

# **SGC Holdings Inc.**

Financial Statements

For the year ended March 31, 2020

# INDEPENDENT AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

## *Opinion*

We have audited the financial statements of SGC Holdings Inc. ("the Entity") which comprise:

- the statement of financial position as at March 31, 2020
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2020, and its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

## *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

## *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**KPMG LLP**

Chartered Professional Accountants

Regina, Canada  
May 28, 2020

**SGC Holdings Inc.**  
**Statement of Financial Position**  
**As at March 31**

	<u>Note</u>	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>			
Current			
Cash		\$ 3,597	\$ 2,307
Accounts receivable		44,635	-
Current portion of lease receivable	4	<u>6,350,101</u>	<u>4,931,304</u>
		6,398,333	4,933,611
Long-term lease receivable	4	<u>19,627,405</u>	<u>15,529,150</u>
		<u>\$ 26,025,738</u>	<u>\$ 20,462,761</u>
<b>LIABILITIES AND EQUITY</b>			
Current			
Trade and other payables		\$ 2,358,256	\$ 519,104
Due to Saskatchewan Gaming Corporation (SaskGaming)	5	<u>23,600,008</u>	<u>19,869,303</u>
		<u>25,958,264</u>	<u>20,388,407</u>
Share capital	8	1,000	1,000
Retained earnings		<u>66,474</u>	<u>73,354</u>
		<u>67,474</u>	<u>74,354</u>
		<u>\$ 26,025,738</u>	<u>\$ 20,462,761</u>
Description of business	1		

(See accompanying notes)

On behalf of the Board:

Director: 

Director: 

**SGC Holdings Inc.**  
**Statement of Comprehensive (Loss) Income**  
**For the year ended March 31**

	<u>2020</u>	<u>2019</u>
<b>REVENUE</b>		
Bank interest and other	\$ 5,918	\$ 6,384
Foreign exchange gain	-	248,570
	<u>5,918</u>	<u>254,954</u>
<b>EXPENSES</b>		
Foreign exchange loss	12,183	-
Bank charges and other	<u>615</u>	<u>1,323</u>
	<u>12,798</u>	<u>1,323</u>
Net (loss) income	(6,880)	253,631
Other comprehensive (loss) income	<u>-</u>	<u>-</u>
Comprehensive (loss) income	<u>\$ (6,880)</u>	<u>\$ 253,631</u>

(See accompanying notes)

**Statement of Changes in Equity (Deficit)**  
**For the year ended March 31**

	<u>2020</u>			<u>2019</u>		
	Retained Earnings	Share Capital	Total	Retained Earnings (Deficit)	Share Capital	Total
Balance, beginning of year	\$ 73,354	\$ 1,000	\$ 74,354	\$ (180,277)	\$ 1,000	\$ (179,277)
Comprehensive (loss) income	(6,880)	-	(6,880)	253,631	-	253,631
Balance, end of year	<u>\$ 66,474</u>	<u>\$ 1,000</u>	<u>\$ 67,474</u>	<u>\$ 73,354</u>	<u>\$ 1,000</u>	<u>\$ 74,354</u>

(See accompanying notes)

**SGC Holdings Inc.**  
**Statement of Cash Flows**  
**For the year ended March 31**

	<u>2020</u>	<u>2019</u>
<b>OPERATING ACTIVITIES</b>		
Net (loss) income	\$ (6,880)	\$ 253,631
Changes in non-cash working capital balances		
Accounts receivable	(44,635)	-
Trade and other payables	<u>1,839,152</u>	<u>(129,521)</u>
	<u>1,787,637</u>	<u>124,110</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant & equipment for lease	(10,448,356)	(8,886,786)
Lease payments received from SaskGaming	<u>4,931,304</u>	<u>3,641,923</u>
	<u>(5,517,052)</u>	<u>(5,244,863)</u>
<b>FINANCING ACTIVITIES</b>		
Increase in due to SaskGaming	<u>3,730,705</u>	<u>5,119,158</u>
Change in cash	1,290	(1,595)
Cash, beginning of year	<u>2,307</u>	<u>3,902</u>
Cash, end of year	<u>\$ 3,597</u>	<u>\$ 2,307</u>

(See accompanying notes)

**SGC HOLDINGS INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**March 31, 2020**

**1. Description of Business**

SGC Holdings Inc. (SGC Holdings) was incorporated under *The Business Corporations Act* (Saskatchewan) and is a wholly-owned subsidiary of the Saskatchewan Gaming Corporation (SaskGaming), a Saskatchewan provincial Crown Corporation. It is domiciled in Canada. The address of SGC Holdings registered office and principal place of business is 1880 Saskatchewan Drive, Regina, SK, S4P 0B2. As a wholly-owned subsidiary of SaskGaming, SGC Holdings is not subject to federal or provincial income or capital taxes. Since its inception, SGC Holdings is responsible for the purchase of property, plant and equipment for lease to SaskGaming for the operation of Casino Regina and Casino Moose Jaw. The financial results of SGC Holdings are included in the consolidated financial statements of SaskGaming.

On March 11, 2020, the World Health Organization (WHO) declared the novel coronavirus disease (COVID-19) a global pandemic. The pandemic has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. On the advice of Saskatchewan Health Authority and the Chief Medical Health Officer, SaskGaming, the parent company, suspended operations at the close of the gaming day on March 16, 2020 until further notice. The situation is dynamic and the ultimate duration and magnitude on the economy and the financial effect on SaskGaming and SGC Holdings is unknown at this time. SGC Holdings is economically dependent on SaskGaming and its ability to collect lease payments and pay the intercompany debt depends on SaskGaming's future revenues, operating results and overall financial performance once it has resumed operations.

**2. Basis of Preparation**

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements were authorized for issue by the Board of Directors on May 28, 2020.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial instruments which are classified as fair value through profit and loss, which are measured at fair value.

c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is SGC Holdings' functional currency.

**SGC HOLDINGS INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**March 31, 2020**

**2. Basis of Preparation (continued)**

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant items subject to estimates include the carrying amounts of long-term lease receivables (Note 4).

The preparation of financial statements in conformity with IFRS requires management to make judgements that affect the application of accounting policies listed in Note 3.

**3. Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

IFRS 16 introduces a single, on balance sheet lease accounting model for lessees where the lessee recognizes all leases as a lease liability with a corresponding right-of-use asset, subject to recognition exemptions for certain short-term and low value leases, resulting in lease payments being expensed on a straight line basis.

SGC Holdings adopted IFRS 16 using the modified retrospective approach whereby the cumulative effect of the change determined by applying the principles and practices of IFRS 16 are recognized in retained earnings on April 1, 2019. There was no impact to SGC Holdings opening retained earnings on transition. Comparative information was not restated and continues to be reported under IAS 17, Leases.

SGC Holdings leases property and equipment to SaskGaming. Prior to adoption of IFRS 16 this lease was accounted for as a finance lease. There is no change to the accounting for this lease under IFRS 16.

a) Revenue

Revenue is recognized in the period that it is earned.

b) Foreign Currency

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



**SGC HOLDINGS INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**March 31, 2020**

**3. Significant Accounting Policies (continued)**

c) Financial Instruments

(i) Non-derivative financial assets and liabilities

Financial instruments are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below.

Cash is classified as fair value through profit and loss and is recorded at fair value. Accounts receivable are classified as amortized cost. Financial assets classified as amortized cost are subsequently measured at amortized cost using the effective interest method, less any impairment.

SGC Holdings has the following financial liabilities which are classified as other liabilities: trade and other payables and due to SaskGaming. Such financial liabilities are recorded initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

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

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

(ii) Embedded derivatives

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

SGC Holdings had no contracts with embedded derivatives as at March 31, 2020 (2019 - no embedded derivatives).

d) New standards and interpretations not yet adopted

SGC Holdings has assessed the impact of new standards, interpretations and amendments to existing standards were issued by the International Accounting Standards Board (IASB) or International Financial Reporting Interpretations Committee (IFRIC) that are mandatory for annual accounting periods beginning after March 31, 2020. There were no pronouncements impacting SGC Holdings.

**SGC HOLDINGS INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**March 31, 2020**

**4. Long-term Lease Receivable**

SGC Holdings entered into a direct financing lease agreement with SaskGaming for building and equipment. SGC Holdings records the cost of the leased assets as lease receivable from SaskGaming and SaskGaming records the equivalent amount as property, plant & equipment.

The lease receivable is non-interest bearing and has minimum repayments as follows:

2020/21	\$	6,350,101
2021/22		5,416,254
2022/23		4,731,525
2023/24		3,712,371
2024/25		3,182,449
2025/26 and subsequent		<u>2,584,806</u>
Total minimum payments receivable		25,977,506
Current portion		<u>(6,350,101)</u>
Long-term portion	\$	<u><u>19,627,405</u></u>

**5. Due to SaskGaming**

Amounts due to SaskGaming are non-interest bearing and payable on demand. These amounts represent payments made by SaskGaming on behalf of SGC Holdings which have not yet been reimbursed.

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 19,869,303	\$ 14,750,145
Additions	7,870,403	8,736,660
Repayments	<u>(4,139,698)</u>	<u>(3,617,502)</u>
Balance, end of year	<u><u>\$ 23,600,008</u></u>	<u><u>\$ 19,869,303</u></u>

**SGC HOLDINGS INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**March 31, 2020**

**6. Financial Risk Management**

a) Fair Value

Fair values approximate amounts at which financial instruments could be exchanged in an orderly transaction between market participants based on current markets for instruments with similar characteristics such as risk and remaining maturities. Fair value measurements are subjective in nature, and represent point-in-time estimates which may not reflect fair value in the future.

The methods and assumptions used to develop fair value measurements have been prioritized into three levels as per the fair value hierarchy included in IFRS. Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities. Level two includes inputs other than quoted prices included in Level one that are observable for the asset or liability. Level three includes inputs that are not based on observable market data.

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

Financial Instruments	Classification <sup>1</sup>	Fair Value Hierarchy	2020		2019	
			Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	FVTPL	Level One	\$ 3,597	\$ 3,597	\$ 2,307	\$ 2,307
Accounts receivable	AC	Level Two	44,635	44,635	-	-
Trade and other payables	OFL	Level Two	2,358,256	2,358,256	519,104	519,104
Due to SaskGaming	OFL	Level Two	23,600,008	23,600,008	19,869,303	19,869,303

<sup>1</sup>Classification:

FVTPL - Fair value through profit and loss

AC - Amortized cost

OFL - Other financial liabilities

b) Foreign exchange risk

SGC Holdings faces exposure to the US/Canadian dollar exchange rate through the purchase of property, plant and equipment that are payable in US dollars. The risk is not considered significant. There has been no change in the risk exposure from March 31, 2019.

c) Liquidity risk

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

**SGC HOLDINGS INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**March 31, 2020**

**6. Financial Risk Management (continued)**

At March 31, 2020

Financial Liabilities	Carrying Amount	Contractual Cash Flows					
		Total	0 - 6 months	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
Trade and other payables	\$ 2,358,256	\$ 2,358,256	\$ 2,358,256	\$ -	\$ -	\$ -	\$ -

At March 31, 2019

Financial Liabilities	Carrying Amount	Contractual Cash Flows					
		Total	0 - 6 months	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
Trade and other payables	\$ 519,104	\$ 519,104	\$ 519,104	\$ -	\$ -	\$ -	\$ -

Management believes its ability to generate funds will be adequate to support these financial liabilities. There has been no change in the risk exposure from March 31, 2019.

**7. Capital Disclosures**

SGC Holdings' capital is managed in conjunction with its parent, Saskatchewan Gaming Corporation.

**8. Share Capital**

	<u>2020</u>	<u>2019</u>
Authorized		
Unlimited voting common shares with no par value		
Unlimited non-voting preferred shares with no par value		
Issued and outstanding		
100 (2019 - 100) common shares	<u>\$ 1,000</u>	<u>\$ 1,000</u>

**9. Related Party Transactions**

SGC Holdings pays Saskatchewan provincial sales tax to the Saskatchewan Ministry of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

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