, 2019</u> (Audited)
ASSETS		
Current assets:		
Cash	\$ 20,095	\$ 18,195
Accounts receivable	336	140
Inventory	237	257
Prepaid expenses	1,556	793
	22,224	19,385
Property, plant and equipment	60,183	59,278
	\$ 82,407	\$ 78,663
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	\$ 11,196	\$ 10,592
Payable to the General Revenue Fund	5,531	5,120
Dividend payable	4,479	4,576
Current portion of lease liabilities	447	425
	21,653	20,713
Lease liabilities	4,747	4,976
	26,400	25,689
Retained earnings	56,007	52,974
	\$ 82,407	\$ 78,663

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the three and six months ended September 30
(Unaudited)

(Thousands of Dollars)	Three months ended September 30		Six months ended September 30	
	2019	2018	2019	2018
Revenue	\$29,507	\$30,091	\$60,409	\$60,113
Operating expenses	15,227	15,446	30,215	30,630
Depreciation	1,636	1,589	3,260	3,091
Contractual obligations	754	754	1,508	1,508
Taxes	695	630	1,396	1,311
Finance expense	133	144	270	291
	18,445	18,563	36,649	36,831
Income before payment to the General Revenue Fund	11,062	11,528	23,760	23,282
Payment to the General Revenue Fund	5,531	5,764	11,880	11,641
Net income	5,531	5,764	11,880	11,641
Other comprehensive income	-	-	-	-
Comprehensive income	\$ 5,531	\$ 5,764	\$11,880	\$11,641

(See accompanying notes)

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

(Thousands of Dollars)	2019	2018
Retained earnings, beginning of period	\$ 52,974	\$ 48,482
Comprehensive income	11,880	11,641
Dividends	(8,847)	(8,958)
Retained earnings, end of period	\$ 56,007	\$ 51,165

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended September 30
(Unaudited)

(Thousands of Dollars)	<u>2019</u>	<u>2018</u>
Operating activities:		
Net income	\$ 11,880	\$ 11,641
Adjustments for:		
Finance expense	270	291
Depreciation	3,258	3,083
Loss on sale of property, plant and equipment	2	8
Changes in non-cash working capital balances:		
Accounts receivable	(196)	(210)
Inventory	20	11
Prepaid expenses	(763)	(819)
Trade and other payables	604	652
Payable to the General Revenue Fund	411	877
	<u>15,486</u>	<u>15,534</u>
Investing activities:		
Purchases of property, plant and equipment	<u>(4,165)</u>	<u>(6,096)</u>
Financing activities:		
Dividends paid	(8,944)	(9,674)
Interest paid	(270)	(291)
Repayment of lease liabilities	<u>(207)</u>	<u>(187)</u>
	<u>(9,421)</u>	<u>(10,152)</u>
Change in cash	1,900	(714)
Cash, beginning of period	<u>18,195</u>	<u>17,204</u>
Cash, end of period	<u>\$ 20,095</u>	<u>\$ 16,490</u>

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended September 30
(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, 2019 audited financial statements.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 21, 2019.

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 six months ended September 30
(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, 2019 financial statements.

Effective April 1, 2019 SaskGaming adopted IFRS 16 *Leases* ("IFRS 16"). IFRS 16 introduces a single, on balance sheet lease accounting model for lessees. The lessee recognizes a right-of-use asset and a lease liability at the lease commencement date. Upon recognition, the right-of-use asset is measured at cost, which includes the initial lease liability adjusted for any lease payments made at or before the commencement date of the lease less any lease incentives received, plus any direct costs incurred and estimated costs to dismantle and remove the asset, if any. IFRS 16 replaces previous accounting standards for leases, including IAS 17 – *Leases*.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property, plant and equipment. Right-of-use assets are also periodically assessed and adjusted for impairment.

The lease liability is initially measured at the present value of outstanding lease payments at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be determined, SaskGaming's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest rate method. If there is a change in the future lease payments the lease liability will be adjusted.

IFRS 16 allows for recognition exemptions for both short-term leases and leases of low-value items. These exemptions result in lease payments being expensed on a straight line basis. Short-term leases are leases with a lease term of 12 months or less that do not contain a purchase option. Low value assets are generally office furniture and IT equipment. SaskGaming has elected to apply both of these exemptions.

SASKATCHEWAN GAMING CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended September 30
(Unaudited)

3. Significant Accounting Policies (Continued)

Leasing Activities

The major categories of leased items are:

- Gaming equipment leases (including slot machines);
- Other equipment

SaskGaming leases certain gaming equipment, which primarily includes slot machines. SaskGaming utilizes a combination of purchased and leased slot machines to enable the continuous refreshment of the gaming experience for guests. As a result slot machines are leased on a short-term basis and replaced frequently. SaskGaming has elected to apply the recognition exemption for short-term leases.

SaskGaming also leases other equipment items including photocopiers, water coolers and restaurant dishwashers. These leases were assessed and determined to be low value items. SaskGaming has elected to apply the recognition exemption for low value leases.

SaskGaming leases the property where Casino Moose Jaw is located. Prior to adoption of IFRS 16 this lease was accounted for as a finance lease obligation. There is no change to the accounting for this lease under IFRS 16. The "Finance lease obligation" lines on the Statement of Financial Position have been renamed as "Lease liabilities".

Method of Adoption

Effective April 1, 2019, SaskGaming adopted IFRS 16 using the modified retrospective method whereby the cumulative effect of the change determined by applying the principles and practices of IFRS 16 are recognized in retained earnings on April 1, 2019. There was no impact to SaskGaming's opening retained earnings on transition. Comparative information was not restated. SaskGaming has chosen to apply the following practical expedients:

- Recognition exemptions for short-term and low value leases
- Use of hindsight in assessing lease terms
- Grandfathering the lease definition on transition

The adoption of the new standard did not have a material impact on SaskGaming's financial statements.

SASKATCHEWAN GAMING CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended September 30
(Unaudited)

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.

(Thousands of Dollars)			September 30, 2019 (Unaudited)		March 31, 2019 (Audited)	
Financial Instruments	Classification ¹	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	FVTPL	Level One	\$ 20,095	\$ 20,095	\$ 18,195	\$ 18,195
Accounts receivable	AC	Level Two	336	336	140	140
Trade and other payables	OL	Level Two	11,196	11,196	10,592	10,592
Payable to the GRF	OL	Level Two	5,531	5,531	5,120	5,120
Dividend payable	OL	Level Two	4,479	4,479	4,576	4,576

¹ Classification:

FVTPL - Fair value through profit and loss

AC - Amortized cost

OL - Other liabilities