



NOVA SCOTIA

GAMING CORPORATION

**LEAVING
NOTHING TO CHANCE:**

MANAGING THE BUSINESS OF GAMING FOR ALL NOVA SCOTIANS



NOVA SCOTIA GAMING CORPORATION

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Leaving nothing to chance. At the Nova Scotia Gaming Corporation (NSGC) this is our goal. And it's one that we work towards achieving on every product, every program, and every initiative.

LEAVING NOTHING TO CHANCE

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LEAVING NOTHING TO CHANCE

Leaving nothing to chance. At the Nova Scotia Gaming Corporation (NSGC) this is our goal. And it's one that we work towards achieving on every product, every program, and every initiative. The reason for our commitment is simple: we've been entrusted by Nova Scotians to manage the business of gaming in a way that brings benefits to the Province. And while it may seem inherently contradictory, considering the nature of the industry we are in, "chancing" the impact of what we do is simply not an option for NSGC.

In our role as the industry steward of gaming in our Province, our promise to Nova Scotians is to deliver the best business results, while carefully and deliberately balancing economic sustainability and social responsibility. As a leading economic contributor to the Province, we work with our operators, Atlantic Lottery Corporation (ALC) and Casino Nova Scotia, to create economically innovative and responsible products that generate revenue for the Province. All of the profits from regulated gambling in Nova Scotia, that means every last dollar, go directly back to taxpayers by paying for programs and services including healthcare, roads, schools and cultural industries. This year alone, the Government received more than \$162 million in funding from gaming.

In meeting business objectives, we are successfully working to make Nova Scotia's gambling industry one of the most progressive in the world. But, our business practices can only be the best when we have the right information to guide us. As the expert on gaming for Government, we lead

groundbreaking research that fuels evidence-based decision-making, ultimately giving us the information we need to shape policy and successfully advise Government decisions.

In February 2007, we released the findings of a notable example of the type of research we lead and foster. The two-year Responsible Gaming Device (RGD) research project tested responsible gaming features. This pioneering field research project, with three external, independent research firms providing analysis, guided our decision to move towards implementing a Province-wide Informed Player Choice System for video lottery in 2008. This will be the first system in the world that gives video lottery players interactive, real-time, personalized information about exactly how much time and money they are playing and spending. These tools will empower players to make the right decisions for themselves and move us closer to our goal of creating the most informed player base in the world.

In our role as a socially responsible industry leader, we must take a 360 degree approach to our business. It is not just about what we take in and where that revenue goes. It is equally about how we as a Corporation give back to our community. This year, NSGC's Charitable Sector Support Program worked directly with charities to find the most effective ways to help them help their communities. We are very proud of this initiative, as it allows us to give back in ways that have immediate impacts on communities by supporting local causes that people care about.

"The past ten years have truly been an honour. Together with my fellow Board members, we have worked to lead and manage the Nova Scotia gaming industry in a way that is responsible, progressive and accountable. I am proud to have been part of this organization."

Message from the Outgoing Chair, C. Sean O'Connor, CA

"The reason for our commitment is simple: we've been entrusted by Nova Scotians to manage the business of gaming in a way that brings benefits to the Province."

Marie Mullally, President & CEO, NSGC

NSGC also launched an initiative that took us back to the roots of regulated gambling in Nova Scotia. Through our new program *Support 4 Sport*, launched in August 2006, every time someone buys a lottery ticket with the *Support 4 Sport* logo on it, 100 per cent of the profits go directly to amateur sport. This initiative gives Nova Scotians young and old the opportunity to be their best and contribute to creating a healthier and stronger Nova Scotia.

Nowhere is our commitment to leaving nothing to chance more evident than in our efforts to make responsible gambling a reality. Our priority is to give our customers the information they need to make informed decisions. And in 2006-07, we publicly and formally gave Nova Scotians a way to hold us accountable to this commitment with our Social Responsibility Charter. This document outlines the industry's commitment to excellence in five key areas: Responsible Gambling, Integrity and Security, Citizens and Communities, Corporate Governance, and Stakeholder Relationships. These guiding principles influence the decisions we make, the products we offer and the ways we interact with our consumers, guiding us into the future.

This year was about more than just progressive changes and pivotal successes. It was also about addressing tough issues swiftly and proactively. In October 2006, the gaming industry worldwide received a serious wake-up call when a national news program revealed that retailers in Ontario were winning the lottery more often than was statistically expected, raising significant questions about the security of the lottery system. This also raised critical questions for NSGC. As the steward of the gaming industry, we needed to know whether similar problems exist in our operators' systems. Leaving nothing to chance, NSGC immediately called for a review of the policies and procedures of our lottery operator,

contracted a statistician to analyze Nova Scotia's retailer win rate, and purchased ticket checkers for all retail locations in Nova Scotia. Results from the review indicated that retailers were winning prizes greater than statistically expected and that the controls surrounding ticket lottery retailer wins were not sufficient to ensure the highest standards of security and integrity. Given this outcome, we initiated a broad scope review in March 2007 in order to evaluate all of ALC's lines of business. I am pleased that the other three shareholder provinces have decided to participate in this review, which is expected to be completed by the end of December 2007. This is a serious issue, an issue that cuts to the heart of our business. Our number one priority is to leave no stone unturned in order to restore public confidence in the lottery system.

We take our responsibility and accountability to the people of Nova Scotia seriously. This dedication and hard work is particularly noteworthy amongst our Board members. To them I offer my sincere thanks and my well wishes to our departing members, Peter Fardy who has served for six years, and Chair, Sean O'Connor who has served NSGC for ten years.

In the pages that follow, you will discover tangible, real examples of how we work every day to be proud leaders of the Province's gaming industry. You will get a look at the inner workings of our corporation and hopefully see the strategy and hard work that goes into what we do, in order to ensure that ultimately... we leave nothing to chance.


Marie T. Mullally, FCA
President & CEO

DELIVERING THE BUSINESS RESULTS

Together, operators make sure that customers get the opportunity to purchase and experience the most entertaining and socially responsible products available.

Casino Nova Scotia, Halifax



DELIVERING THE BUSINESS RESULTS

2006-07 has been host to a number of innovative business initiatives, facility upgrades, and socially responsible product launches that have put Nova Scotia at the leading edge of the gambling industry. NSGC is in the business of entertainment and with the partnership of its casino and lottery operators, the Corporation offers a range of fun and responsible gambling products to players.

Casino Nova Scotia continues to offer first-class facilities that give customers a broad array of gaming opportunities, restaurant options, and exciting shows and entertainment. Atlantic Lottery Corporation (ALC) provides a mixture of Scratch 'n Win, draw lotto games, sports betting products and video lottery to Nova Scotians. Together our operators make sure that customers get the opportunity to purchase and experience the most entertaining and socially responsible products available, and in turn, NSGC delivers the best results for Nova Scotians.

From technology to entertainment, it's been a year of innovation and excitement at Casino Nova Scotia. Transforming Casino Nova Scotia into "the" premiere entertainment destination in Atlantic Canada has been a defining project that was unveiled with Vegas flair on June 1, 2006. With a \$22 million renovation nearly complete, Great Canadian Gaming Corporation (GCGC), the parent company of Casino Nova Scotia, and NSGC celebrated the re-design and re-launch of the two casino properties. Both Halifax and Sydney were upgraded with ticket-in/ticket-out technology on all slot machines, new multi-denominational slots, state-of-the-art digital surveillance systems, new and improved food and beverage offerings, and a live entertainment venue. The Harbourfront, showcasing East Coast music, was added to the gaming floor of the Halifax property along with

a new restaurant, Trapeze, which offers an upscale, casual dining experience on the beautiful Halifax waterfront. All of these new offerings add up to an entertainment experience that promises to fulfill Casino Nova Scotia's new marketing slogan "Live the Thrill".

Also in June 2006, Casino Nova Scotia reinforced its commitment to social responsibility with the opening of the Responsible Gambling Resource Centre (RGRC) at the Sydney property. Following on the heels of the Halifax RGRC opening in 2005, the Sydney Resource Centre provides solid, factual information and connects visitors to available treatment resources in the community. It is a powerful proof point of NSGC's and Casino Nova Scotia's continuing commitment to empowering players to be responsible.

In 2006-07, not only were Nova Scotia lotto players treated to new games to play, they also had new ways to play them. In September, ALC increased its interactive offerings by adding Hold 'em Poker, to PlaySphere, ALC's secure website where customers can purchase ALC products online. Interactive Games, such as Hold 'em Poker are essentially online scratch tickets that offer a new fun and entertaining way to play an "old favourite".

When people think of lottery, they don't often think of a wise-cracking loonie, but that is the catchy advertising character that has helped ALC's new daily draw game "Bucko!" grow to be a hit with players. ALC also began offering a new sports game this past year called GameDay Pick 'em Pool. The appeal of this new game, which adds to ALC's other sports product offerings, is that it plays like most office pools, but is done with the ease of a website. Players predict the winning team for a variety of games and the player(s) with the most correct

selections wins or shares the pool's prize. GameDay can be purchased on PlaySphere or anywhere Proline tickets are sold.

Another game, Millionaire Life, launched in February 2007, was an exciting new concept for customers, offering a top prize of \$1 million per year for 25 years. This special event ticket was only offered for the month of February, with the final draw taking place on February 28, 2007. It was an innovative offering and Nova Scotians embraced it; Provincial sales of this product totalled \$2.3 million.

2006-07 also marked an event that challenged the public's confidence in the lottery system. Statistical analysis showed that retailers won prizes at rates much higher than statistically expected. NSGC immediately called for an internal review of policies and procedures and purchased ticket checkers for all retailers in Nova Scotia to allow players to validate their own numbers. NSGC also led the establishment of a broad scope review of all lottery business. The other three Atlantic provinces are also participating in this comprehensive review process.

NSGC invests significant resources to ensure that along with its operators, it is leading the way; that Nova Scotia's gambling industry is the most economically innovative and socially progressive in the world and that the gambling environment is a healthy one that focuses on entertainment. ↗

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CASINO NOVA SCOTIA

- Launch of revitalized casino (Halifax) – June 2006
- Launch of "Live the Thrill" campaign (Halifax) – June 2006
- Trapeze restaurant opens (Halifax) – June 2006
- Responsible Gambling Resource Centre opens (Sydney) – June 2006
- Casino conversion to ticket-in/ticket-out technology complete (Halifax) – June 2006
- Casino conversion to ticket-in/ticket-out technology complete (Sydney) – August 2006
- No limit Texas Hold'em introduced (Halifax and Sydney) – August 2006
- Lucky Ladies for Blackjack introduced (Halifax and Sydney) – September 2006
- Launch of revitalized casino (Sydney) – November 2006
- Launch of "Where Friends Play" campaign (Sydney) – November 2006
- Permanent entertainment lounge opens in "The Harbourfront" (Halifax) – March 2007

ATLANTIC LOTTERY CORPORATION

- Launch of ALC's new retail lottery outlet concept called "Wishbox" – Opening of Wal-Mart location in Bayers Lake – July 2006
- Opening of flag ship kiosk location in Truro – October 2006
- Launch of GameDay Pick 'em Pool – August 2006
- Hold 'em Poker Interactive Game added to PlaySphere website – September 2006
- SuperStar charity linked bingo game is expanded across the Province after a successful pilot – January 2007
- Launch of Millionaire Life – February 2007

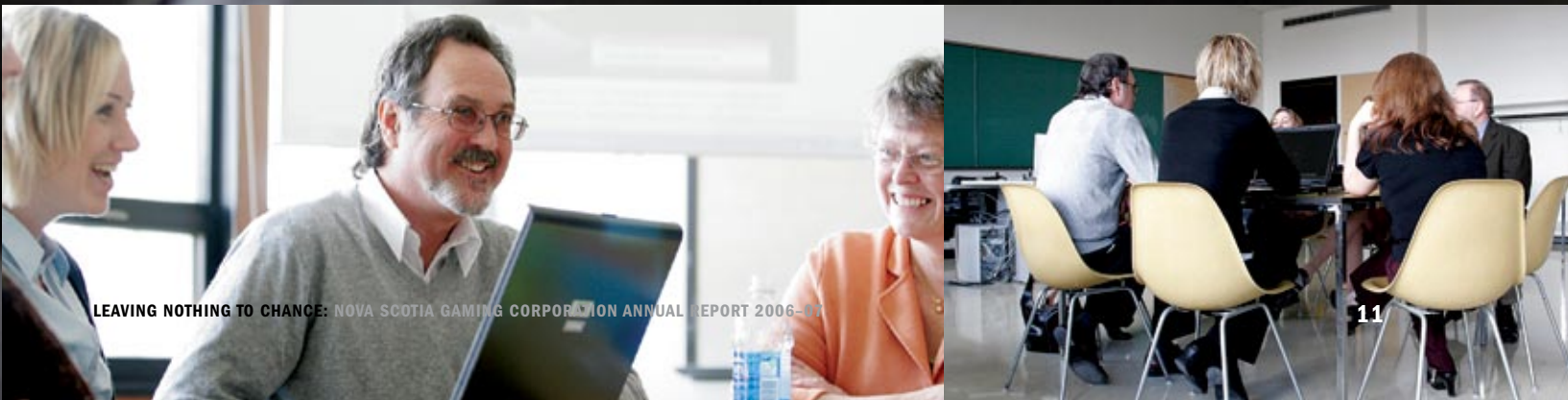
LEADING THE WAY



“Nova Scotia is a jurisdiction with which the world’s gambling researchers have become quite familiar as a sort of test tube, watched closely by those interested in addressing key policy issues through research-based approaches.”

Dr. Bo Bernhard, Director of Gambling Research at the International Gaming Institute, University of Nevada, Las Vegas

Nova Scotia Gambling Project Research Team, Mount Saint Vincent University.
2006-07 recipient of NSGC research grant.



LEAVING NOTHING TO CHANCE: NOVA SCOTIA GAMING CORPORATION ANNUAL REPORT 2006-07

LEADING THE WAY

Just like players need information to manage their gambling, NSGC needs evidence and research to make good decisions to effectively manage the gambling environment. It's a critical part of the Corporation's commitment to improving the lives of Nova Scotians and it extends to every facet of its business.

Nowhere is NSGC's leadership in research more apparent than with the pilot of the Responsible Gaming Device (RGD) research project, a first in the world. A two-year initiative led by NSGC, the goal of the research was to determine whether responsible gaming features, including Account Summary, Live Action, Money Limits, Play Limits and 48-Hour Cool Down, could be valuable for video lottery players in facilitating informed choice and responsible play. From the outset of the project, NSGC made a firm commitment to let the research do the talking and follow the recommendations of the independent experts. The Corporation wanted the recommendation to be firmly grounded in the evidence that was gleaned from the field test.

"Our commitment to making evidence-based decisions is not new, but it has never played a more critical role than in the RGD research project," says Marie Mullally, President and CEO of NSGC. "This was an initiative that had never been field-tested anywhere else in the world and it centered on a complex human behavior. For us to make the right decision for Nova Scotians, we had to have the best experts in the world. We had to have all the facts."

The Corporation stood behind this commitment. Three separate and independent research reports were compiled, all of which agreed that the findings of the research were promising: players liked the tools and used them to make more informed decisions. During the pilot, 71 per cent of all players tried the features and almost half of regular players kept using them. Further, the most positive impacts were on players at the lower end of the risk scale, which is exactly the right target audience for effective prevention.

Based on these outcomes, NSGC followed the recommendations of the researchers and on February 8, 2007, announced that it would be moving forward with the project, issuing a Request for Proposal (RFP) for the development of a Province-wide video lottery Informed Player Choice System (IPCS). In moving ahead with the IPCS, Nova Scotia will be the first jurisdiction in the world to offer its players real-time, personalized information about their video lottery play.

The RGD project was only one of several research initiatives funded by NSGC in 2006-07. The Corporation also sponsored three critical youth-related research initiatives, all of which will expand the body of knowledge with regards to youth gambling and how to prevent the activity amongst this high-risk group; an under-explored topic across the country. NSGC's goal of filling the gaps is critical to ensuring the Province has the information it needs to communicate the risks of gambling to this impressionable audience.

NSGC's sponsorship of youth-focused research is rich and varied. A team of researchers at Mount Saint Vincent University in Halifax, Nova Scotia, was awarded a 10-month grant to conduct a comprehensive, independent research study into youth gambling. Together, the multidisciplinary group will bring expertise in child and youth studies, family studies, sociology, psychology, education, business and tourism. The outcomes of this project will be released in summer 2007. Under the leadership of gambling expert, Dr. John McMullan, a Saint Mary's University research team was awarded a \$345,000 four-year research grant to investigate the impacts of commercial gambling advertising on the perceptions and behaviours of youth. D-CODE Inc., an innovative research firm in Toronto, was commissioned to explore gambling attitudes and behaviours among Nova Scotia youth aged 13-20. The goal of the research, which was completed in October 2006 and released at NSGC's Youth Gambling Prevention Summit during Responsible Gambling Awareness Week, was to help provide more information and context about what gambling activities youth are engaging in and how best to prevent them. The combined findings of all three projects will result in Nova Scotia having a body of research related to youth gambling that is amongst the most robust in the world. With all these exciting, groundbreaking projects, experts agree that Nova Scotia has become the jurisdiction to watch.

"This province has relied on policy research throughout its history to test the efficacy of policy. It's certainly fair to say that Nova Scotia is a jurisdiction with which the world's gambling researchers have become quite familiar as a sort of test tube, watched closely by those interested in addressing key policy issues through research-based approaches," said Dr. Bo Bernhard, Director of Gambling Research at the International Gaming Institute, University of Nevada, Las Vegas. ↵

2006-07 RESEARCH HIGHLIGHTS:

MOUNT SAINT VINCENT UNIVERSITY (MSVU) RESEARCH GRANT

- In 2006, NSGC awarded a multidisciplinary team of researchers at MSVU a one-year research grant to complete a pilot study regarding the social and behavioural conditions associated with the development and prevention of problem gambling behaviours in young people.

SAINT MARY'S UNIVERSITY (SMU) RESEARCH GRANT

- In 2006, NSGC awarded Dr. John McMullan a four-year research grant that will fund his research into the effects of commercial gambling advertising on the beliefs, perceptions and behaviours of youth.

D-CODE INC.

- NSGC commissioned D-CODE Inc., a Toronto-based research firm specializing in youth, to take an in-depth look at the gambling activities of Nova Scotia's youth.
- The research was unveiled during NSGC's Youth Gambling Prevention Summit in October 2006 and showed that more than 30 per cent of respondents under 19 said they had participated in four or more gambling activities in the past 12 months.

RESPONSIBLE GAMING DEVICE (RGD) RESEARCH PROJECT

- In February 2007, NSGC released the findings of a two-year Responsible Gaming Device research project that tested responsible gaming features on video lottery terminals through comprehensive field research.
- Nova Scotia was the first jurisdiction in the world to test these kinds of interactive, responsible gaming features.
- Three external, independent research firms conducted analysis and presented recommendations: Omnifacts Bristol, Focal Research Consultants Ltd., and Dr. Bo Bernhard, Director of Gambling Research at the International Gaming Institute, University of Nevada, Las Vegas.
- The findings showed that the responsible gaming features (Account Summary, Live Action, Money Limits, Play Limits, 48-Hour Cool Down) had a positive impact on players.
- On February 8, 2007, NSGC formally announced an RFP, inviting technology suppliers in the gaming sector to propose technology solutions for an Informed Player Choice System for all VLTs in the Province with implementation slated for 2008.

VIDEO LOTTERY PROGRAM CHANGES

- As part of the Province's Gaming Strategy, four VLT initiatives were implemented, including a reduction in hours, the removal of 1,000 VLTs from retail locations, a disabling of the "Stop Button" feature and a reduction in the speed of VLT play by 30 per cent.
- Corporate Research Associates (CRA) was retained to study the preliminary impact of the initiatives. The report concludes "initial results suggest that the changes to the VL program are collectively achieving their desired effect on Nova Scotia." Research findings included:
 - Impact on Spending: Almost one third of players have reduced their spending as a direct result of the video lottery program changes and approximately two thirds of players have not changed their spending.
 - Impact on Time Played: 16 per cent of players decreased their play time due to "Stop Button" disabling and reduction in speed of play, 11 per cent decreased time played due to terminal reductions. The drop in play time ranged from 70 to 211 minutes per week.

MAKING RESPONSIBILITY A REALITY

KNOW A FRIEND
WHO'S LOST IN THE SHUFFLE?

“Through its many innovative projects and collaborative efforts, NSGC is fostering a responsible gambling environment in Nova Scotia and has assumed a prominent leadership role within the gaming industry.”

Dr. Jeffrey Derevensky, Professor, McGill University

friends4friends social marketing campaign sponsored in Nova Scotia by NSGC

If a friend is consumed by the need to gamble, she could use your help
friends4friends.ns.ca

Chuck Keeling, Vice-President, Racing Operations, Great Canadian Gaming Corporation, Michelle Carinci, President & CEO, Atlantic Lottery Corporation and Marie Mullally, President & CEO, Nova Scotia Gaming Corporation at the signing of NSGC's Social Responsibility Charter.



NSGC employees Mark Gwynn, Cynthia Giles and Lindsey Wolfe at an Interactive Community Education Display during RGAW 2006.



MAKING RESPONSIBILITY A REALITY

Giving Nova Scotians the information they need to make informed decisions. Clearly communicating the risks of gambling. Educating Nova Scotians through progressive, unique and effective programs. These are the goals of NSGC's responsible gambling and prevention programs.

While the program list may be extensive, the approach is comprehensive and broader than one-time projects. Rather, it's about a continuum approach that ensures those individuals who use NSGC's products, now or in the future, have the necessary tools to fully understand the risks and make informed decisions, thereby preventing problems before they ever start.


With this multi-faceted approach and organization-wide dedication, it's not surprising that NSGC has become a recognized world leader in responsible gambling and prevention programming. But what's most important is the difference these education and awareness programs are making at home.

"Our focus is on giving the right people the right information at the right time so they are empowered to make informed decisions. This is the Informed Player Choice model that we are fostering in Nova Scotia," says Margaret McGee, Vice-President, Prevention Programming and Public Affairs. "In 2006-07 alone, we sponsored or delivered more than a dozen prevention and education programs that directly reached 22,287 Nova Scotians."

In 2006-07, the Corporation focused its attention on programs that target the age group at the highest risk of developing a problem: youth between the ages of 19 and 24. Experts say that educating this age group is critical to preventing the next generation of problem gamblers. That's why NSGC is taking a coordinated and sustained approach to youth gambling prevention, sponsoring tested and proven prevention programs that are developed and delivered by independent experts in order to ensure the messages are appropriate and the integrity of the programs are beyond reproach.

NSGC's comprehensive approach includes the continued sponsorship of programs from the well-respected Responsible Gambling Council of Canada, such as *Know the Score* (an interactive peer-education program that targets university and college students), *Caught in the Game* (a high-school drama) and *friends4friends* (a social marketing campaign targeting youth between the ages of 19 and 29), as well as several new initiatives launched in 2006-07. This included the groundbreaking pilot test of Internet content-blocking software that parents/caregivers can install on their home computers in order to help prevent their underage children from visiting gambling websites. In addition, the Corporation presented a one-day Youth Gambling Prevention Summit that brought together key influencers of youth for a one-day session on how they can help raise awareness about the risks of gambling to prevent future problems.

For NSGC, 2006-07 was another important step towards ensuring that every Nova Scotian has the tools they need to make informed decisions and truly make responsible gambling a reality. 2007-08 promises to be another year of new initiatives and programs that will continue to secure Nova Scotia's position as one of the most socially progressive gambling environments in the world.

"The Nova Scotia Gaming Corporation continues to make prevention programs and responsible gambling a high priority," says Dr. Jeffrey Derevensky, Professor, McGill University. "Through its many innovative projects and collaborative efforts, NSGC is fostering a responsible gambling environment in Nova Scotia and has assumed a prominent leadership role within the gaming industry." 



PREVENTION PROGRAMMING HIGHLIGHTS

- In 2006-07, NSGC allocated more than \$7.8 million to responsible gambling programs and problem gambling treatment and prevention.

KNOW THE SCORE

- Developed by the Responsible Gambling Council (RGC) and sponsored in Nova Scotia by NSGC.
- More than 40 campus visits completed and 20,000 one-on-one interactions with students to date.
- 90 per cent of students agreed that they were likely to use the information from *Know the Score* if the need arose.
- 84 per cent of respondents reported an increase in their awareness of signs of problem gambling and 91 per cent increased their knowledge of how to limit gambling risks.

CAUGHT IN THE GAME

- Developed by RGC and sponsored in Nova Scotia by NSGC.
- 16 performances to more than 4,300 Nova Scotia high-school students to date.
- 76 per cent of students agreed they were more aware of ways to avoid problem gambling after seeing the play.
- 92 per cent of students and 94 per cent of educators agreed that *Caught In The Game* is a good way to increase students' awareness of problem gambling.

FRIENDS4FRIENDS

- Canada's first problem gambling awareness campaign for young adults.
- Developed by RGC and sponsored in Nova Scotia by NSGC.
- More than 2,500 people have visited www.friends4friends.ns.ca to date.
- 93 per cent of young adults surveyed supported the messages of the ads and 73 per cent said the ads made them think twice about the consequences of gambling.

BETSTOPPER

- Internet blocking software that prevents underage youth from accessing gambling websites.
- Development of the software was sponsored by NSGC and it is currently being pilot-tested by 250 families in the Province.

RESPONSIBLE GAMBLING AWARENESS WEEK (RGAW)

- RGAW 2006 programs and messages directly reached more than 2,800 people in seven target communities.
- More than 15 events were delivered across Nova Scotia in seven days.
- 84 per cent of public in target communities support RGAW and 68 per cent agree it demonstrates NSGC'S commitment to responsible gambling.

RESPONSIBLE GAMBLING RESOURCE CENTRES (RGRG)

- More than 7,700 people have visited the Halifax and Sydney RGRGs to date.
- 85 per cent of all guests believe the centres are a valuable and helpful resource.

GIVING TO GOOD CAUSES

“NSGC is serious about making a difference in communities and delivering on its promise to be a good corporate contributor.”

Tracy White, Manager, Fund Development for the Nova Scotia Region of the Canadian Red Cross

NSGC was a lead supporter of the Truro Red Cross Monte Carlo Night

Helping you help your community. A simple statement... an important goal for NSGC.

NSGC has long been a valuable contributor to making Nova Scotia's charities and communities stronger. Through sponsorships, volunteer work and employee contributions, the Corporation has celebrated good corporate citizenship. This year however, NSGC took its support one step further by connecting what it does best with its desire to make a real and material difference across Nova Scotia. NSGC decided to offer charitable and not-for-profit organizations an opportunity to further enhance their good work by using gaming proceeds to support their communities. And so, after a series of discussions with charitable groups from across the Province, the Charitable Sector Support Program was born.

NSGC began by leveraging its expertise as a steward in the gaming industry to help make current charitable gaming offerings more effective, beginning with Bingo. While a part of the social fabric of Nova Scotia and an important economic contributor, the popularity of bingo has been on the decline. As one bingo operator commented, “The days of just opening the doors to your bingo and being successful are over.” Unfortunately however, the need for their fundraising is not.

To help these charities enhance their bingo fundraising efforts, NSGC led day-long Bingo Seminars for more than 180 charity bingo representatives across the Province. From sessions that taught new and innovative marketing ideas, to tips on how to bring the fun back into the game, the Seminars provided relevant and useful information that participants could use to help their charities help their communities.

NSGC's Operators, Atlantic Lottery Corporation (ALC) and Casino Nova Scotia are proud partners in the Charitable Sector Support Program.

For example, in 2007, NSGC and Casino Nova Scotia joined forces to be lead supporters of two Monte Carlo Charity Casino Nights in Amherst and Truro. A “Monte Carlo” fundraiser is a charity casino night where guests are treated to dinner, live and silent auctions, live bands, dancing, and “Monte Carlo” gaming events including blackjack and crown and anchor wheels. All the money raised goes to benefit good causes. Casino Nova Scotia helped to up the ante of the events by bringing a bit of Las Vegas to the Truro and Amherst events with volunteer casino dealers, tables and glamorous show girls.

“Giving back to the community is an important part of what we do,” says Marie Mullally, President and CEO of NSGC. “Monte Carlo Nights are a great opportunity for NSGC and Casino Nova Scotia to use our expertise and infrastructure to help charities benefit their good causes.”

More than 450 people came out to experience the fun and entertainment of these charitable events that raised more than \$26,500 for the Cumberland Early Intervention Program in Amherst, and the Canadian Red Cross in Truro.

Tracy White, Manager, Fund Development for the Nova Scotia Region of the Canadian Red Cross, saw the direct benefit of NSGC's support when she partnered with the Corporation. White says the money raised at their Monte Carlo Night “...shows that NSGC is serious about making a difference in communities and delivering on its promise to be a good corporate contributor.”

With a steadfast commitment to help Nova Scotian communities, NSGC strives to be a valuable, contributing member of society. By offering programs like *Support 4 Sport* and the Charitable Sector Support Program and by directly sponsoring non-profits such as the Crosbie House Society, NSGC and its Operators gave almost \$2.6 million to community causes in 2006-07.

HIGHLIGHTS OF THE CHARITABLE SECTOR SUPPORT PROGRAM:

SUPERSTAR BINGO

- Almost \$500,000 has gone back to charities through Charitable Linked Bingo.

BINGO SEMINARS

- Over 180 charity representatives registered for the Bingo Seminars.
- More than 95 per cent indicated a good or excellent rating to the Bingo Seminar as an effective way for NSGC to support the charitable sector.
- More than 95 per cent of Bingo Seminar participants gave a good or excellent rating to the helpfulness of the information presented, the speakers and the venue.
- More than 90 per cent of the Bingo Seminar participants gave a good or excellent rating to the clarity of information presented and being entertained and engaged.
- More than 90 per cent indicated they would attend another Bingo Seminar and recommend the Bingo Seminar to another charity.

MONTE CARLO CASINO NIGHTS

- More than 95 per cent of supporters of the fundraiser gave a good or excellent rating to the overall event.
- More than 80 per cent indicated an excellent rating agreeing that NSGC's and CNS's support of the event is an effective way to support the charitable sector.



SUPPORTING OUR COMMUNITIES

“Personally, I believe the *Support 4 Sport* program is really the best thing to happen to sport in Nova Scotia in a very long time.”

Ken Bagnell, President & NCI Director, Canadian Sport Centre Atlantic

For the 5-year-old who wants to learn to play soccer. For the 19-year-old who dreams of competing in Olympic paddling. For the 60-year-old who thrives on daily games of recreational tennis. NSGC now has a way to help Nova Scotians who want to participate in sport at every level in communities from Glace Bay to Yarmouth. It's called *Support 4 Sport*.

Investing in a healthier future by giving back to communities is an important part of what NSGC does. Through its *Support 4 Sport* program, launched in August 2006, NSGC will give 100 per cent of the profits from these specifically branded lottery tickets directly to sport in Nova Scotia. In 2006-07, almost \$375,000 was raised from *Support 4 Sport*, and with new dedicated lottery tickets continuing to be launched, NSGC expects to raise more than \$2 million each year.

Half the money raised from the lottery tickets will go to the 2011 Canada Games and the other half will be distributed by Sport Nova Scotia's Amateur Sport Fund. This money will be used to buy sports equipment, create and enhance recreation/participation programming for all ages, support performance training programs for competitive athletes, and hire coaches at all levels.

Sport is an area where the need for more funding is apparent and one where NSGC's *Support 4 Sport* program will be able to help in a real and meaningful way.

“This money will go a long way,” says Jamie Ferguson, CEO of Sport Nova Scotia. “Just to give you an idea of the incredible impact this will have with our provincial and community partners, our Sport Futures Leadership program results show that with \$1 million, we could deliver participation programs to 200,000 people, host 2,400 sports clinics and train 6,000 leaders in communities across this Province. With this funding we are looking forward to creating more opportunities for excellence and fostering a culture of sport.”

“We believe in the power of sport. We think every child deserves the opportunity to shine. We know that people of all ages are happier and healthier when they play sports. We want to help build a better future. That's why we are proud to do our part to support sport,” says Marie Mullally, President and CEO of NSGC.

Support 4 Sport is about helping all athletes be their best, from the recreational league to the competitive world stage. It is about giving every Nova Scotian the opportunity to be successful from playground to podium. It is about building a legacy that will have an enduring impact on the future of the Province. Every time someone buys a lottery ticket with the *Support 4 Sport* logo, they are adding to that legacy, helping to build a stronger Nova Scotia. That is NSGC's goal.



Marie Mullally speaks at a *Support 4 Sport* cheque presentation



SUMMARY OF RESULTS

A) RESPONSIBLE

- Developed the first Social Responsibility Charter and Action Plan in the Canadian gaming industry, helping to solidify NSGC's role as an international industry leader in social responsibility.
- Successfully sponsored or delivered many responsible gambling/prevention programs, including: Responsible Gambling Awareness Week (RGAW), *friends4friends*, *Know the Score*, *Caught in the Game*, *Don't Bet On It* high school prevention/education program, *BetStopper*, Interactive Community Education Display, Community Consultation Sessions, Responsible Gambling Resource Centres, Video Lottery Retailer Training Program, Ticket Lottery Retailer Training Program, First Nations Awareness Initiative.
- Sponsored the development of new Internet blocking software, *BetStopper*, to prevent youth from accessing gambling websites.
- Enhanced Responsible Gambling Awareness Week (RGAW) 2006. The programs and messaging directly reached more than 2,800 Nova Scotians.
- Evaluated the Responsible Gambling Resource Centres (RGRC) in the Halifax and Sydney casinos; one of the outcomes was that 85 per cent of guests believe the Centres are a valuable and helpful resource.

B) PROGRESSIVE

- Created the *Support 4 Sport* program to allocate profits from designated gaming products to amateur sport in Nova Scotia.
- Issued a request for proposal for the development of a Province-wide video lottery Informed Player Choice System (IPCS). Nova Scotia will be the first in the world to offer players personalized information about their video lottery play.
- Rejuvenated the Halifax and Sydney Casinos to upgrade the facilities and enhance these premium entertainment destinations.

C) ACCOUNTABLE

- Fully complied with legislative and regulatory requirements. All incidents, as defined by regulation, were reported pursuant to the *Gaming Control Act*.
- Maintained shareholder and stakeholder support and communications:
 - Quarterly and Annual Reports to shareholder
 - Updates on strategic/operational matters to the Minister responsible
 - Quarterly reporting meetings with operators
 - Regular meetings/discussions with stakeholder groups
- Began focus-group testing a player management tool for Casino Nova Scotia. This is the ninth and final initiative to complete from the Province's Gaming Strategy.
- NSGC and Casino Nova Scotia came together for two Monte Carlo Charity Casino Nights where more than \$26,500 was raised for charity under NSGC's Charitable Sector Support Program.
- Continued strong community support, including the following categories:
 - Prevention, education and treatment – more than \$7.8 million
 - Employment – approximately 1,000 employed directly
 - Commissions – more than \$45.4 million in commissions for primarily small businesses
 - Sponsorships – \$496,000
 - Community Programs:

• Harness Racing industry	\$1.0 million
• <i>Support 4 Sport</i> program	\$373,000
• Charitable Sector Support Program	\$490,000
• Sport Nova Scotia	\$100,000
• Exhibition Association of Nova Scotia	\$50,000
• Cultural Federation of Nova Scotia	\$50,000

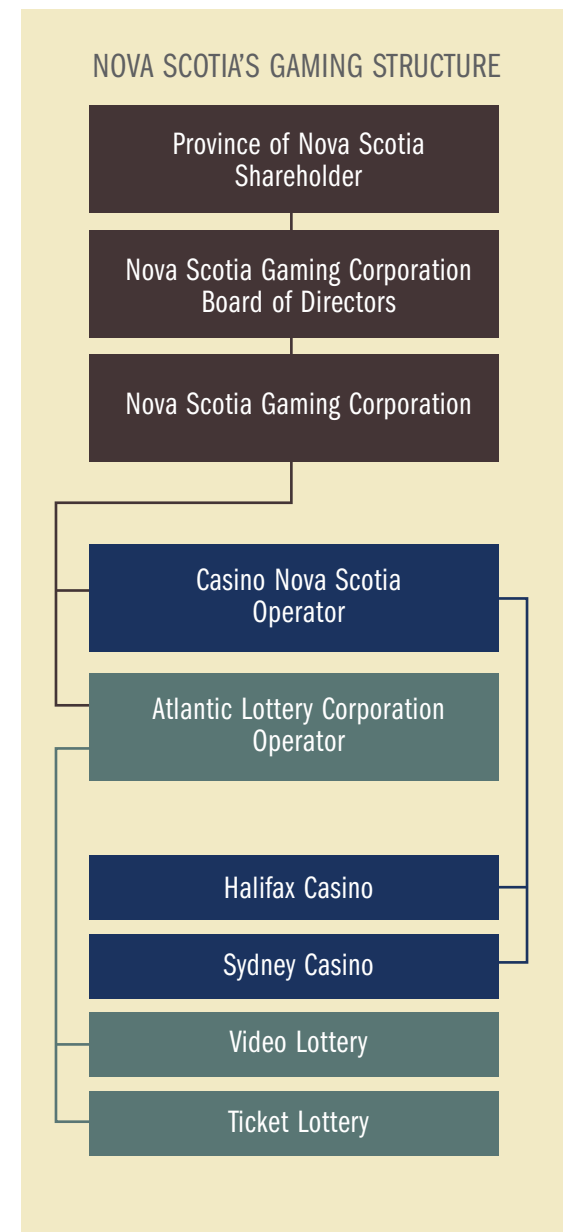
CORPORATE PROFILE

The Nova Scotia Gaming Corporation (NSGC) is a Crown corporation governed by the provincial *Gaming Control Act*.

The Nova Scotia government, and ultimately the people of Nova Scotia, are the shareholders and owners of the gaming industry in the Province. The industry is licensed and regulated by the Alcohol and Gaming Division of the Department of Environment and Labour. It is managed by NSGC. The Corporation's role is to ensure the gaming industry is as socially responsible as possible, while generating reasonable profits. The provincial government makes the big picture, policy decisions about how the industry will be operated in Nova Scotia. NSGC manages and implements those decisions. The Corporation also oversees and manages the gaming operators who carry out the day-to-day business of gaming – Casino Nova Scotia and Atlantic Lottery Corporation.

Gaming revenues go directly into the general revenues of the provincial government and help pay for programs and services that benefit all Nova Scotians. In 2006-07, \$162.3 million was paid to the Province to help build better roads, schools, hospitals and communities.

NSGC is recognized as a world leader in responsible gambling with more than a dozen innovative programs and projects designed to help players make informed decisions. As an industry steward, NSGC's goal is to lead a balanced, socially responsible gambling industry that is safe, regulated and accountable.



FINANCIAL STATEMENTS

MANAGEMENT RESPONSIBILITIES FOR FINANCIAL REPORTING

These financial statements are the responsibility of the management of the Nova Scotia Gaming Corporation. They have been approved by its Board of Directors.

Management has prepared the financial statements in accordance with generally accepted accounting principles in Canada. The financial information contained in the Annual Report is consistent with the data presented in the financial statements.

The gaming activities of the Nova Scotia Gaming Corporation 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 financial statements of the Nova Scotia Gaming Corporation are stated fairly, in accordance with Canadian generally accepted accounting principles. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

The Nova Scotia Gaming Corporation 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 financial statements and audit reports of the auditors of the Corporation and its operators.

Certification for the year ended March 31, 2007

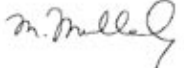
We have evaluated the effectiveness of the Nova Scotia Gaming Corporation's disclosure controls and procedures as of the end of the year covered by the 2006-07 Annual Report. Except as discussed in the following two paragraphs, we conclude that such disclosure controls and procedures are effective to ensure that the information required to be disclosed is accumulated and communicated to management, including the President & Chief Executive Officer and the Vice-President, Finance.

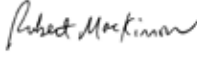
NSGC relied upon procedures performed and certifications provided over disclosure controls and internal controls over financial reporting provided by Great Canadian Gaming Corporation (GCGC). NSGC has contracted GCGC to operate the Halifax and Sydney Casinos and certain balances, including revenues, associated with those businesses are included in the financial statements.

NSGC's evaluation did not include disclosure controls and procedures and internal controls over financial reporting performed by the Atlantic Lottery Corporation (ALC), and therefore is not intended to identify and report any

deficiencies in internal control that might exist at ALC. NSGC has contracted ALC to operate the Video and Ticket Lottery businesses and the revenue, expenses, assets and liabilities associated with those businesses are included in the financial statements.

During the period beginning on April 1, 2006 and ended on March 31, 2007, NSGC has not made any changes in its internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.


Marie T. Mullally, FCA
 President and
 Chief Executive Officer


Robert MacKinnon, CA
 Vice-President,
 Finance

AUDITOR'S REPORT



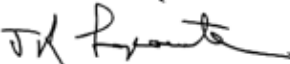
OFFICE OF THE AUDITOR GENERAL

To the Members of the Legislative Assembly of Nova Scotia; and
 To the Minister of Finance

I have audited the balance sheet of the Nova Scotia Gaming Corporation as at March 31, 2007, the statement of income and payment to Province, the statement of retained earnings and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.


In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.


Jacques R. Lapointe, CA · CIA
 Auditor General
 Halifax, Nova Scotia
 May 25, 2007

BALANCE SHEET AS AT MARCH 31, 2007 (IN THOUSANDS)

	2007	2006
ASSETS		
CURRENT		
Cash and short-term investments (Note 3)	\$ 7,357	\$ 10,852
Cash – restricted (Note 2)	1,815	2,636
Inventory, at cost	1,729	1,727
Prepays	758	292
	11,659	15,507
LONG-TERM		
Cash – Casino Capital Replacement Reserve (Notes 3 and 4)	-	1,453
Deferred charges (Note 2)	54	204
Investment in Atlantic Lottery Corporation Inc. (Notes 2 and 5)	1	1
Investment in Interprovincial Lottery Corporation (Notes 2 and 6)	1	1
Capital assets (Notes 2 and 7)	94,564	103,673
	94,620	105,332
	\$ 106,279	\$ 120,839
LIABILITIES		
CURRENT		
Accounts payable	\$ 4,545	\$ 2,105
Deferred lottery revenue (Note 2)	244	486
Liabilities for unclaimed prizes (Note 2)	1,815	2,636
Capital obligation – current portion (Note 8)	11,261	15,544
Due to operators (Note 9)	4,878	5,681
Due to Atlantic Gaming Equipment Limited - current portion (Note 10)	5,378	12,515
Due to Nova Scotia Gaming Foundation (Note 2)	55	59
Due to Province of Nova Scotia	53,910	42,870
	82,086	81,896
LONG-TERM		
Bank indebtedness (Notes 3 and 4)	406	-
Due to Atlantic Gaming Equipment Limited (Note 10)	5,714	7,043
Capital obligation (Note 8)	11,340	23,281
	17,460	30,324
EQUITY		
Casino Capital Replacement Reserve (Note 4)	6,733	8,619
	\$ 106,279	\$ 120,839

Commitments (Notes 3, 12, 14 and 16)
 Approved on behalf of the Board,



John G. Khattar, Q.C.
 Chair

See accompanying notes to the financial statements

STATEMENT OF INCOME AND PAYMENT TO PROVINCE
FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

	2007	2006
REVENUE		
Ticket lottery (Schedule I)	\$ 215,124	\$ 210,677
Video lottery (Schedule I)	151,304	182,205
Halifax casino (Schedule II)	75,313	74,378
Sydney casino (Schedule III)	22,954	21,314
Other (Schedule IV)	360	278
	465,055	488,852
EXPENSES		
Ticket lottery (Schedule I)	167,481	171,076
Video lottery (Schedule I)	55,601	64,813
Halifax casino (Schedule II)	66,642	67,402
Sydney casino (Schedule III)	17,978	17,522
Responsible gambling	3,143	2,407
Other (Schedule IV)	3,112	2,785
	313,957	326,005
Net income before distributions	151,098	162,847
Distributions to Community Programs (Schedule IV)	,656	5,796
Net income	144,442	157,051
Win tax	17,881	17,077
Payment to Province	\$ 162,323	\$ 174,128

STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

	2007	2006
Retained earnings, beginning of year	\$ -	\$ -
Net income	144,442	157,051
Net income paid to Province	(144,442)	(157,051)
Retained earnings, end of year	\$ -	\$ -

See accompanying notes to the financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

	2007	2006
OPERATING		
Net income	\$ 144,442	\$ 157,051
Allocation of income to Province	(144,442)	(157,051)
Amortization of capital assets	21,236	23,604
Amortization of deferred charges	150	145
Net changes in working capital (Note 13)	11,963	9,553
	33,349	33,302
FINANCING		
Decrease in due to Atlantic Gaming Equipment Limited	(8,466)	(9,801)
Reduction of capital obligation	(16,224)	(13,317)
	(24,690)	(23,118)
INVESTING		
Purchases of capital assets, net of dispositions	(12,127)	(15,159)
Decrease in Casino Capital Replacement Reserve, net of cash decrease	(27)	1,739
	(12,154)	(13,420)
Net decrease in cash and short-term investments	(3,495)	(3,236)
Cash and short-term investments, beginning of year	10,852	14,088
Cash and short-term investments, end of year	\$ 7,357	\$ 10,852

See accompanying notes to the financial statements

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007**

1) DESCRIPTION OF BUSINESS

The Corporation was incorporated on February 15, 1995 by Chapter 4 of the Acts of 1994-95, the *Gaming Control Act*. The purpose of the Corporation is to develop, undertake, organize, conduct and manage casinos and other lottery schemes on behalf of the Province.

2) ACCOUNTING POLICIES

a) Basis of Presentation

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

b) Casino Revenues

In accordance with industry practice, Casino revenues are reported as the net win from gaming activities, which is the difference between amounts wagered and amounts paid as winnings. Casino revenues are reported net of accruals for anticipated amounts to be paid as winnings for progressive slot machine jackpots.

c) Ticket Lottery Revenues

Gross ticket lottery sales are recorded before deducting sales discounts and prize expense.

Receipts for lottery tickets sold prior to March 31, 2007 for draws held subsequent to that date are recorded as deferred revenue.

d) Video Lottery Revenues

Video lottery revenues are reported as the net revenues from video lottery activities, which is the difference between amounts wagered and amounts paid as winnings.

e) Capital Assets

Capital assets are stated at cost less accumulated amortization.

Amortization of the Corporation's head office capital assets is provided on the declining balance basis at the following annual rates:

Computer equipment	30%
Furniture and equipment	20%

Amortization of the Halifax and Sydney casino assets is recorded on a straight-line basis according to their estimated useful lives at rates between 2.5% and 20%.

Amortization of the Corporation's capital assets used in the operation of its lottery businesses is recorded

on the straight-line basis according to their estimated useful lives at rates between 4% and 33%. Leasehold improvements are amortized over the remaining lease term, including one renewal period.

f) Nova Scotia Gaming Foundation Contribution

VLT retailers in Nova Scotia have agreed, under the terms of their retailer agreements with the Atlantic Lottery Corporation Inc., to contribute 1% of their VLT commission to the Nova Scotia Gaming Foundation. The Corporation has agreed to contribute an amount equal to all contributions made by the VLT retailers.

g) Deferred Charges

The deferred charges relate to payments made to site holders to remove video lottery terminals from certain sites. These costs are being amortized on a straight-line basis over five years.

h) Long-term Investments

Investments in the Atlantic Lottery Corporation Inc. and the Interprovincial Lottery Corporation are recorded using the cost method of accounting for investments.

i) Cash - Restricted and Unclaimed Prizes

Unclaimed prizes from regional lottery games are retained in a prize fund for one year from the announced beginning date of the draw. 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 as incurred.

j) Prize Expense

Prize expense for regional online games is recorded based on the theoretical prize expense for each game. The actual expense incurred each year will vary from the estimate based on the nature of games of chance. Over the long term it is expected that the actual prize expense will approximate the theoretical expense.

k) Use of Estimates

In preparing the Corporation's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007**

3) CASINO NOVA SCOTIA

a) Operating Contract

i) Term and Structure

On May 31, 1995, the Corporation entered into an Operating Contract with Metropolitan Entertainment Group, referred to as MEG or the Operator, then a partnership between ITT Sheraton Canada Ltd. (now Park Place Entertainment Scotia Limited) and Purdy's Wharf Development Limited (now East Port Properties Ltd.), to operate casinos in Halifax and Sydney for a period expiring on December 31, 2015.

On July 1, 2005, the Corporation amended and restated the Operating Contract with Metropolitan Entertainment Group (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, renewable until July 1, 2025, at the Operator's option.

ii) Payments to Operator

Under the Amended and Restated Casino Operating Contract, effective July 1, 2005, the Operator is entitled to certain payments from each casino, calculated with reference to the following items, which are included in Article 7 of the Amended and Restated Casino Operating Contract:

- an amount based upon the Operator's Capital Investment in Halifax (\$92.0 million total, \$1.1 million outstanding), to be amortized straight-line over a seven year term, with interest calculated monthly at 12% per annum on the original capital investment outstanding;
- an Operator Fee in the amount equal to 55.5% of total casino revenue after deducting payment to fund a capital replacement reserve;
- an amount based on the Mandatory Deferral (\$24.5 million total, \$21.9 million outstanding) to be repaid over a four year term, with interest calculated monthly at Prime + 1% per annum; and,
- an amount based on funds advanced by the Operator to purchase Approved Capital Expenditures with interest calculated at Prime + 2% per annum.

Prior to July 1, 2005, the Operator was entitled to certain payments from each casino, calculated with reference to the following items, which are listed in Section 4.7 of the original Operating Contract:

- an amount based upon the Operator's Capital Investment in Halifax (\$92.0 million total, \$1.1 million outstanding), to be amortized straight-line over a seven year term, with interest calculated monthly at 12% per annum on the total capital investment outstanding;

- an amount equal to not less than 1.5% of casino revenue before casino win taxes (20%) to fund a capital replacement reserve;

- an amount equal to 3% of casino revenue before casino win taxes (20%) in Sydney as a Base Fee and 10% of casino revenue less casino win taxes, the Base Fee and Operating Expenses as an Incentive Fee;

- an amount equal to the Operator's shortfall in any one year that income is insufficient to make payments, as described above with interest calculated monthly at Prime + 1% per annum; and,

- an amount equal to 35% of cash available for distribution in Halifax.

iii) Option to Terminate

Under the Amended and Restated Casino Operating Contract, either the Corporation or the Operator has the option to terminate the Contract. NSGC may terminate the Contract immediately on written notice with cause, or on six months written notice at its option. The Operator may terminate the Contract upon sixty days written notice with cause.

Upon termination the Operator must be repaid the unpaid balance of Payments to Operator, and unamortized balance of Operator's Additional Acquisition Costs.

If the Operator terminates the contract, or the Corporation terminates without cause, the Corporation must pay the Operator a Compensation fee calculated as the greater of the net present value of 10% of the Operator fee or Operator's Actual EBITDA for the preceding twelve months.

No compensation fee is payable to the Operator if NSGC terminates the contract for cause.

b) Cash in Casino Accounts

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 (CRA) are owned by the Corporation. The Corporation included \$0.7 million in cash from the casino accounts on the balance sheet at March 31, 2007 (2006 - \$5.0 million).

c) Casino Capital Replacement Reserve

A capital replacement reserve is intended to provide for replacement of casino capital assets. Prior to July 1, 2005 it was based on 1.5% of total casino revenue at the Halifax Casino and 9% at the Sydney Casino. From July 1, 2005 to March 31, 2007, it was based on 5% of total revenues of the casinos. Cash (bank indebtedness) has been segregated on the balance sheet in the amount of (\$0.4) million (2006 - \$1.4 million) for this purpose.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007

4) CASINO CAPITAL REPLACEMENT RESERVE

<i>(in thousands)</i>	2007	2006
Cash balance, beginning of year	\$ 1,453	\$ 3,145
Funding	4,856	4,321
Interest	53	32
Proceeds from sale of capital assets	17	-
Capital asset purchases	(6,379)	(10,409)
Reimbursements to MEG for capital asset purchases	(4,850)	-
Interest paid on balance owing to MEG for capital asset purchases	(690)	-
HST related to capital asset purchases and reimbursements	(1,236)	-
Capital assets purchased by MEG	6,370	4,364
Cash balance, end of year	(406)	1,453
Add: cumulative capital asset purchases	30,372	22,259
Less: accumulated amortization	(16,863)	(10,729)
Less: capital assets purchased by MEG	(6,370)	(4,364)
Balance, end of year	\$ 6,733	\$ 8,619

5) ATLANTIC LOTTERY CORPORATION INC.

In 1976, the Atlantic Lottery Corporation Inc. was set up by the four Atlantic Provinces to operate lottery and gaming activities in the region.

The 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, Lotteries Commission of New Brunswick and Prince Edward Island Lotteries Commission own 25% of the Atlantic Lottery Corporation Inc.

The Corporation entered into an Agency Agreement (the "Agreement") with the Atlantic Lottery Corporation Inc. whereby the Corporation has appointed the Atlantic Lottery Corporation Inc. to operate ticket and video lotteries in Nova Scotia as an agent of the Corporation on the terms and conditions set out in the Agreement. Under the Agreement, the 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 Agreement requires that the Corporation's revenues be kept in a separate account and not co-mingled with those of the other provinces. The Corporation's costs are to be deducted from its account. The Agreement clarified that assets acquired or liabilities incurred by the Atlantic Lottery Corporation Inc. exclusively for the operation of the lotteries in Nova Scotia are the Corporation's. As a result, for financial statement reporting purposes, the Corporation has included these assets and liabilities on its balance sheet, with the balance recorded as amounts due to the Atlantic Lottery Corporation Inc. or Atlantic Gaming Equipment Limited (a subsidiary of the Atlantic Lottery Corporation Inc.), as appropriate. The Corporation has not recorded any portion of those assets and liabilities

that are shared by all Atlantic Lottery Corporation Inc. shareholders in which the Corporation has an interest, the treatment and valuation of which has not yet been determined. This includes common capital assets.

The amounts due to the Atlantic Lottery Corporation Inc. and Atlantic Gaming Equipment Limited represent a portion of the Atlantic Lottery Corporation Inc.'s line of credit, which bears interest at prime less 1% on borrowings equal to funds on deposit and prime for amounts borrowed in excess of funds on deposit, and a portion of bank term loans. These loans have various terms and interest rates from 3.76% to 5.13% maturing at various dates through August 2011. The line of credit is secured by a general security agreement over all assets of the Atlantic Lottery Corporation Inc., and those owned by the Corporation. The bank term loans are secured by a general security agreement over present and future assets held by the Atlantic Lottery Corporation Inc. and Atlantic Gaming Equipment Limited and an indenture of subordination from the Corporation up to the value of assets utilized directly for the benefit of Nova Scotia.

The assets and liabilities recorded by the Corporation are recorded for financial statement reporting purposes only and do not necessarily represent the values that the Corporation would take if it were to withdraw from the Atlantic Lottery Corporation Inc.

6) 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, Super 7, Millionaire Life, 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007

7) CAPITAL ASSETS

<i>(in thousands)</i>	Cost	Accumulated Amortization	2007 Net Book Value	2006 Net Book Value
Automotive	\$ 970	\$ 540	\$ 430	\$ 526
Computer equipment	7,757	4,995	2,762	2,889
Furniture and equipment	272	134	138	54
Computer software	528	78	450	294
Retail equipment	2,059	1,030	1,029	1,097
Leaseholds	48	9	39	21
Halifax casino assets	91,952	32,972	58,980	61,529
Sydney casino assets	23,206	12,550	10,656	10,888
Casino furniture and equipment	30,371	16,863	13,508	11,528
On-line gaming terminals	10,761	10,759	2	433
Video lottery terminals	50,077	43,507	6,570	14,414
	\$ 218,001	\$ 123,437	\$ 94,564	\$ 103,673

In 2007, the Corporation acquired capital assets of \$4.0 million (2006 - \$7.0 million) financed through Atlantic Gaming Equipment Limited, \$0 million (2006 - \$5.2 million) financed by the Casino Capital Replacement Reserve, and \$2.0 million (2006 - \$4.4 million) financed by MEG.

8) CAPITAL OBLIGATION

The Corporation has an obligation under the Amended and Restated Casino Operating Contract to repay the operator of the casinos for the initial cost of the Halifax and Sydney casinos to the extent that there is adequate cash flow from the casinos to fund these obligations. The Corporation has the option to purchase these casinos at any time with six months notice. Future minimum obligations based on there being adequate cash flow are as follows:

<i>(in thousands)</i>	Total
2008	\$ 12,479
2009	11,248
2010	543
Net minimum obligation	24,270
Less: amount representing interest	(1,669)
Present value of minimum obligation	22,601
Less: amount due within one year	(11,261)
Balance of obligation	\$ 11,340

9) DUE TO OPERATORS

<i>(in thousands)</i>	2007	2006
Due from Atlantic Lottery Corporation Inc.	\$ (429)	\$ (972)
Due from lottery operations	(6,168)	(5,487)
Due to lottery operations	6,537	8,301
Due to MEG-CRA purchase	6,370	4,364
Due from MEG	(1,432)	(525)
	\$ 4,878	\$ 5,681

10) DUE TO ATLANTIC GAMING EQUIPMENT LIMITED

The liability represents a portion of the Atlantic Lottery Corporation Inc. (ALC) debt used in the acquisition of assets operated on behalf of NSGC. All amounts are payable by ALC and are due on or before April 2010. The debt is non-interest bearing, with no set repayment terms.

11) RELATED PARTY TRANSACTIONS

The Province of Nova Scotia, Nova Scotia Harness Racing Incorporated, Atlantic Gaming Equipment Limited and the Atlantic Lottery Corporation Inc. are related parties of the Corporation. Details of any transactions between these related parties are separately disclosed in the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007**

12) HARNESS RACING

The Corporation annually contributes to the Nova Scotia Harness Racing Fund amounts approved by the Minister of Finance. In July 2006, Government approved a contribution of \$1.0 million in 2007 to support the harness racing industry in Nova Scotia.

The 2008 approved budget includes \$1.0 million to support the harness racing industry in Nova Scotia.

13) SUPPLEMENTAL CASH FLOW INFORMATION

Net changes in working capital:

<i>(in thousands)</i>	2007	2006
Inventory	\$ (2)	\$ (65)
Prepays	(466)	517
Accounts payable	2,440	685
Deferred lottery revenue	(242)	82
Due to operators	(803)	(2,569)
Due to Nova Scotia Gaming Foundation	(4)	(13)
Due to Province of Nova Scotia	11,040	10,916
	\$ 11,963	\$ 9,553

14) SPECIAL PAYMENTS AND BONUS COMMISSIONS

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

<i>(in thousands)</i>	2007	2006
The Department of Tourism, Culture and Heritage (in support of the NS Cultural Federations)	\$ 50	\$ 50
The Department of Agriculture (in support of the Exhibition Association of Nova Scotia)	50	50
Nova Scotia Health Promotion and Protection (in support of Sport Nova Scotia)	100	100
	\$ 200	\$ 200

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

Additionally, in July 2006, as part of its Gaming Strategy, Government approved a contribution of \$3.0 million to Nova Scotia Health Promotion and Protection in 2007 (2006 - \$3.0 million) to fund problem gambling treatment.

Bonus commissions of \$0 (2006 - \$1,170) were paid during the year to sporting and cultural organizations.

15) CHARITABLE SECTOR SUPPORT PROGRAM

NSGC manages the delivery of a program called SuperStar bingo which is delivered by participating charities across the province. Charities are paid a commission. Profits, if any, are paid out to the participating charities otherwise, NSGC absorbs the excess of costs over expenses. In 2007, the net loss was \$318,344 (2006 - \$3,457).

16) OTHER COMMITMENTS

The Corporation is required to make annual lease payments of approximately \$0.5 million over the next five years.

The Corporation's share of the Atlantic Lottery Corporation Inc.'s minimum annual lease payments for the premises is approximately \$3.8 million over the next five years.

The Corporation share of the Atlantic Lottery Corporation Inc.'s minimum annual lease payments for equipment is approximately \$0.4 million over the next five years.

17) PENSIONS

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 plan. The plan is funded by equal employee and employer contributions. The employer accounts for the plan on a deferred contribution basis with contributions included in the Corporation's operating expenses. The Corporation is not responsible for any unfunded liability with respect to the Public Service Superannuation Plan.

18) FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair value of the Corporation's cash and short-term investments, accounts payable, deferred lottery revenue, liabilities for unclaimed prizes, due to operators, due to Atlantic Gaming Equipment Limited, due to the Nova Scotia Gaming Foundation and due to the Province of Nova Scotia approximate their carrying amounts due to their relatively short terms to maturity.

It is not practicable to estimate the fair value for capital obligation as repayment can only be made to the extent there is adequate cash flow from the casinos.

Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from financial instruments.

19) COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in this fiscal year.

**SCHEDULE I: TICKET LOTTERY AND VIDEO LOTTERY, OPERATING RESULTS
FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)**

	Ticket Lottery	Video Lottery	Total 2007	Total 2006
Ticket lottery sales	\$ 215,124	\$ -	\$ 215,124	\$ 210,677
Prize expense	120,750	-	120,750	117,603
Net ticket lottery sales	94,374	-	94,374	93,074
Net video lottery sales	-	151,304	151,304	182,205
Total net sales	94,374	151,304	245,678	275,279
Retailer commissions	14,463	30,897	45,360	51,726
Ticket costs	3,825	3,312	7,137	8,277
	18,288	34,209	52,497	60,003
Gross profit	76,086	117,095	193,181	215,276
EXPENSES				
Operating expenses				
Marketing and communications	4,045	371	4,416	4,179
Development and recruitment	240	151	391	286
Equipment and maintenance	651	319	970	1,030
General and professional services	584	288	872	747
Lease and amortization	4,762	9,966	14,728	18,450
Movement and storage	632	73	705	744
Occupancy cost	804	453	1,257	1,328
Other expenses	132	99	231	150
Research and development	479	285	764	677
Salaries and benefits	7,467	4,475	11,942	12,668
Supplies	227	178	405	446
Telecommunication	2,445	285	2,730	2,698
Travel and vehicle	417	284	701	727
Total operating expenses	22,885	17,227	40,112	44,130
Operating profit	53,201	99,868	153,069	171,146
Other (expenses) income	(306)	2,422	2,116	1,878
Profit before other distributions	52,895	102,290	155,185	173,024
HST expense	4,216	5,871	10,087	12,522
Federal contribution	946	716	1,662	1,665
Charity non-profit	46	-	46	53
Retailer bonus	44	-	44	1,791
Net income	\$ 47,643	\$ 95,703	\$ 143,346	\$ 156,993

SCHEDULE II: HALIFAX CASINO NOVA SCOTIA, OPERATING RESULTS
FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

	2007	2006
REVENUE		
Casino revenue	\$ 68,709	\$ 66,050
Beverage, food and other revenue	6,604	8,328
	75,313	74,378
EXPENSES		
Amortization	2,549	4,193
Capital Replacement Reserve (<i>Note 3</i>)	3,723	3,032
General administration and marketing	-	2,365
Harmonized Sales Tax	4,797	4,394
Interest	2,573	3,864
Operator fee (<i>Note 3</i>)	39,258	29,023
Other expenses including cost of beverage and food	-	1,187
Premise expense	-	723
Salaries and benefits	-	5,411
Win tax	13,742	13,210
	66,642	67,402
Net income	8,671	6,976
Win tax	13,742	13,210
Total payment to Province	\$ 22,413	\$ 20,186

SCHEDULE III: SYDNEY CASINO NOVA SCOTIA, OPERATING RESULTS
FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

	2007	2006
REVENUE		
Casino revenue	\$ 20,695	\$ 19,338
Beverage, food and other revenue	2,259	1,976
	22,954	21,314
EXPENSES		
Amortization	232	361
Capital Replacement Reserve (<i>Note 3</i>)	1,133	1,289
General administration and marketing	-	543
Harmonized Sales Tax	527	693
Interest	-	36
Operator fee (<i>Note 3</i>)	11,947	8,712
Other expenses including cost of beverage and food	-	257
Premise expense	-	173
Salaries and benefits	-	1,591
Win tax	4,139	3,867
	17,978	17,522
Net income	4,976	3,792
Win tax	4,139	3,867
Total payment to Province	\$ 9,115	\$ 7,659

SCHEDULE IV: OTHER INCOME AND EXPENSES
FOR THE YEAR ENDED MARCH 31, 2007 (IN THOUSANDS)

	2007	2006
INTEREST INCOME	\$ 360	\$ 278
OPERATING EXPENSES		
Advertising	21	3
Amortization	44	36
Directors fees	70	75
Harmonized Sales Tax	306	274
Membership dues	23	13
Occupancy taxes	5	8
Office and miscellaneous	102	92
Office equipment	47	60
Periodicals	33	28
Postage and freight	14	19
Printing and stationery	27	12
Professional and other fees	559	394
Rent	113	124
Salaries and benefits	1,553	1,456
Telecommunications	40	39
Training	43	66
Travel	112	86
	\$ 3,112	\$ 2,785
DISTRIBUTIONS TO COMMUNITY PROGRAMS		
Charitable Sector Support Program (<i>Note 15</i>)	352	4
Department of Agriculture (<i>Note 14</i>)	50	50
Department of Tourism, Culture and Heritage (<i>Note 14</i>)	50	50
Nova Scotia Gaming Foundation	709	842
Nova Scotia Harness Racing Fund contribution (<i>Note 12</i>)	1,000	750
Nova Scotia Health Promotion and Protection (<i>Note 14</i>)	4,122	4,100
<i>Support 4 Sport</i> program	373	-
	\$ 6,656	\$ 5,796



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