

**NOVA SCOTIA PROVINCIAL LOTTERIES  
AND CASINO CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2018**

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## Management Responsibilities for Financial Reporting

These consolidated financial statements are the responsibility of the management of Nova Scotia Provincial Lotteries and Casino Corporation ("NSPLCC"). They have been approved by its Board of Directors.

Management has prepared the consolidated financial statements in accordance with International Financial Reporting Standards. The financial information contained in the Summary of Results is consistent with the data presented in the consolidated financial statements.

The gaming activities of NSPLCC are undertaken by operators acting on its behalf. These gaming activities are audited by independent auditors. The Corporation relies on the audit opinions of these independent auditors. The responsibility of the Auditor General of Nova Scotia is to express an independent opinion on whether the consolidated financial statements of NSPLCC are stated fairly, in accordance with International Financial Reporting Standards. The Independent Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

NSPLCC maintains books of accounts and systems of financial and management control, which provide reasonable assurance that accurate financial information is available, that assets are protected, and that resources are managed efficiently.

The Board of Directors oversees audit activities through its audit committee. The committee reviews matters related to accounting, auditing and internal control systems, and the consolidated financial statements and audit reports of the auditors of the Corporation and its operators.



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**Robert MacKinnon, CPA, CA**  
President & CEO



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**Kara Dort, CPA, CA**  
VP – Finance & Strategy



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# Auditor General of Nova Scotia

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Nova Scotia Provincial Lotteries and Casino Corporation:

### Report on the Financial Statements

I have audited the accompanying consolidated financial statements of the Nova Scotia Provincial Lotteries and Casino Corporation, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statement of net and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Nova Scotia Provincial Lotteries and Casino Corporation as at March 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

I draw attention to Note 11 to the consolidated financial statements which describes an ongoing matter between the Nova Scotia Provincial Lotteries and Casino Corporation and the Canada Revenue Agency with respect to Harmonized Sales Tax on revenues from video lottery machines operating on First Nation reserves in Nova Scotia. The Nova Scotia Provincial Lotteries and Casino Corporation has remitted the assessed amount of \$29,600,000 for the period from June 1, 2009 to October 31, 2013, and has self-assessed and remitted monthly amounts totaling \$31,883,000 from November 1, 2013 to March 31, 2018. The total amount of \$61,483 has been remitted on a without prejudice basis. My opinion is not qualified in respect of this matter.

Michael A. Pickup, CPA, CA  
Auditor General of Nova Scotia

June 22, 2018  
Halifax, Nova Scotia



# NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31 (IN THOUSANDS)

<b>ASSETS</b>	<u>2018</u>	<u>2017</u>
<b>Current assets</b>		
Cash and cash equivalents (Note 4)	\$ 7,041	\$ 6,130
Cash – restricted (Note 5)	5,297	5,290
Trade and other receivables (Note 6)	1,304	1,491
Prepays	4,754	6,537
Inventories (Note 7)	2,048	2,260
	20,444	21,708
<b>Non-current assets</b>		
Property, plant and equipment (Note 8)	73,389	75,974
Intangible assets (Note 9)	2,275	3,224
Cash - casino capital replacement reserve (Note 10)	6,522	10,548
Disputed HST assessments (Note 11)	61,483	53,473
Investment in Atlantic Lottery Corporation Inc. (Note 3.2)	13,990	10,559
Investment in Interprovincial Lottery Corporation (Note 22)	1	1
	157,660	153,779
	<b>\$ 178,104</b>	<b>\$ 175,487</b>
 <b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Bank indebtedness (Note 4)	\$ 115	\$ 365
Trade and other payables (Note 12)	17,889	17,528
Deferred revenue (Note 13)	589	754
Provisions (Note 14)	5,297	5,290
Due to Atlantic Gaming Equipment Limited (Note 15)	6,970	6,885
Other liabilities (Note 16)	1,274	1,098
Due to Province of Nova Scotia	104,648	101,166
	136,782	133,086
<b>Non-current liabilities</b>		
Due to Atlantic Gaming Equipment Limited (Note 15)	12,376	18,826
Other long-term liabilities – asset retirement obligation (Note 3.11)	253	254
	12,629	19,080
<b>Equity</b>		
Casino capital replacement reserve (Note 10)	16,723	15,975
Retained earnings (Note 3.2)	11,970	7,346
	28,693	23,321
	<b>\$ 178,104</b>	<b>\$ 175,487</b>

Commitments (Note 23)  
Contingencies (Note 24)

See accompanying notes to the financial statements

Approved on behalf of the Board,

Byron Rafuse

**Byron Rafuse**  
Chair

**NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION**  
**CONSOLIDATED STATEMENT OF NET AND COMPREHENSIVE INCOME**  
 FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)

	2018	2017
Revenue (Note 17)	\$ 447,554	\$ 431,684
Cost of sales (Note 26)	294,898	279,956
Gross profit	152,656	151,728
<i>Expenses</i>		
Depreciation and amortization	(8,779)	(10,458)
Finance costs (Note 18)	(1,072)	(1,102)
Other expenses (Note 19)	(15,895)	(13,853)
Profit before the following	126,910	126,315
Interest and other income	4,548	4,493
<b>Net and comprehensive income before Win tax</b>	<b>131,458</b>	<b>130,808</b>
<b>Win tax (Note 3.15.2)</b>	<b>15,443</b>	<b>13,770</b>
<b>Net and comprehensive income</b>	<b>\$ 146,901</b>	<b>\$ 144,578</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
 FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)

	Retained earnings (deficit)	Casino capital replacement reserve	Total
Balance at March 31, 2016	\$ (457)	\$ 14,294	\$ 13,837
Net and comprehensive income	144,578	-	144,578
Contributions or distributions			
Change in reserve	-	1,681	1,681
Change in investment in Atlantic Lottery Corporation Inc.	7,803	-	7,803
Profit to the Province	(144,578)	-	(144,578)
<b>Balance at March 31, 2017</b>	<b>\$ 7,346</b>	<b>\$ 15,975</b>	<b>\$ 23,321</b>
Net and comprehensive income	146,901	-	146,901
Contributions or distributions			
Change in reserve	-	748	748
Change in investment in Atlantic Lottery Corporation Inc.	4,624	-	4,624
Profit to the Province	(146,901)	-	(146,901)
<b>Balance at March 31, 2018</b>	<b>\$ 11,970</b>	<b>\$ 16,723</b>	<b>\$ 28,693</b>

See accompanying notes to the financial statements

# NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)

	<b>2018</b>	<b>2017</b>
<b>OPERATING</b>		
Net and comprehensive income	\$ 146,901	\$ 144,578
Allocation of profit to the Province	(146,901)	(144,578)
Depreciation and amortization	12,858	13,488
Loss on disposal of property, plant and equipment	12	46
Net transfers of property, plant and equipment	(271)	(2,654)
Changes in non-cash working capital balances		
Disputed HST assessments	(8,010)	(7,692)
Trade and other receivables	187	97
Other assets	1,783	(1,414)
Inventories	212	(284)
Trade and other payables	361	1,860
Deferred revenue and recovery	(165)	(398)
Other liabilities	176	158
Due to Province of Nova Scotia	3,482	9,657
	10,625	12,864
<b>FINANCING</b>		
Increase/(decrease) in current payable to Atlantic Gaming Equipment Limited	85	(2,433)
Decrease in non-current payable to Atlantic Gaming Equipment Limited	(6,450)	(3,235)
Decrease in other long-term liabilities	(1)	(15)
	(6,366)	(5,683)
<b>INVESTING</b>		
Purchases of capital assets	(9,065)	(4,579)
Change in investment of Atlantic Lottery Corporation Inc.	1,193	(3,589)
Increase in Casino Capital Replacement Reserve, net of cash	4,774	1,525
	(3,098)	(6,643)
<b>Net increase in cash and cash equivalents</b>	<b>1,161</b>	<b>538</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>5,765</b>	<b>5,227</b>
<b>Cash and cash equivalents, end of year (Note 4)</b>	<b>\$ 6,926</b>	<b>\$ 5,765</b>

See accompanying notes to the financial statements

## 1. Reporting entity

The Nova Scotia Gaming Corporation was incorporated on February 15, 1995, by Chapter 4 of the Acts of 1994-95, the *Gaming Control Act*. The *Gaming Control Act* was amended on November 13, 2012, whereby the name of the Corporation was changed to Nova Scotia Provincial Lotteries and Casino Corporation. Effective April 18, 2018, the name of the Corporation was changed to Nova Scotia Gaming Corporation. The address of its registered office and principal place of business is 5<sup>th</sup> Floor Summit Place, 1601 Lower Water Street, Halifax, Nova Scotia, Canada. The consolidated financial statements comprise those of the individual entity, Nova Scotia Provincial Lotteries and Casino Corporation, its subsidiaries and its interest in associates and jointly controlled entities (collectively referred to as “the Corporation”).

The principal activities of Nova Scotia Provincial Lotteries and Casino Corporation is to develop, undertake, organize, conduct and manage casinos, other lottery schemes and related businesses on behalf of the Province of Nova Scotia.

The Corporation is exempt from income tax under Section 149 of the *Income Tax Act*.

## 2. Basis of presentation

### A. Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (“IASB”).

### B. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets at the time of acquisition.

### C. Functional and presentation currency

The Corporation’s presentation and functional currency is Canadian dollars. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

### D. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Corporation’s accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and when such amounts are not readily apparent. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements and assumptions concerning the future that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements are contained in the various notes to the statements as follows:

- estimates of gaming revenue (see Note 3.3);
- valuation of casino award credits (see Note 3.3);
- useful lives of property, plant and equipment (see Note 3.7);
- impairment of property, plant and equipment (see Note 3.8); and
- estimates of employee benefits cost (see Note 3.6).

### 3. Significant accounting policies

The accounting policies followed by the Corporation are summarized as follows:

#### **3.1 Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Corporation, and entities controlled by the Corporation from the date that control commences until the date whereby control ceases.

The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The entities controlled by the Corporation are as follows:

#### **Nova Scotia Gaming Equipment Limited**

Nova Scotia Gaming Equipment Limited is the Corporation's 100%-owned subsidiary and is fully consolidated in these statements.

#### **Casino Nova Scotia**

Casino Nova Scotia is the entity created as a result of the Amended and Restated Operating Contract with Metropolitan Entertainment Group (referred to as "MEG"), (now a partnership between 6364942 Canada Inc. and 6364951 Canada Inc.) to operate casinos in Halifax and Sydney for a period expiring on July 1, 2015. In June 2014, MEG exercised its option to renew the contract until July 1, 2025. Casino Nova Scotia is fully consolidated as the Corporation is the party with the authority to operate casinos in Nova Scotia under the *Criminal Code* (Canada) and *Gaming Control Act* (Nova Scotia), and the Amended and Restated Operating Contract provides the Corporation with the authority to set annual operating and capital budgets and to stipulate or review and/or approve other aspects of the casino operations.

All Casino Nova Scotia intra-Corporation transactions, balances, income and expenses are eliminated in full on consolidation.

#### **3.2 Interests in joint arrangements**

A joint operation is a joint arrangement whereby all parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Entities subject to joint arrangements characterized as joint operations are consolidated, whereby the Corporation recognizes its direct interest in the assets, liabilities, revenues and expenses arising from the joint operations, including its share of any assets held jointly, liabilities incurred jointly, and its share of revenues of the joint operation and expenses incurred jointly.

#### **Atlantic Lottery Corporation Inc.**

In 1976, Atlantic Lottery Corporation Inc. (referred to as "ALC") was set up by the four Atlantic Provinces to operate lottery and gaming activities in the region. Atlantic Lottery Corporation Inc. is the Corporation's exclusive agent to operate ticket lotteries and video lotteries in Nova Scotia. Each of the Corporation, Province of Newfoundland and Labrador, New Brunswick Lotteries and Gaming Corporation and Prince Edward Island Lotteries Commission own 25% of Atlantic Lottery Corporation Inc.

The Corporation entered into an Agency Agreement with Atlantic Lottery Corporation Inc. in 2000, whereby revenues are required to be kept in a separate account and not co-mingled with those of the other provinces. Costs are to be deducted from this account, and assets acquired or liabilities incurred by Atlantic Lottery Corporation Inc. exclusively for the operation of lotteries in Nova Scotia are paid through this account and are the Corporation's. Under the Agreement, Atlantic Lottery Corporation Inc. cannot make any material change relating to the conduct and management of lotteries in Nova Scotia without the approval of the Corporation.

The Corporation consolidates its direct interest in the operations covered within the Agency Agreement and consolidates its share of the assets held jointly, liabilities incurred jointly, and its share of revenue of the joint operation and expenses incurred jointly as per the Unanimous Shareholders' Agreement that are not covered within the Agency Agreement.



### **3.3 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable.

#### **3.3.1 Sale of goods**

Revenue from the sale of goods is recognized when all of the following conditions are satisfied:

- the Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Corporation retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Corporation; and,
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

This revenue recognition policy applies to:

- lottery ticket revenues;
- instant ticket game sales; and,
- food and beverage sales.

Sale of goods that result in award credits for customers under Casino Nova Scotia's Player's Club rewards program are accounted for as multiple-element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value – the amount for which the award credits could also be sold separately. Such consideration is not recognized as revenue at the time of the initial sale transaction, but is deferred and recognized as revenue when the award credits are redeemed and Casino Nova Scotia's obligations have been fulfilled.

#### **3.3.2 Casino gaming revenue**

Casino gaming revenue are all amounts wagered in casinos less amounts paid as winnings to players of casino games.

#### **3.3.3 Video lottery revenue**

Video lottery revenue are recognized at the time of play and are recorded net of credits paid out.

#### **3.3.4 Interest income**

Interest income is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### **3.4 Operating Leases**

Operating leases are leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items.

#### **3.4.1 The Corporation as lessor**

Rental income from operating leases is recognized on a straight-line basis over the term of the related lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

#### **3.4.2 The Corporation as lessee**

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### **3.5 Foreign currencies**

Transactions in currencies other than the Corporation's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences are recognized in profit or loss in the period in which they arise.

### **3.6 Employee benefit costs**

A liability is recognized for benefits accruing to employees in respect of wages and salaries when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities recognized in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognized in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Corporation in respect of services provided by employees up to the reporting date.

#### **3.6.1 Defined benefit plans**

For defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses are recognized in full in profit or loss in the period in which they occur. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested. The defined benefit obligation recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation, adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, net of the fair value of the plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan. The liability for employees of the Atlantic Lottery Corporation Inc. consolidated in the Corporation's statements is accounted for as a defined benefit plan in the Corporation's Investment in Atlantic Lottery Corporation Inc.

### **3.7 Property, plant and equipment**

Property plant and equipment, including buildings and leasehold improvements held for use in the supply of goods, services or administrative purposes are carried at cost, less subsequent depreciation and impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Corporation's accounting policies described below. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets commences when the assets are ready for their intended use. Construction in progress is stated at cost. Cost includes expenditure that is directly attributable to the acquisition or construction of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation is provided to write off the cost of items of property, plant and equipment other than land over their estimated useful lives and after taking into account their estimated residual value, using both the straight-line method and diminishing value method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

**NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)**

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An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the consolidated statement of net and comprehensive income in the year in which the item is derecognized.

Depreciation of the Corporation's head office property, plant and equipment is charged based on the diminishing balance method of depreciation. The following annual rates are used in the calculation of depreciation:

Computer equipment	30%
Furniture and equipment	20%

Depreciation of the Corporation's Halifax and Sydney casinos, and lottery businesses' property, plant and equipment is charged based on the straight line method of depreciation. Leasehold improvements are amortized over the remaining lease term, including one renewal period. The following annual rates are used in the calculation of depreciation:

Casino assets	2.5% - 20%
Lottery assets	4% - 33%

### **3.8 Impairment of long-lived assets**

At each reporting date, the Corporation reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### **3.9 Intangible assets**

#### **3.9.1 Intangible assets acquired separately**

Acquired intangible assets are primarily software, patents and licenses on technologies. Intangible assets acquired separately are carried at cost less accumulated amortization and impairment losses. Amortization is charged to the consolidated statement of net and comprehensive income on a straight-line basis over the assets' estimated useful lives as follows:

Computer software and licenses	3 - 15 years
Gaming software	3 - 7 years

The Corporation only has intangible assets acquired with a finite useful life. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in the estimate being accounted for on a prospective basis. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of net and comprehensive income in the expense category consistent with the function of the intangible asset. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of net and comprehensive income when the asset is derecognized.

**3.9.2 Intangible assets internally generated – research and development expenditure**

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Development costs relating primarily to the development of new gaming or lottery software are recognized as an intangible asset when the Corporation can demonstrate that all conditions required by IAS 38 are met.

The amount initially recognized for internally generated intangible assets is the sum of the acquisition and manufacturing costs that can be directly attributed to the development process as well as a reasonable portion of the development-related fixed costs. If the internally generated intangible asset does not meet the conditions of IAS 38, the development expenditure is recognized in profit or loss in the period in which it was incurred. Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses. Amortization of the asset begins when the development is complete and the asset is available for use. It is amortized over the period of expected future benefit on a straight-line basis. The current useful lives applied are:

Computer software and licenses	3 - 15 years
Gaming software	3 - 7 years

During the period of development, the intangible asset is tested for impairment annually.

**3.10 Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined on an average cost basis, and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale

**3.11 Provisions**

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event; it is probable that the Corporation will be required to settle the obligation; and, a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

The Corporation records a provision for the fair value of asset decommissioning in the year during which it is incurred and can be reasonably estimated. This provision is associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Corporation also records a corresponding asset that is amortized over the life of the asset. Decommissioning provisions are classified as current if the useful life will expire in the next fiscal year and as a long-term asset if the useful lives extend beyond the next fiscal year.

**3.12 Financial assets**

All financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Corporation's financial assets are classified into the following categories:

	Classification	Measurement
Cash	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost

**NOVA SCOTIA PROVINCIAL LOTTERIES AND CASINO CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31 (IN THOUSANDS)**

**3.12.1 Loans and receivables**

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

**3.12.2 Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are also assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Corporation's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is directly reduced by the impairment loss for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

**3.12.3 Derecognition of financial assets**

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Corporation neither transfers nor substantially retains all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognize the financial asset and also recognizes a collateralised borrowing for the proceeds received.

**3.12.4 Effective interest method**

The effective interest method is a method of calculating the amortized cost of a financial asset and allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

**3.12.5 Disputed HST assessment**

Tax assessments that are disputed by the Corporation are accounted for as a non-current asset.

**3.13 *Financial liabilities***

The Corporation's financial liabilities are classified into the following categories:

	Classification	Measurement
Bank indebtedness	Other financial liabilities	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Liabilities for unclaimed prizes	Other financial liabilities	Amortized cost
Due to Atlantic Gaming Equipment Limited	Other financial liabilities	Amortized cost
Other liabilities	Other financial liabilities	Amortized cost
Due to Province of Nova Scotia	Other financial liabilities	Amortized cost

#### 3.13.1 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortized cost using the effective interest method.

#### 3.13.2 Derecognition of financial liabilities

The Corporation derecognizes financial liabilities when, and only when, the Corporation's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

### **3.14 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take greater than nine months to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

### **3.15 Taxes**

#### 3.15.1 Sales tax

As a prescribed registrant for HST, the Corporation makes HST remittances to the Government of Canada pursuant to the *Games of Chance Regulations* of the *Excise Tax Act* ("the Regulations"). The Corporation's net tax for a reporting period is comprised of net tax attributable to both gaming and non-gaming activities. Imputed tax on gaming expense is calculated according to a formula set out in the Regulations resulting in the direct payment of additional HST at the applicable statutory rate. The net tax attributable to non-gaming activities is calculated similar to any other HST registrant.

#### 3.15.2 Win tax

Section 31 of the *Casino Regulations*, made under Section 127 of the *Gaming Control Act*, prescribes that the Corporation is required to make daily payment to the Province of an amount equal to twenty percent of casino gaming revenue, otherwise known as win tax. This amount can be found as an expense to the casino line of business and is added back to derive the total payment to Province.

### **3.16 Amended accounting standards adopted during the year**

As required, effective for annual periods on or after January 1, 2017, the Corporation adopted the following amended accounting standards on a prospective basis, none of which had a significant impact on the consolidated financial statements:

- IAS 7, *Statement of Cash Flows* (amended), effective for annual periods on or after January 1, 2017, applied prospectively. This amendment requires enhanced disclosures about changes in liabilities arising from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates and changes in fair values. Changes were made in accordance with applicable transitional provisions. Application of the amendments have had no impact on the Corporation's consolidated financial statements.

### **3.17 Accounting standards issued but not yet effective**

A number of new standards, interpretations and amendments to existing standards are not yet effective as at March 31, 2018, and have not been applied in preparing these consolidated financial statements. The following paragraphs describe standards and interpretations that the Corporation reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date; however, the Corporation does not expect these amendments to have a significant effect on the consolidated financial statements when they are adopted in future periods:



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- IFRS 9, *Financial Instruments*, effective for annual periods on or after January 1, 2018. This standard replaces IAS 39, *Financial Instruments: Recognition and Measurement*. It requires classification and measurement of financial assets and financial liabilities in either the amortized cost or the fair value category. The Corporation intends to adopt IFRS 9 but does not expect it to have a material impact on its consolidated financial statements.
- IFRS 15, *Revenue from Contracts with Customers*, effective for annual periods on or after January 1, 2018, with either a full or modified retrospective application, and with early adoption permitted. IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. The Corporation is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.
- IFRS 16, *Leases*, effective for annual periods on or after January 1, 2019, with either a full or modified retrospective application, and with early adoption permitted. IFRS 16 eliminates the distinction between operating and finance leases for lessees, requiring instead that lease be capitalized by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, an entity recognizes a financial liability representing its obligation to make future lease payments. A depreciation charge for the lease asset is recorded within operating costs and an interest expense on the lease liability is recorded within finance costs. IFRS 16 does not require a lessee to recognize asset and liabilities for short-term leases and leases of low-value assets, nor does it substantially change lease accounting for lessors. The Corporation is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

**4. Cash and cash equivalents**

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 7,041	\$ 6,130
Bank indebtedness	(115)	(365)
	<b>\$ 6,926</b>	<b>\$ 5,765</b>

Under the Amended and Restated Casino Operating Contract, total casino revenues are the Corporation's revenue and the casino bank accounts and Capital Reserve accounts are owned by the Corporation. The Corporation included \$3,196 in cash from the casino accounts on the consolidated statement of financial position at March 31, 2018 (2017 - \$2,668).

**5. Cash – restricted**

Cash is restricted for unclaimed prizes. Unclaimed prizes from regional lottery games are retained in a prize fund for twelve months from the announced beginning date of the draw and Sports games are retained in a prize fund for 744 days from the date of purchase of the ticket. Unclaimed prizes remaining after the respective periods are transferred to a special prize fund and are recorded as a reduction to prize expense and/or used for prizes in subsequent draws.

All unclaimed prizes from Scratch 'N Win lottery games are retained in a prize fund for thirty-six months from the date of launch of the game. Unclaimed prizes remaining after the thirty-six month claiming period are transferred to a special prize fund and are recorded as a reduction to prize expense and/or used for prizes in subsequent draws. Although Scratch 'N Win prizes do not expire, an expiration date of thirty-six months from the date of launch of the game was selected as historically there have been minimal validations after this period.

Prizes of national lottery games are funded by the Interprovincial Lottery Corporation, with the exception of prizes for certain free tickets, which are paid out of general funds of that Corporation as incurred. Unclaimed prizes of national games are administered by the Interprovincial Lottery Corporation.

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**6. Trade and other receivables**

	<b>2018</b>	<b>2017</b>
Due from operators	\$ 1,302	\$ 1,489
Other receivables	2	2
	<b>\$ 1,304</b>	<b>\$ 1,491</b>

**6.1 Trade receivables**

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortized cost.

**6.2 Due from Operators**

	<b>2018</b>	<b>2017</b>
ALC (i)	\$ 578	\$ 745
MEG	724	744
	<b>\$ 1,302</b>	<b>\$ 1,489</b>

(i) Amounts due from ALC include deferred revenue of \$325 (2017 - \$491).

**7. Inventories**

	<b>2018</b>	<b>2017</b>
Food, beverage and merchandise - casinos	\$ 329	\$ 369
Lottery tickets	1,719	1,891
	<b>\$ 2,048</b>	<b>\$ 2,260</b>

The cost of inventories recognized as an expense includes \$0 (2017 - \$0) in respect of write-downs of inventory to net realisable value, and was included in ticket printing and costs.



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8. Property, plant and equipment

	Land	Buildings & Leaseholds	Automobiles	Operational Equipment	Lottery Gaming Equipment	Casino Gaming Equipment	Casino Buildings	Total
<b>Cost</b>								
Balance at March 31, 2016	\$ 10,025	\$ 94	\$ 638	\$ 665	\$ 51,431	\$ 59,730	\$ 73,730	\$ 196,313
Additions	-	-	87	21	213	3,764	489	4,574
Disposals	-	-	(173)	(5)	(10,843)	(2)	(7)	(11,030)
Transfers	-	-	-	-	3,769	-	-	3,769
<b>Balance at March 31, 2017</b>	<b>\$ 10,025</b>	<b>\$ 94</b>	<b>\$ 552</b>	<b>\$ 681</b>	<b>\$ 44,570</b>	<b>\$ 63,492</b>	<b>\$ 74,212</b>	<b>\$ 193,626</b>
Additions	-	-	-	33	299	5,408	3,325	9,065
Disposals	-	-	-	(7)	(174)	-	-	(181)
Transfers	-	-	-	61	315	-	-	376
<b>Balance at March 31, 2018</b>	<b>\$ 10,025</b>	<b>\$ 94</b>	<b>\$ 552</b>	<b>\$ 768</b>	<b>\$ 45,010</b>	<b>\$ 68,900</b>	<b>\$ 77,537</b>	<b>\$ 202,886</b>
<b>Accumulated depreciation and impairment</b>								
Balance at March 31, 2016	\$ -	\$ 48	\$ 217	\$ 447	\$ 23,924	\$ 55,712	\$ 34,499	\$ 114,847
Disposals	-	-	(137)	(4)	(10,844)	-	-	(10,985)
Transfers	-	-	-	-	1,641	-	-	1,641
Depreciation	-	12	99	61	7,277	2,616	2,084	12,149
Impairments	-	-	-	-	-	-	-	-
<b>Balance at March 31, 2017</b>	<b>\$ -</b>	<b>\$ 60</b>	<b>\$ 179</b>	<b>\$ 504</b>	<b>\$ 21,998</b>	<b>\$ 58,328</b>	<b>\$ 36,583</b>	<b>\$ 117,652</b>
Disposals	-	-	-	(6)	(163)	-	-	(169)
Transfers	-	-	-	1	109	-	-	110
Depreciation	-	11	132	58	5,956	3,058	2,689	11,904
Impairments	-	-	-	-	-	-	-	-
<b>Balance at March 31, 2018</b>	<b>\$ -</b>	<b>\$ 71</b>	<b>\$ 311</b>	<b>\$ 557</b>	<b>\$ 27,900</b>	<b>\$ 61,386</b>	<b>\$ 39,272</b>	<b>\$ 129,497</b>
<b>Net book value</b>								
Balance at March 31, 2017	\$ 10,025	\$ 34	\$ 373	\$ 177	\$ 22,572	\$ 5,164	\$ 37,629	\$ 75,974
<b>Balance at March 31, 2018</b>	<b>\$ 10,025</b>	<b>\$ 23</b>	<b>\$ 241</b>	<b>\$ 211</b>	<b>\$ 17,110</b>	<b>\$ 7,514</b>	<b>\$ 38,265</b>	<b>\$ 73,389</b>

During the year, the Corporation carried out a review of the recoverable amount of assets. This review led to no indicators of impairment or reversals of impairment identified (2017 - \$0).

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9. Intangible assets

	Gaming Software	Not Ready for Use	Total
<b>Cost</b>			
Balance at March 31, 2016	\$ 8,493	\$ -	\$ 8,493
Additions	-	4	4
Disposals	(2,689)	-	(2,689)
Transfers	900	-	900
<b>Balance at March 31, 2017</b>	<b>\$ 6,704</b>	<b>\$ 4</b>	<b>\$ 6,708</b>
Additions	-	-	-
Disposals	-	-	-
Transfers	14	(4)	10
<b>Balance at March 31, 2018</b>	<b>\$ 6,718</b>	<b>\$ -</b>	<b>\$ 6,718</b>
<b>Accumulated amortization and impairment</b>			
Balance at March 31, 2016	\$ 4,460	\$ -	\$ 4,460
Disposals	(2,689)	-	(2,689)
Transfers	374	-	374
Amortization	1,339	-	1,339
Impairments	-	-	-
<b>Balance at March 31, 2017</b>	<b>\$ 3,484</b>	<b>\$ -</b>	<b>\$ 3,484</b>
Disposals	-	-	-
Transfers	5	-	5
Amortization	954	-	954
Impairments	-	-	-
<b>Balance at March 31, 2018</b>	<b>\$ 4,443</b>	<b>\$ -</b>	<b>\$ 4,443</b>
<b>Net book value</b>			
At March 31, 2017	\$ 3,220	\$ 4	\$ 3,224
<b>At March 31, 2018</b>	<b>\$ 2,275</b>	<b>\$ -</b>	<b>\$ 2,275</b>

During the year, the Corporation carried out a review of the recoverable amount of assets. This review led to no indicators of impairment or reversals of impairment identified (2017 - \$0).

10. Cash – casino capital replacement reserve

The casino capital replacement reserve is intended to provide funds for replacement of casino capital assets. Starting April 1, 2015 a contribution is made of \$4,500 annually, adjusted for inflation each year thereafter until April 1, 2020 whereby the contribution will be the amount contributed in the prior year plus \$1,000 annually, adjusted for inflation each year thereafter. Cash has been segregated on the consolidated statement of financial position in the amount of \$6,522 (March 31, 2017 - \$10,548) for this purpose. The balance in the casino capital replacement reserve represents the balance of the cash and net book value of the casino capital assets purchased from the fund.

	2018	2017
Cash balance, beginning of year	\$ 10,548	\$ 10,392
Funding	4,682	4,595
Interest	146	116
Proceeds from sale of capital assets	-	10
Capital asset purchases	(8,252)	(3,828)
Reimbursements to MEG for capital asset purchases	(572)	(814)
HST related to capital asset purchases and reimbursements	(452)	(495)
Capital assets purchased by MEG	422	572
<b>Cash balance, end of year</b>	<b>6,522</b>	<b>10,548</b>
Add: cumulative capital asset purchases	70,766	62,033
Less: accumulated depreciation	(60,080)	(56,001)
Less: HST payable	(63)	(33)
Less: capital assets purchased by MEG	(422)	(572)
<b>Casino capital replacement reserve balance, end of year</b>	<b>\$ 16,723</b>	<b>\$ 15,975</b>

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**11. Disputed HST assessments**

The Atlantic Lottery Corporation Inc. received Notices of Assessment from Canada Revenue Agency for Harmonized Sales Tax in respect of the operation of video lottery terminals sited on First Nation reserves in the province of Nova Scotia for the period June 1, 2009 to October 31, 2013, in amounts totalling \$29,600. Through Atlantic Lottery Corporation Inc., the Corporation has remitted, on a without prejudice basis, the amount of the assessments solely to avoid the accumulation of interest and penalties. The Corporation is self-assessing Harmonized Sales Tax for every period thereafter and is depositing monthly installments to the Canada Revenue Agency. Remittances up to and including March 31, 2018, total a further \$31,883 (2017 - \$23,873). The total amount remitted is \$61,483 (2017 – \$53,473) and is presented on the consolidated statement of financial position as a non-current asset.

**12. Trade and other payables**

	<b>2018</b>	<b>2017</b>
Trade payables	\$ 5,214	\$ 3,183
Harmonized Sales Tax	918	878
Due to Gambling Awareness Nova Scotia (i)	43	43
Due to Operators	11,714	13,424
	<b>\$ 17,889</b>	<b>\$ 17,528</b>

(i) Video Lottery retailers in Nova Scotia have agreed, under the terms of their retailer agreements with the Atlantic Lottery Corporation Inc., to contribute one per cent of their Video Lottery commission to Gambling Awareness Nova Scotia. The Corporation has agreed to contribute an amount equal to all contributions made by the Video Lottery retailers.

**12.1 Due to Operators**

	<b>2018</b>	<b>2017</b>
ALC	\$ 6,605	\$ 8,705
MEG	5,109	4,719
	<b>\$ 11,714</b>	<b>\$ 13,424</b>

**13. Deferred revenue**

	<b>2018</b>	<b>2017</b>
Lottery tickets (i)	\$ 325	\$ 491
Casino award credits (see Note 3.3.1)	264	263
	<b>\$ 589</b>	<b>\$ 754</b>

(i) The deferred revenue for lottery tickets arises in respect of receipts for lottery tickets sold prior to March 31 for draws held subsequent to that date (see Note 3.3.1).

**14. Provisions**

	<b>2018</b>	<b>2017</b>
Unclaimed prizes		
Current prizes	\$ 5,304	\$ 5,294
Special prize fund	(7)	(4)
<b>Balance, end of year</b>	<b>\$ 5,297</b>	<b>\$ 5,290</b>
	<b>2018</b>	<b>2017</b>
Special prize fund		
Balance, beginning of year	\$ -	\$ -
Unclaimed prizes expired during the year	1,180	1,744
Prize payouts	(1,187)	(1,748)
<b>Balance, end of year</b>	<b>\$ (7)</b>	<b>\$ (4)</b>

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**15. Due to Atlantic Gaming Equipment Limited**

	<b>2018</b>	<b>2017</b>
<b>Unsecured – at amortized cost</b>		
Loans from:		
Atlantic Gaming Equipment Limited (i)	\$ 19,346	\$ 25,711
Current	\$ 6,970	\$ 6,885
Non-current	12,376	18,826
	<b>\$ 19,346</b>	<b>\$ 25,711</b>

(i) This liability represents the Corporation's portion of Atlantic Lottery Corporation Inc. ("ALC") debt used in the acquisition of property, plant and equipment operated on behalf of the Corporation. All amounts are payable by ALC and are due on or before July 2026. The debt is based on variable interest rates ranging from 1.94% to 3.50%. The aggregate maturity of long-term debt for the years subsequent to March 31, 2018, is approximately as follows: 2019 - \$13,454; 2020 - \$6,347; 2021 - \$2,641; 2022 - \$2,695; 2023 - \$2,751. Included in interest expense is \$1,072 (2017 - \$1,102) relating to long-term debt.

**16. Other liabilities**

	<b>2018</b>	<b>2017</b>
Outstanding chips	\$ 162	\$ 173
Progressive jackpot liabilities	1,112	925
	<b>\$ 1,274</b>	<b>\$ 1,098</b>

**17. Revenue**

An analysis of the Corporation's revenue for the year (excluding interest income) is as follows:

	<b>2018</b>	<b>2017</b>
Casinos (i)	\$ 86,122	\$ 76,531
Ticket Lottery	225,333	220,307
Video Lottery	136,099	134,846
	<b>\$ 447,554</b>	<b>\$ 431,684</b>

(i) Casinos' revenue is comprised of gaming revenue of \$77,213 (2017 - \$68,852) and food, beverage, and other revenue.

**18. Finance costs**

	<b>2018</b>	<b>2017</b>
Interest on bank overdrafts and loans	\$ 1,072	\$ 1,102

**19. Other expenses**

	<b>2018</b>	<b>2017</b>
Distributions to community programs	\$ 9,300	\$ 7,294
Responsible gambling programs	6,595	6,559
	<b>\$ 15,895</b>	<b>\$ 13,853</b>

Other expenses include distributions to community and responsible gambling programs, some of the more significant amounts, including payments required by legislation, are as follows:

**19.1 Harness racing**

The Corporation annually contributes to the Nova Scotia Harness Racing industry amounts as directed by Government. The Government of Nova Scotia approved a contribution of \$1,000 in 2018 (2017 - \$1,000) to support the harness racing industry in Nova Scotia. The 2019 approved budget includes \$1,000 to support the harness racing industry in Nova Scotia.

**19.2 Special payments**

The Corporation is obligated to make direct payments annually to three provincial government bodies as follows:

	2018	2017
The Department of Communities, Culture and Heritage (in support of the Cultural Federation of Nova Scotia)	\$ 50	\$ 50
(in support of Sport Nova Scotia)	100	100
The Department of Agriculture (in support of the Exhibition Association of Nova Scotia)	50	50
	\$ 200	\$ 200

These payments are special funds under the Provincial *Finance Act* established by the Minister of Finance and Treasury Board under Section 14(1) of the *Atlantic Lottery Regulations* as made under the *Gaming Control Act*.

**19.3 Responsible Gambling payments**

The Government of Nova Scotia approved a contribution to the Department of Health and Wellness as part of its 2005 Gaming Strategy to fund problem gambling treatment of \$3,000 in 2018 (2017 - \$3,000) and as part of its 2011 Gaming Strategy to fund youth gambling prevention of \$500 in 2018 (2017 - \$500).

**20. Financial instruments**

**20.1 Capital risk management**

The Corporation manages its capital to ensure that entities in the Corporation will be able to continue as going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Corporation's overall strategy remains unchanged from 2017.

The capital structure of the Corporation consists of net debt (borrowings offset by cash and bank balances) and equity of the Corporation, comprising capital replacement reserves (as disclosed in Note 10) and retained earnings.

The Corporation is not subject to any externally imposed capital requirements.

The Corporation's objectives are to maintain a flexible capital structure that optimizes the cost of capital at acceptable risk levels. The Corporation manages its capital structure in light of changes in economic conditions and the risk characteristics of the Corporation's operations. The Corporation's major capital allocation decisions include a comparison of whether the expected financial returns from those investments exceed its estimated weighted average cost of capital.

**20.2 Significant accounting policies**

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement, and the basis for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in Note 3.

**20.3 Financial risk management**

The Corporation's activities expose it to a variety of financial risks including market (interest rate) risk, credit risk, and liquidity risk. The Corporation's overall risk management program recognizes the nature of these risks and seeks to minimize potential adverse effects on the Corporation's financial performance.

**20.4 Interest rate risk management**

Interest rate risk is the risk that the value of the Corporation's assets and liabilities will fluctuate due to changes in market interest rates. The Corporation has interest bearing debt which is subject to interest rate variations in the market.

The Corporation's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

**20.5 Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Corporation. In the normal course of business, the Corporation is subject to credit risk from trade debtors in the gaming and lotteries industry, and transactions with their operators. The Corporation has a credit policy which has been issued to manage this exposure to credit risk. As part of this policy, limits on exposures with counter parties have been set and approved by the Board of Directors and are monitored on a regular basis. The Corporation does not have any significant concentrations of credit risk. Trade debtors are monitored closely for compliance with terms of trade. The Corporation does not expect the non-performance of any obligations at balance date. The maximum credit risk is the carrying values of accounts receivables, bank accounts and short-term deposits.

**20.6 Liquidity risk management**

Liquidity risk represents the Corporation's ability to meet its contractual obligations. The Corporation evaluates its liquidity requirements on an ongoing basis by monitoring its capital structure, regularly monitoring forecast and actual cash flows and managing the maturity profiles of financial assets and financial liabilities. In general, the Corporation generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities.

**20.7 Fair values of financial instruments**

The fair values of the Corporation's financial instruments are considered to approximate the carrying amounts. Levels 1 to 3 are defined based on the degree to which fair value inputs are observable or unobservable, as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs are based on inputs which have a significant effect on fair value that are observable, either directly or indirectly from market data; and
- Level 3 inputs are unobservable (supported by little or no market activity)

**20.8 Quantitative disclosures**

Liquidity and interest risk tables

The following table details the Corporation's exposure to interest rate and liquidity risk.

	Weighted average effective interest rate %	Non-interest bearing	Total
<b>As at March 31, 2018</b>			
<b>Financial assets</b>			
Cash and cash equivalents		\$ 7,041	\$ 7,041
Cash restricted		5,297	5,297
Trade and other receivables		1,304	1,304
		<b>\$ 13,642</b>	<b>\$ 13,642</b>
<b>Financial liabilities</b>			
Bank indebtedness		\$ 115	\$ 115
Trade and other payables		17,889	17,889
Provisions		5,297	5,297
Due to Atlantic Gaming Equipment Limited	1.94% - 3.50%	19,346	19,346
Other liabilities		1,274	1,274
Due to Province of Nova Scotia		104,648	104,648
		<b>\$ 148,569</b>	<b>\$ 148,569</b>

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An analysis of the contractual maturity dates is as follows:

	Non-interest bearing	Total
<b>As at March 31, 2018</b>		
<b>Financial assets</b>		
Less than 1 year	\$ 13,642	\$ 13,642
1 to 2 years	-	-
2 to 5 years	-	-
5 years	-	-
	<u>\$ 13,642</u>	<u>\$ 13,642</u>

Fair Value

During the years ended March 31, 2018 and 2017, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The fair values of the Corporation's financial instruments are considered to approximate the carrying amounts. The following table provides the disclosures of the fair value and the level in the hierarchy.

	2018			2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Financial assets classified as</b>						
<b>loans and receivables:</b>						
Cash	\$ 7,041	\$ -	\$ -	\$ 6,130	\$ -	\$ -
Cash – restricted	5,297	-	-	5,290	-	-
Cash – casino capital replacement reserve	6,522	-	-	10,548	-	-
Trade and other receivables	-	1,304	-	-	1,491	-
<b>Financial liabilities at</b>						
<b>amortized cost:</b>						
Bank indebtedness	\$ 115	\$ -	\$ -	\$ 365	\$ -	\$ -
Trade and other payables	-	17,889	-	-	17,528	-
Liabilities for unclaimed prizes	-	-	5,297	-	-	5,290
Due to Atlantic Gaming Equipment Limited	-	19,346	-	-	25,711	-
Other liabilities	-	-	1,274	-	-	1,098
Due to Province of Nova Scotia	-	104,648	-	-	101,166	-

**21. Employee future benefits**

All permanent employees of the Corporation are entitled to receive pension benefits under the Province of Nova Scotia Public Service Superannuation Plan, a multi-employer defined benefit plan. The plan is funded by equal employee and employer contributions. The Corporation includes contributions to the Plan in its management expenses. The Corporation is not responsible for any unfunded liability with respect to the Public Service Superannuation Plan.

The total expense recognized in the consolidated statement of net and comprehensive income of \$138 (2017 - \$138) represents contributions paid to this plan by the Corporation at rates specified in the rules of the plan. As at March 31, 2018, contributions of \$5 due in respect of the 2018 reporting period (2017 - \$7) had not been paid over to the plan. The amounts were paid subsequent to the end of the reporting period.

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The Public Service Award is a defined benefit covering Corporation employees hired prior to March 31, 2015. The benefit is awarded to employees who retire or resign, and who are either immediately eligible for or immediately accept a pension from the Nova Scotia Public Service Superannuation Plan. The amount to be paid is equal to one week of pay at the weekly pay rate of the employee's salary on their last day of employment immediately prior to retirement, for each full year of service to a maximum of 26 years of service up to August 11, 2015. On a bi-weekly basis, the Corporation contributes 1% of the eligible employee's gross salary to the fund, which is under the management and liability of the Corporation's parent, the Province of Nova Scotia. Current contributions made by the Corporation for the year are included in its management expenses. In 2018, the Province of Nova Scotia extended an offer of a one-time payout in lieu of the public service award on retirement to all non-union and management employees, including those of the Corporation. All eligible employees for the public service award of the Corporation elected to take the option for payout as at March 31, 2018. The amounts were paid subsequent to the end of the reporting period.

**22. Related party transactions**

The immediate parent and ultimate controlling party of Nova Scotia Provincial Lotteries and Casino Corporation is the Province of Nova Scotia. Balances and transactions between the Corporation and its subsidiaries that are related parties of the Corporation have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Corporation and other related parties are disclosed below.

**22.1 Compensation of key management personnel**

	<b>2018</b>	<b>2017</b>
Short-term benefits	\$ 624	\$ 582
Post-employment benefits	73	67
	<b>\$ 697</b>	<b>\$ 649</b>

In 2018, key management is considered to be comprised of members of the Board of Directors and Audit Committee, and the Corporation's Chief Executive Officer, two Vice Presidents, one of whom started in August 2017 and two Directors; Key management in 2017 was considered to be comprised of members of the Board of Directors and Audit Committee, and the Corporation's Chief Executive Officer, one Vice President and three Directors; one Director was only with the Corporation until September 2016.

**22.2 Other related party transactions**

Interprovincial Lottery Corporation

The Interprovincial Lottery Corporation was incorporated on August 16, 1976, under the *Canada Business Corporations Act*. The Interprovincial Lottery Corporation owns and operates nation-wide lottery games (Lotto 6/49, Daily Grand, Lotto Max, various national instant games). Nova Scotia holds one of ten shares of this Corporation, and appoints one of 21 directors to the Board of Directors of the Interprovincial Lottery Corporation.

**23. Commitments**

**23.1 The Corporation as lessee**

23.1.1 Operating lease arrangements

Commitments for minimum lease payments in relation to non-cancellable operating leases for premises and outsourcing of infrastructure, application and project services are as follows:

	<b>2018</b>	<b>2017</b>
Not later than 1 year	\$ 5,915	\$ 4,292
Later than 1 year and not later than 5 years	11,734	16,210
	<b>\$ 17,649</b>	<b>\$ 20,502</b>

The Corporation has entered into an operating lease for rental of office space occupied by its head office. The lease commenced September 2015 and expires on August 2020.

Included in the Corporation's commitments is the Corporation's share of the Atlantic Lottery Corporation Inc.'s minimum annual lease payments for their premises. The Corporation's share of the Atlantic Lottery Corporation Inc.'s minimum annual lease payments for premises over the next five years are as follows: 2019 - \$1,359; 2020 - \$1,211; 2021 - \$1,178; 2022 - \$1,183; 2023 - \$996. Future lease payments due later than five years total \$4,464.



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Also included in the Corporation's commitments is the Corporation's share of the Atlantic Lottery Corporation Inc.'s aggregate payment of long-term leases payable for infrastructure, application and project services. The minimum annual payments over the next five years are as follows: 2019 - \$4,556; 2020 - \$3,978; 2021 - \$2,025; 2022 - \$819 and 2022 - \$344. Future lease payments due later than five years total \$0.

23.1.2 Payments recognized as an expense

	<b>2018</b>	<b>2017</b>
Minimum lease payments	\$ 3,468	\$ 5,267

**24. Contingencies**

a. The Corporation was made aware in May 2012 of a statement of claim filed from Safe Gaming System Inc., alleging a patent infringement related to the Corporation's responsible gaming device known as the *My-Play System*. The amount claimed by the plaintiff is a royalty based on a percentage of amounts wagered on VLTs in the Province of Nova Scotia during the relevant time period. In a decision released on May 25, 2018, the plaintiff's motion was dismissed and the Corporation was awarded costs to defend itself. Procedures related to this action are ongoing and the amounts are undeterminable at this time.

b. On November 14, 2016, the Corporation, through Atlantic Lottery Corporation Inc., filed an Appeal with the Tax Court of Canada for Notices of Assessments received from the Canada Revenue Agency for Harmonized Sales Tax in respect of the operation of video lottery terminals on First Nation reserves in the province of Nova Scotia. Currently the outcome is undeterminable.

c. From time to time the Corporation is involved in various legal proceedings of a character normally incidental to its business. The Corporation believes that the outcome of these outstanding claims will not have a material impact on its consolidated statement of financial position; however, due to the uncertainty of potential legal outcomes this cannot be predicted with any assurance. Estimates, where appropriate, have been included in the consolidated statement of financial position, however additional settlements, if any, concerning these contingencies will be accounted for as a charge to the consolidated statement of net and comprehensive income in the period in which the settlement occurs.

**25. Approval of financial statements**

The consolidated financial statements were approved by the Board of Directors and authorized for issue on June 22, 2018.

**26. Segmented Statement of Operations**

**26.1 Cost of Sales**

	<b>2018</b>	<b>2017</b>
Casinos	\$ 72,039	\$ 63,852
Lotteries		
Prizes	\$ 129,226	\$ 121,964
Retailer commissions	38,660	38,123
Ticket costs	3,349	3,043
Operating expenses	<u>56,750</u>	<u>59,546</u>
Corporate operating expenses (i)	4,725	4,988
	304,749	291,516
Less: Finance costs (ii)	1,072	1,102
Depreciation and amortization (ii)	8,779	10,458
	<u>\$ 294,898</u>	<u>\$ 279,956</u>

(i) Represents operating costs of NSPLCC.

(ii) Included in operating expenses of casino, lotteries and corporate expenses above.

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26. Segmented Statement of Operations - continued

26.2 Casinos

	2018	2017
<b>Revenue</b>		
Casino revenue	\$ 77,213	\$ 68,852
Beverage, food and other revenue	8,909	7,679
	86,122	76,531
<b>Expenses</b>		
Lease and depreciation	1,669	1,669
Reserves	5,432	5,345
Operating Expenses	189	36
Harmonized Sales Tax	3,212	2,698
Operator fee	46,094	40,334
Win tax	15,443	13,770
	72,039	63,852
<b>Net income</b>	14,083	12,679
<b>Win tax</b>	15,443	13,770
<b>Payment to Province</b>	\$ 29,526	\$ 26,449

26.3 Lotteries

	Ticket	Video	Total 2018	Total 2017
Ticket lottery sales	\$ 225,333	\$ -	\$ 225,333	\$ 220,307
Prize expense	129,226	-	129,226	121,964
Net ticket lottery sales	96,107	-	96,107	98,343
Net video lottery sales	-	136,099	136,099	134,846
Total net sales	96,107	136,099	232,206	233,189
Retailer commissions	14,469	24,191	38,660	38,123
Ticket costs	3,341	8	3,349	3,043
	17,810	24,199	42,009	41,166
Gross profit	78,297	111,900	190,197	192,023
Operating expenses				
Salaries and benefits	7,169	4,183	11,352	10,947
Training and development	98	54	152	110
Meetings and travel	208	127	335	275
Employee services	55	30	85	103
Costs of premises	671	380	1,051	1,070
Fleet expense	98	95	193	181
Consumable supplies	34	26	60	64
Terminal maintenance	28	305	333	291
Telecommunications	1,239	275	1,514	1,746
Technology maintenance	2,702	1,459	4,161	4,308
Outsourced services	1,509	1,014	2,523	4,081
Technology infrastructure services	974	823	1,797	2,418
Marketing	3,989	391	4,380	3,847
Social responsibility/Communications	205	175	380	385
Retailer training and support	1,000	14	1,014	818
Financial services	77	47	124	174
Lease, depreciation and amortization	3,003	7,891	10,894	11,645
Interest expense	279	793	1,072	1,102
Other distributions	8,273	7,057	15,330	15,981
Total operating expenses	31,611	25,139	56,750	59,546
Operating profit	46,686	86,761	133,447	132,477
Other income	70	4,464	4,534	4,487
<b>Net income</b>	\$ 46,756	\$ 91,225	\$ 137,981	\$ 136,964