



# THE MODERNIZATION OF ONTARIO'S LOTTERY AND GAMING BUSINESS CONTINUES TO PROCEED — AND PROCEED SUCCESSFULLY.

## Message from the Chair

The 2014–15 fiscal year was one of significant achievement for Ontario Lottery and Gaming Corporation (“OLG”) where we accomplished a number of important objectives.

The modernization of Ontario’s lottery and gaming business continues to proceed – and proceed successfully. In land-based gaming, the Request for Proposal (“RFP”) documents were issued in April 2014 to qualified service providers for the East Gaming Bundle. This RFP will enable OLG to select one service provider to run the day-to-day gaming operations in three gaming zones – one currently serviced by OLG Slots at Kawartha Downs, a second by OLG Casino Thousand Islands, and a third zone, which includes the area around the City of Belleville, where there is the potential for a new gaming site. The lottery procurement process also achieved a significant milestone with the provision of RFP documents to qualified service providers in September 2014.

This year, OLG has continued to work to integrate horse racing into our gaming strategy. OLG has established a dedicated team to focus on providing responsible gambling expertise and marketing strategy advice and on helping to grow the fan base. OLG’s work, in partnership with the Ontario Ministries of Finance and Agriculture, Food and Rural Affairs, as well as the Alcohol and Gaming Commission of Ontario, will be to help create the conditions for a sustainable horse racing industry in Ontario.

January 8, 2015 marked the introduction of our Internet gaming platform, PlayOLG. The site launched province-wide following a successful preview by eligible Winner’s Circle Rewards members. As a new line of business, PlayOLG will help us provide more money to the Government of Ontario for its priority programs and services. While it is still the early days for PlayOLG, we are pleased with the response so far.

Our Responsible Gambling (“RG”) program continues to evolve and mature and we are pleased to have received the highest level of certification from the World Lottery Association (“WLA”). In 2014–15, the WLA also recognized our RG program as the best in the world. As we move forward, RG will remain an important focus for us and we will ensure that it is an integral part of our relationships with service providers.

OLG’s Board of Directors hired a new President and Chief Executive Officer to lead OLG through these large initiatives. Stephen Rigby was chosen for his skills and experience in leading complex organizational change. He joined OLG in January 2015 and quickly began focusing on key areas of OLG’s business.

Our board is committed to maintaining the trust of Ontarians by providing strong corporate governance. This is fundamental to OLG’s success and the long-term interests of our shareholder, the Government of Ontario. In 2014–15, the board continued to deliver on our mandate from Ontario’s Minister of Finance, which includes ensuring a strong Net Profit to the Province and maintaining OLG’s leadership in RG programming.

Our achievements in 2014–15 would not be possible without the dedication and commitment of our employees. Our diverse and talented workforce commits each day to providing exceptional service to our customers and helps us deliver strong returns to the Government of Ontario. They are also making life better for Ontarians through their charitable fundraising activities. In 2014–15, our employees helped make OLG one of the top fundraisers in the Ontario Public Service by raising over \$380,000 for the United Way and more than \$360,000 for the Federated Health Charities. Giving back continues to be an important part of OLG’s culture.

This past year, OLG became a Premier Partner of the TORONTO 2015 Pan Am / Parapan Am Games. We are proud to be a part of the Games, which will shine a spotlight on amateur sport as well as on communities across the province. We have a long history of supporting amateur athletes in Ontario. Each year, \$10 million in OLG proceeds goes to fund Ontario athletes through the Quest for Gold program.

The year ahead will be busy at OLG. The board looks forward to guiding the senior management team as it delivers on its business plans, continues to move modernization forward and positions OLG for continued success to the benefit of the people of Ontario.



**Philip Olsson**  
Chair, Board of Directors

# THE ONTARIO LOTTERY AND GAMING CORPORATION (“OLG”) CONTINUES TO PROVIDE THE ONTARIO GOVERNMENT WITH ITS LARGEST SOURCE OF NON-TAX REVENUE.

## Message from the President and Chief Executive Officer

The Ontario Lottery and Gaming Corporation (“OLG”) continues to provide the Ontario government with its largest source of non-tax revenue. The \$2 billion we delivered in the 2014–15 fiscal year went to support provincial priorities such as the operation of hospitals and funding for charitable and not-for-profit organizations.

We also strengthen the local economies of our host communities. In 2014–15, these communities received more than \$129 million for hosting a gaming site in their city or town. With this revenue, they are investing in priorities, like creating jobs and improving local services. We also contribute to communities by sponsoring festivals and events. In 2014–15, we provided \$6 million in sponsorships through our Community Relations Program.

We are proud of the contribution we make to the province and its communities. We want to ensure that OLG remains a sustainable organization so that we can continue to provide this support. That is why we are moving forward with modernization to help make Ontario’s lottery and gaming industry a long-term success. Our goal remains the same — to become a modern, efficient organization operating in the best interests of Ontarians.

In 2014–15, we released Requests for Proposal (“RFPs”) for both the East Gaming Bundle and Lottery. We expect to announce the selected service providers for each in the 2015 and 2016 calendar years. The RFP process is

complex, so we are taking what we have learned through the East Gaming Bundle and applying it to future RFPs for the other gaming bundles.

We have one Request for Pre-Qualification (“RFPQ”) remaining in the market — the GTA Gaming Bundle RFPQ. Submissions are due on September 10, 2015. We will then review the submissions and select service providers to receive the RFP.

As part of modernization, OLG is working with the government and horse racing stakeholders to create the conditions for a sustainable horse racing industry. We are committed to this objective and are providing provincial support to integrate horse racing into gaming in Ontario.

We are demonstrating progress by helping the industry develop the capacity and structure needed for self-governance. We are also building the customer base by promoting horse racing in communities across Ontario; providing marketing support and developing horse-themed products; and sharing our expertise in the area of responsible gambling.

In 2014–15, OLG continued to work toward securing leases with racetracks that have live race dates and a five-year commitment for funding under the Ontario Horse Racing Partnership Plan. This will help contribute to long-term stability for the horse racing industry while providing more certainty to the market on OLG’s modernization procurement process.

As part of integration, we are hiring a senior executive to oversee horse racing at OLG. Many other organizational changes will happen as we evolve alongside modernization. These changes will help us continue to offer our customers the best possible lottery and gaming entertainment experience.

Along the way, it is important that OLG's culture reflect the value our employees add to our organization. Since joining OLG in January 2015, I have been impressed by the knowledge, skills and dedication of people in each area of our business. I would like to thank all employees for their hard work and for actively making Ontario a better place.

Our successes in the past fiscal year have positioned us well for new challenges and opportunities. Looking ahead to 2015–16, we will continue to build a strong lottery and gaming industry for the benefit of the people of Ontario.

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**Stephen Rigby**  
President and Chief Executive Officer

## Board of Directors

<b>Philip Olsson</b> ( <i>Chair</i> )	November 20, 2013 to November 19, 2016
<b>Gail Beggs</b>	November 20, 2013 to November 19, 2015
<b>Sunir Chandaria</b>	March 5, 2014 to March 4, 2016
<b>Mary Beth Currie</b>	November 20, 2013 to November 19, 2015
<b>Edward Hannah</b>	April 2, 2014 to October 28, 2014
<b>Urban Joseph</b>	December 11, 2013 to December 10, 2015
<b>Frances Lankin</b>	November 20, 2013 to November 19, 2015
<b>Joanne Lefebvre</b>	November 20, 2013 to November 19, 2015
<b>Lori O'Neill</b>	February 12, 2014 to February 11, 2016
<b>Orlando M. Rosa</b>	December 11, 2013 to December 10, 2015
<b>Wilson Teixeira</b>	March 5, 2014 to March 4, 2016

## Executive Leadership Team

For fiscal 2014–15, senior executive members responsible for day-to-day operations were:

<b>Stephen Rigby</b>	President and Chief Executive Officer (effective January 5, 2015)
<b>Thomas Marinelli</b>	Acting President and Chief Executive Officer (through January 4, 2015) Executive Vice President (January 5, 2015 to January 30, 2015)
<b>Javier De la Cuba</b>	Executive Lead, Modernization
<b>Preet Dhindsa</b>	Executive Vice President, Chief Administrative Officer and Chief Financial Officer
<b>Walter Fioravanti</b>	Senior Vice President, Legal, Regulatory and Compliance, General Counsel and Corporate Secretary
<b>Larry Flynn</b>	Senior Vice President, Gaming
<b>David Kurdyla</b>	Acting Chief Information Officer (effective January 27, 2014)
<b>Greg McKenzie</b>	Senior Vice President, Lottery (through September 10, 2014) Senior Vice President, Lottery and Charitable Gaming (effective September 11, 2014)
<b>Larry Rourke</b>	Senior Vice President, Human Resources (effective August 11, 2014)
<b>George Sweny</b>	Senior Vice President, Charitable and Internet Gaming (through September 10, 2014)
<b>Beth Webster</b>	Senior Vice President, Marketing, Communications and Stakeholder Relations
<b>John Wisternoff</b>	Vice President, Internet Gaming (effective September 11, 2014)

## Vision and Mission

**OUR VISION** is to create excitement and fulfill dreams.

**OUR COMMITMENT** is to build trust by delivering gaming responsibly.

**OUR SUCCESS** is demonstrated by the profit and jobs we generate.

**OUR STRENGTH** is our sophisticated understanding of our customers.

**OUR GOAL** is to be a destination of choice for world-class entertainment.

## Values

### **BE ACCOUNTABLE.**

We accept the responsibility of setting and attaining high standards for ourselves in serving our customers and acting in the public interest.

### **ACT WITH INTEGRITY.**

This means doing the right thing. We will balance what our customers and business partners ask of us with what the people of Ontario expect of us.

### **RESPECT OUR CUSTOMERS, EMPLOYEES, PARTNERS AND THE PEOPLE OF ONTARIO.**

Respect starts with listening openly and honestly to the diversity of people and ideas around us.

## Overview

Ontario Lottery and Gaming Corporation (“OLG” or “the Corporation”) and its contract management companies employ more than 16,000 people across Ontario. OLG is responsible for 24 gaming facilities, the sale of province-wide lottery games at approximately 9,700 retail locations, the PlayOLG Internet gaming web site and the delivery of bingo and other electronic gaming products at 29 Charitable Gaming Centres across the province.

Classified as an Operational Enterprise Agency of the Province of Ontario, the Corporation is intended to provide gaming entertainment in an efficient and socially responsible manner that maximizes economic benefits for the people of Ontario, related economic sectors and host communities.

The *Ontario Lottery and Gaming Corporation Act, 1999* requires that net revenue from its operations be paid to the Government of Ontario Consolidated Revenue Fund. In fiscal 2014–15, this revenue supported services such as the operation of hospitals, amateur sports and the prevention, treatment and research of problem gambling. Revenue from these activities is also made available to the Ontario Trillium Foundation by the government for distribution to charitable and not-for-profit organizations. OLG’s Charitable Gaming program also makes direct funding contributions to charitable gaming associations.

**In fiscal 2014–15 these payments totalled \$20.8 million.**

# Governance

The legislative authority of the Corporation is set out in the *Ontario Lottery and Gaming Corporation Act, 1999* (“the Act”). Classified as an Operational Enterprise, OLG has a single shareholder, the Government of Ontario, and for fiscal 2014–15 reported through its Board of Directors to the Minister of Finance. Members of the Board of Directors and its Chair are appointed by the Lieutenant Governor in Council. Neither the Chair nor members of the board are full-time, nor are they members of Management.

## BOARD MANDATE

The Board of Directors oversees the overall management of the affairs of the Corporation in accordance with its objectives as set out in the *Act*, the Corporation’s by-laws, the approved business plan and the Memorandum of Understanding between the Corporation and the Minister of Finance. The board’s mandate is to direct Management’s focus to optimizing the Corporation’s overall performance and increasing shareholder value by executing its various responsibilities, which include:

- to establish the goals, objectives and strategies for the Corporation consistent with the Corporation’s mandate and applicable government policies;
- to approve the annual business plan as well as operating and capital budgets;
- to define and assess business risks;
- to review the adequacy and effectiveness of internal controls in managing risks;
- to appraise the performance of the President and Chief Executive Officer;
- to oversee a code of conduct to ensure the highest standards in dealing with customers, suppliers and staff, with due regard to ethical values and the interests of the community at large in all corporate endeavours;
- to track the overall performance of the Corporation;
- to remain informed and provide input, as required, concerning communications with the Government of Ontario and stakeholders; and
- to ensure compliance with key policies, laws and regulations.

The total remuneration paid to board members in fiscal 2014–15 was \$395,000.

## BOARD COMMITTEES

As of March 31, 2015, the OLG Board of Directors operated through three working committees.

### Governance and Human Resources Committee

The Governance and Human Resources Committee (the “Committee”) assists the board in developing and monitoring governance policies and practices. It helps identify policy areas for review and presents recommendations to the board for consideration in order that the board may ensure the Corporation’s adherence to the highest standards in corporate governance. In addition, the Committee helps ensure that the Corporation has sufficient organizational strength at the senior management level to achieve its short- and long-term goals. This committee also recommends, for board approval, the compensation and benefit plans for senior management. Chair of this committee, as of March 31, 2015, is Urban Joseph.

### Audit and Risk Management Committee

The primary function of the Audit and Risk Management Committee (the “Committee”) is to assist the board in fulfilling its oversight responsibilities by reviewing and monitoring the Corporation’s financial statements, internal controls over financial reporting, capital expenditure program and enterprise risk management program, as well as compliance systems that have been established. In addition, the Committee assists the board by inquiring into and overseeing the financial matters of the Corporation. It reviews the budget framework, policies and procedures; oversees and contributes to the development of the annual budget and projections; and reviews financial performance. Chair of this committee, as of March 31, 2015, is Lori O’Neill.

### Social Responsibility Committee

The Social Responsibility Committee assists the board to ensure that the Corporation conducts its business in a socially responsible manner. It inquires into and oversees such areas as responsible gambling, game integrity and Smart Serve food and beverage service. It reviews, in particular, the design and implementation of Internet gaming and other new game offerings, with a focus on preventing underage and problem gambling. Chair of this committee, as of March 31, 2015, is Frances Lankin.



# THROUGH MODERNIZATION, OLG WILL BECOME A LEANER, MORE FOCUSED ORGANIZATION.

## Lottery and Gaming in Ontario: Modernization and Day-to-Day Operations

Through modernization, OLG will become a leaner, more focused organization, responsible for the conduct and management of lottery and gaming, while the day-to-day delivery of lottery and gaming will shift to private-sector service providers. OLG is currently undertaking an open and competitive procurement process to select the service providers to take over specific operations of the lottery business and gaming facilities across the province.

OLG will:

- become more customer-focused;
- expand the regulated private sector delivery of lottery and gaming; and
- renew its role in the conduct and management of lottery and gaming.

Modernization will help trigger private sector investment in facilities and games while protecting and enhancing OLG's contribution to the province. OLG will continue to provide a reliable source of regulated entertainment for the people of Ontario.

Throughout this multi-year effort, the goal has remained consistent: to become a modern, efficient organization operating in the best interests of Ontarians.

At the same time, OLG continues to operate its core business and generate revenue for the province. OLG remains the largest source of non-tax revenue for the Government of Ontario, providing approximately \$2 billion each year.

### A MODERN OLG

Since 1975, OLG has provided lottery and gaming entertainment that benefits the province, the communities and the people of Ontario. However, shifting demographics and advances in technology have required OLG to make significant changes to ensure a viable and sustainable business.

To help grow the lottery and gaming business in Ontario and OLG's financial contribution to the province, OLG is currently modernizing its operations – a significant transformation of the agency.

**A key focus of modernization is to be where customers want OLG to be, providing the games they want to play in a responsible way. That is why, in January 2015, OLG launched PlayOLG, its new Internet gaming web site.**

PlayOLG offers Ontarians a controlled, government-regulated alternative to grey market Internet gambling web sites. Proceeds remain in Ontario to support provincial priorities such as the operation of hospitals. The site is estimated to deliver more than \$300 million in additional profits to the Province of Ontario during its first five years of operation.

As the only Internet gaming site regulated by the Ontario government, PlayOLG has Responsible Gambling ("RG") measures built in to encourage healthy player behaviour, respond to changes in play that may lead to risky gambling and direct players to information on where to seek help, if needed.

OLG's RG program continues to receive international recognition. The World Lottery Association ("WLA") recently awarded OLG the Best Overall Responsible Gambling Program Award. This award recognizes excellence in RG among more than 140 member organizations from around the world.

Ontario, through OLG and the Ministry of Health and Long-Term Care, currently invests more in RG and the prevention, treatment and research of problem gambling than any other jurisdiction in North America – over \$54 million this past year. OLG expects this amount to increase as a result of modernization.

OLG's modernization has evolved since it was first launched. It now includes the integration of horse racing into the provincial gaming strategy. OLG continues to work with the Ontario government and the horse racing industry to create the conditions for a sustainable industry.

OLG has been providing marketing and business expertise to the industry and will continue to advertise and cross-promote with racetracks to publicize horse racing across the province. As part of integration, OLG will provide its RG knowledge to the industry and examine options for new horse-themed products that will help increase the profile of horse racing.

Another aspect of OLG's modernization is growing the charitable gaming market with the creation of new electronic Charitable Gaming Centres across Ontario. Together with the Ontario Charitable Gaming Association and the Commercial Gaming Association of Ontario, OLG is revitalizing the charitable gaming industry by developing a unique customer entertainment experience.

OLG's Charitable Bingo and Gaming Revitalization Initiative is making life better for people in Ontario who depend on local charities. To date, 29 Charitable Gaming Centres have been established across the province, supporting more than 1,600 community organizations. Since 2005–06, more than \$85 million has been raised for participating charities in Ontario.

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## **BUSINESS HIGHLIGHTS**

In May 2014, OLG introduced improvements to the regional ONTARIO 49 lotto game that included new prizes, better odds of winning and a new \$2 million jackpot. To support these changes, ONTARIO 49 is priced at \$1 per play, up from \$0.50. This is the first refresh since the game was launched in 1997. Then, in June, players were treated to THE LOTTO 6/49 JUNE SUPER DRAW, where all eight draws in June had two Guaranteed \$1 Million Prize Draws, up from one, giving players three chances to win a prize of \$1 million or more on a single ticket.

In September 2014, OLG initiated the final phase of its procurement process for lottery by issuing a Request for Proposal ("RFP") to pre-qualified service providers. The RFP enables OLG to select one service provider to run specific day-to-day operations of the lottery business in Ontario.

In October, OLG launched a new regional Watch 'n Win daily game, NHL® LOTTO. For \$2, customers select an NHL® team and watch the display screen as an animated hockey player from that team takes three shots on an

opposing goal. The top instant prize is \$15,000. Players also receive five lotto numbers that, in conjunction with the team selected, have a chance to win a nightly draw with a top prize of \$100,000. The game brings Canada's favourite pastime to OLG customers in a new and entertaining lottery game format.

In January 2015, OLG announced that, starting with the July 17, 2015 LOTTO MAX draw, the jackpot cap will be raised from \$50 million to \$60 million, while still offering individual \$1 million MAXMILLIONS draws after the \$50 million level is reached – all for the same \$5 price per play.

From February 17 through March 31, 2015, the new LIVING THE LIFE LOTTERY with a \$3 million guaranteed top prize was offered only to Ontario players. In addition to the grand prize, there were three early Bird prizes of \$100,000 and secondary prizes that range from \$1 million to \$5,000 plus bonus prizes of \$20 each. The game offered players the largest guaranteed prize draw of any of OLG's Ontario-only games.

Also in February, OLG took a major step in becoming more customer-focused by launching Chinese.olg.ca, a new Chinese-language web site designed to build awareness of, and instruction on how to play, lottery games among Ontario's Chinese communities.

**OCTOBER 2014**

OLG is recognized at the prestigious North American Association of State and Provincial Lotteries ("NASPL") national conference and trade show. The NASPL Awards include categories for best TV, radio and print advertising, and best new games.

- Winner:** Best New Online (Lottery)  
Game: ALL IN (POKER LOTTO add-on)
- Winner:** Best TV Advertising - Daily Draw  
Games: WHEEL OF FORTUNE<sup>®</sup> LOTTO  
"Click, Click, Click"
- Finalist:** TV or Radio Spot Fitting No Other  
Category: POOLS TV "Awesome Tutorial"
- Finalist:** Corporate Communications -  
Employee Newsletter: Did You Know?  
(April 2014 issue)

On April 25, 2014, OLG initiated the final phase of its modernization procurement process for gaming by issuing an RFP to pre-qualified service providers for the East Gaming Bundle. Through this RFP, OLG will select a single service provider to run the day-to-day gaming operations in three established gaming zones that include the existing OLG Slots at Kawartha Downs, OLG Casino Thousand Islands, and a potential new gaming site in the area around the City of Belleville. OLG plans to announce the successful proponent in 2015.

Also in April, the Government of Ontario, OLG and the Ontario Racing Commission, through its newly formed Ontario Horse Racing ("OHR") division, announced their partnership to provide a sustainable future for Ontario's horse racing industry. Features of the partnership include five- to seven-year lease agreements for qualifying racetracks and a commitment by OLG to work with the tracks to publicize horse racing across the province. OLG and OHR continue to work within provincial and federal laws to explore new horse-themed lottery, gaming and wagering products.

From spring 2014 to summer 2015, OLG extended the deadline for the Request for Pre-Qualification for private sector service providers interested in operating gaming facilities in the GTA Gaming Bundle. The final closing date gives applicants until September 10, 2015 to provide OLG with their submissions. The extensions have allowed OLG to continue to work with Woodbine Entertainment Group ("WEG") on a long-term lease agreement for its slot machine facility at Woodbine Racetrack in the Greater Toronto Area. This area represents a key gaming market that includes a significant amount of horse racing activity in Ontario. Securing a long-term lease with WEG will help create a sustainable horse racing industry in Ontario while providing more certainty to the market. Throughout the procurement process, OLG has engaged the services of an impartial Fairness Monitor to provide oversight and advice to support integrity and fairness.

In January 2015, OLG announced that it signed lease agreements with site holders for another two of its slot machine facilities. OLG has now finalized long-term lease agreements for seven slot machine facilities. These are at Ajax Downs, Flamboro Downs, Georgian Downs, Grand River Raceway, Hanover Raceway, Kawartha Downs and Western Fair District.

**NOVEMBER 2014**

OLG receives the World Lottery Association's ("WLA") 2014 Best Overall Responsible Gambling ("RG") program award. Presented every two years, the award recognizes excellence in RG and rewards the gaming and lottery organization with the best overall program among more than 140 member organizations from around the world. Eligibility for the top prize is limited to operators with Level 4 certification, the WLA's highest level of accreditation.

In September 2014, OLG partnered with the Maple Leaf Sports and Entertainment Foundation and the Ottawa Senators Foundation to introduce a new game day tradition for sports fans that will benefit charities across Ontario. A new 50/50 raffle system was pilot tested to replace the existing manual 50/50 raffles, allowing charities to raise more money and provide larger prizes for raffle players. The new system features real-time

displays of the total prize money available in the jackpot and allows sellers to reach more customers over a longer period of time for sales. The system also provides for greater integrity and security as all transactions are registered and recorded in real time.

Together with the Ontario Charitable Gaming Association and the Commercial Gaming Association of Ontario, OLG has made significant progress in its Charitable Gaming Revitalization Initiative. In fiscal 2014–15, nine new Charitable Gaming Centres were established across the province, bringing to 29 the total number of locations operating in 25 communities. This revitalization is helping participating charities raise funds at the grass roots level, allowing them to support local programs, enhance local charitable operations, support local employment at the gaming centres and offer their customers a new entertainment experience. In addition to traditional paper-based bingo play, Charitable Gaming Centres offer terminals with touch screens that allow players to virtually dab their numbers and play along. The same devices also offer a collection of electronic games that can be played any time. In addition to these bingo games, customers can also play TapTix, the evolution of the classic Break Open Ticket that features an interactive display screen on a ticket dispenser.

**Since 2005–06, more than \$85 million has been raised for participating charities in Ontario through OLG Charitable Gaming Centres.**

On January 8, 2015, following a successful preview by eligible members of OLG's Winner's Circle Rewards program, OLG launched its Internet gaming site, PlayOLG. Legal-aged Ontarians from across the province could register for an account, play games and fully experience PlayOLG. The site features a wide range of interactive casino-style games including slots and table games such as Blackjack, Baccarat, Single-player Poker and Roulette. LOTTO 6/49, LOTTO MAX and ENCORE lottery tickets are also for sale. Responsible gambling tools have been embedded in the site. These tools, which include no anonymous play, mandatory weekly deposit limits, time and loss limits as well as player self-assessments and risk profiles, are based on Canadian and global best practices through broad consultation with a range of stakeholders, researchers and addiction specialists.

**SEPTEMBER 5, 2014**

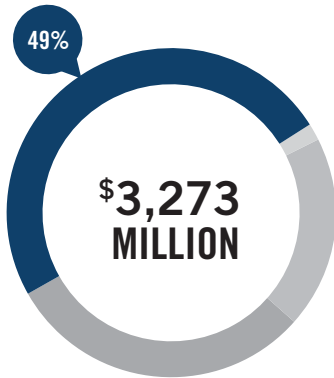
OLG announces its provincial sponsorship and participation in the 2014 Great Canadian Shoreline Cleanup, a nationwide initiative aimed at reducing the impact of shoreline waste on wildlife and water systems. Between September 20 and 28, 357 employees, family members and friends in 19 communities participated in the event. 1,229 kilograms of garbage were removed from the shorelines of area waterways.

**OLG employees continued to deliver on their commitment to improve the lives of families, friends, neighbours and communities through charity fundraising.**

Employees raised more than \$360,000 in the 2014 Federated Health Charities campaign, easily surpassing the goal of \$319,000 and setting an all-time record for OLG. In addition, OLG's 2014 United Way campaign raised more than \$380,000, surpassing its goal of \$350,000.

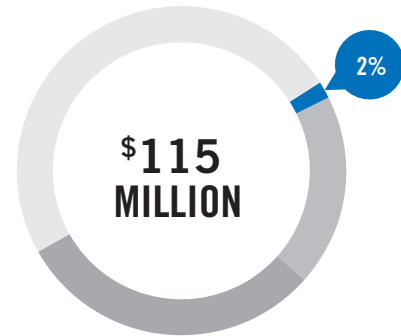
# Sources of Revenue

OLG’s operations and revenues are organized under four reportable segments. In fiscal 2014–15, these reportable segments collectively generated \$6.64 billion in revenue.



## LOTTERY

OLG operates 21 terminal-based lottery and sports games and offers 81 INSTANT lottery products through approximately 9,700 independent retailers across the province.



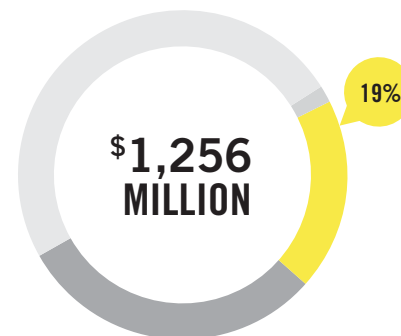
## CHARITABLE GAMING

OLG conducts and manages the operations of 29 Charitable Gaming Centres across Ontario. In addition to the classic paper-based play, these sites offer bingo games on tabletop and hand-held devices as well as electronic Break Open Ticket dispensers. OLG is also piloting a new 50/50 electronic raffle system, replacing manual 50/50 raffles, at major league sports events in Ottawa and Toronto.



## OLG SLOTS AND CASINOS

OLG owns and operates five casinos in Ontario. OLG owns and maintains authority over the slot machine operation at the Great Blue Heron Charity Casino, a casino owned by the Mississaugas of Scugog Island First Nation. OLG also operates 14 slot machine facilities at racetracks across Ontario.



## OLG RESORT CASINOS

OLG is responsible for conducting and managing four Resort Casinos – Caesars Windsor, Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort. These sites are operated, under contract, by private operating companies.

# Financial Highlights

(in thousands of dollars)

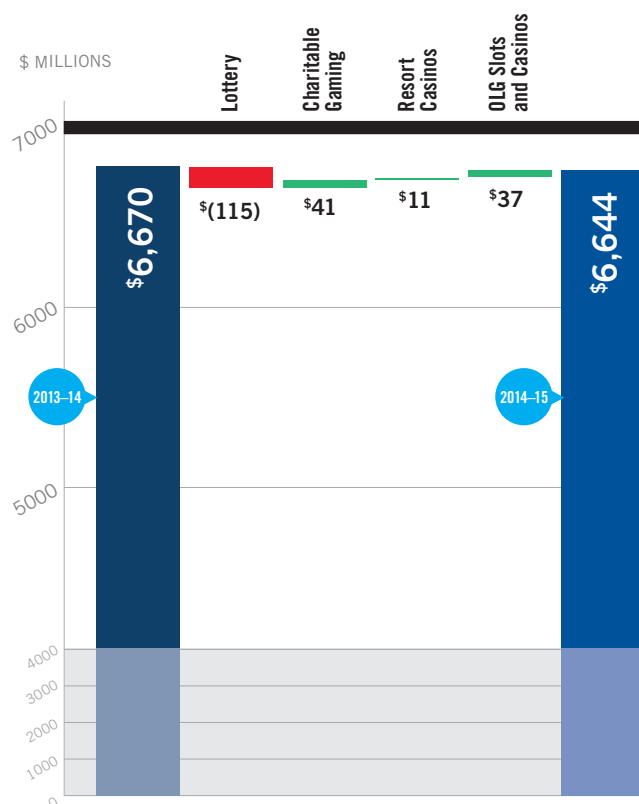
For the fiscal year ended March 31	2015	2014
Lottery revenue	\$ 3,272,755	\$ 3,387,571
Charitable Gaming revenue	114,875	73,817
Resort Casinos revenue	1,255,730	1,244,946
OLG Slots and Casinos revenue	2,000,848	1,964,044
<b>Total OLG revenue</b>	<b>6,644,208</b>	<b>6,670,378</b>
Lottery and Charitable Gaming prizes	\$ 1,834,731	\$ 1,885,281
Commissions expense	392,764	384,225
Marketing and promotion expense	322,314	308,371
Gaming revenue sharing payment*	121,563	119,877
Payments to the Province of Ontario**	\$ 2,042,847	\$ 2,076,740
Payments to the Government of Canada	285,215	281,891

\*Pursuant to the Gaming Revenue Sharing and Financial Agreement, this amount is equal to 1.7 per cent of the gross revenue, as defined, of the Corporation.

\*\*Payments to the Province of Ontario include win contribution. The Corporation remits a contribution to the Province of Ontario equal to 20 per cent of gaming revenue from the Resort Casinos and the Great Blue Heron Slot Machine Facility, in accordance with the Ontario Lottery and Gaming Corporation Act, 1999.

(in thousands of dollars)

	2014-15
	\$ Change
Lottery revenue	(114,816)
Charitable Gaming revenue	41,058
Resort Casinos revenue	10,784
OLG Slots and Casinos revenue	36,804
<b>Total OLG revenue change</b>	<b>(26,170)</b>



# Economic Impact

Since 1975, OLG has provided nearly \$42 billion to the Province and the people of Ontario. OLG’s annual payments to the province have helped support the operation of hospitals; prevention, treatment and research of problem gambling; amateur sport through the Quest for Gold program; and local and provincial charities through the Ontario Trillium Foundation.

In addition to OLG’s payments to the province, there are several direct beneficiaries of gaming proceeds, including 23 host municipalities and Ontario First Nations.

OLG operations also contribute to the economy in a number of other ways. In fiscal 2014–15 alone, OLG generated \$3.4 billion in total economic activity in Ontario.

## \$2.0 billion NET PROFIT TO THE PROVINCE\*

THIS INCLUDES:

- \$1.8 BILLION**  
directed to the operation of hospitals and other provincial priorities
- \$115.0 MILLION**  
directed to the Ontario Trillium Foundation for the benefit of local and provincial charities
- \$38.0 MILLION**  
directed by the Ministry of Health and Long-Term Care for prevention, treatment and research of problem gambling\*\*
- \$10.0 MILLION**  
to support amateur athletes through the Quest for Gold program

*\*Net Profit to the Province is the amount the Corporation returns to the Province of Ontario after stakeholder and other payments.  
\*\*based on government policy that directs 2% of forecasted OLG slot machine gross revenue (excluding OLG Slots at Great Blue Heron Charity Casino) to problem gambling funding.*

## \$1.4 billion SUPPORT FOR LOCAL ECONOMIES

THIS INCLUDES:

- \$873.3 MILLION**  
to pay OLG’s more than 16,000 direct and indirect employees across the province
- \$235.8 MILLION**  
in commissions paid to lottery retailers across Ontario
- \$129.3 MILLION**  
in payments to municipalities that host OLG gaming facilities, including Resort Casinos and Charitable Gaming Centres
- \$192.7 MILLION**  
in goods and services purchased from Ontario businesses to support OLG gaming operations (excludes Resort Casinos and OLG Slots at Great Blue Heron Charity Casino)

Host municipalities benefit directly from hosting fees, property tax revenue, development fees and the creation of well-paying permanent jobs.

## \$43.1 million CORPORATE RESPONSIBILITY

THIS INCLUDES:

- \$16.3 MILLION**  
what OLG directed to its Responsible Gaming Resource Centres, policy and program development, staff training and self-exclusion capital costs. Together, OLG and the Ministry of Health and Long-Term Care spent **\$54.3 million** on responsible gambling and the prevention, treatment and research of problem gambling in Ontario.
- \$20.8 MILLION**  
in Charitable Gaming proceeds distributed to participating local charities
- \$6.0 MILLION**  
dedicated to the sponsorship of community festivals and events



# Management's Discussion and Analysis

**For the fiscal year ended March 31, 2015**

The following Management's Discussion and Analysis ("MD&A") of Financial Position and Results of Operations should be read together with the audited Consolidated Financial Statements and accompanying Notes to the Consolidated Financial Statements of OLG for the fiscal year ended March 31, 2015. The Consolidated Financial Statements are presented in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS").

This MD&A provides information for the fiscal year ended March 31, 2015 and is dated June 25, 2015.

*This MD&A contains forward-looking statements about expected or potential future business and financial performance. For OLG, forward-looking statements include, but are not limited to: statements about possible transformation initiatives; future revenue and profit guidance; and other statements about future events or conditions. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to: the uncertain economic environment; fluctuations in customer demand; foreign currency exchange rates; the outcome of litigations; and changes in government or regulation.*

*Although such statements are based on Management's current estimates and expectations and currently available competitive, financial and economic data, forward-looking statements are inherently uncertain. The reader is cautioned that a variety of factors could cause business conditions and results to differ materially from what is contained herein.*



## FISCAL 2014–15 OPERATING RESULTS – EXECUTIVE SUMMARY

The following table contains data derived from the Consolidated Financial Statements for the years indicated below:

(in thousands of dollars)

For the fiscal year	2014–15	2013–14	\$ Variance	% Variance
<b>Revenue</b>				
Lottery	\$ 3,272,755	\$ 3,387,571	(114,816)	(3.4)
Charitable gaming	114,875	73,817	41,058	55.6
Resort casinos	1,255,730	1,244,946	10,784	0.9
OLG slots and casinos	2,000,848	1,964,044	36,804	1.9
	<b>6,644,208</b>	<b>6,670,378</b>	<b>(26,170)</b>	<b>(0.4)</b>
<b>Expenses</b>				
Lottery	2,435,225	2,502,832	67,607	2.7
Charitable gaming	144,334	105,042	(39,292)	(37.4)
Resort casinos	1,355,829	1,369,182	13,353	1.0
OLG slots and casinos	971,771	954,332	(17,439)	(1.8)
	<b>4,907,159</b>	<b>4,931,388</b>	<b>24,229</b>	<b>0.5</b>
<b>Income before the undernoted</b>	<b>\$ 1,737,049</b>	<b>\$ 1,738,990</b>	<b>(1,941)</b>	<b>(0.1)</b>
Other income	15,037	21,960	(6,923)	(31.5)
<b>Net income</b>	<b>\$ 1,752,086</b>	<b>\$ 1,760,950</b>	<b>(8,864)</b>	<b>(0.5)</b>
Payments to the Province of Ontario*	\$ 2,042,847	\$ 2,076,740	(33,893)	(1.6)
Payments to the Government of Canada	\$ 285,215	\$ 281,891	(3,324)	(1.2)
<b>Net Profit to the Province**</b>	<b>\$ 1,999,020</b>	<b>\$ 2,006,411</b>	<b>(7,391)</b>	<b>(0.4)</b>

As at March 31	2015	2014	\$ Variance	% Variance
Total assets	\$ 1,969,319	\$ 1,977,304	(7,985)	(0.4)
Total liabilities	\$ 499,138	\$ 463,296	(35,842)	(7.7)
Total long-term liabilities	\$ 86,248	\$ 82,866	(3,382)	(4.1)
Total equity	\$ 1,470,181	\$ 1,514,008	(43,827)	(2.9)

\*Payments to the Province of Ontario include win contribution. The Corporation remits a contribution to the Province of Ontario equal to 20 per cent of gaming revenue from the Resort Casinos and the Great Blue Heron Slot Machine Facility in accordance with the Ontario Lottery and Gaming Corporation Act, 1999.

\*\*Net Profit to the Province is the amount the Corporation returns to the Province of Ontario after stakeholder and other payments. Net Profit to the Province is calculated by adding back win contribution to net income. In fiscal 2014–15, win contribution was \$246,934,000 (fiscal 2013–14 \$245,461,000). Net Profit to the Province should not be considered a substitute or alternative for net income or cash flows as determined in accordance with IFRS. Please refer to Section 3 – Disclosures for non-IFRS measures.

The following table contains data from the Consolidated Statements of Comprehensive Income expressed as a percentage of consolidated revenue for the periods indicated:

<i>For the fiscal year</i>	<b>2014–15</b>	2013–14	<b>% Variance</b>
<b>Revenue</b>			
Lottery	<b>49.3%</b>	50.8%	<b>(1.5)</b>
Charitable gaming	<b>1.7%</b>	1.1%	<b>0.6</b>
Resort casinos	<b>18.9%</b>	18.7%	<b>0.2</b>
OLG slots and casinos	<b>30.1%</b>	29.4%	<b>0.7</b>
	<b>100.0%</b>	100.0%	–
<b>Expenses</b>			
Lottery	<b>36.7%</b>	37.5%	<b>0.8</b>
Charitable gaming	<b>2.2%</b>	1.6%	<b>(0.6)</b>
Resort casinos	<b>20.4%</b>	20.5%	<b>0.1</b>
OLG slots and casinos	<b>14.6%</b>	14.3%	<b>(0.3)</b>
	<b>73.9%</b>	73.9%	–
<b>Income before the undernoted</b>	<b>26.1%</b>	26.1%	–
Other income	<b>0.2%</b>	0.3%	<b>(0.1)</b>
<b>Net income</b>	<b>26.3%</b>	26.4%	<b>(0.1)</b>

Consolidated revenue for fiscal 2014–15 was \$6.64 billion, a decrease of \$26.2 million or 0.4 per cent from \$6.67 billion in the previous fiscal year. This change is primarily due to a decrease of \$114.8 million or 3.4 per cent in the Lottery segment, a result of lower Lotto sales. Offsetting the Lottery revenue decrease is Charitable Gaming, which experienced an increase of \$41.1 million or 55.6 per cent, primarily due to a greater number of sites in operation during the year as well as strong sales through TapTix, formerly known as Break Open Ticket dispensers. Both OLG Slots and Casinos and Resort Casinos also experienced increases in revenue. OLG Slots and Casinos revenue increased by \$36.8 million or 1.9 per cent which was mainly attributable to increased site visits and slot volume in December and January as compared to the previous year. Resort Casinos revenue increased by \$10.8 million or 0.9 per cent as a result of increases in slot volume at Caesars Windsor and Niagara Casinos and increases in non-gaming revenue at all properties.

The Corporation's net income for fiscal 2014–15 was \$1.75 billion, \$8.9 million or 0.5 per cent less than the previous fiscal year. The decrease in net income in fiscal 2014–15 was attributable to the lower revenue in the Lottery segment, which was partially offset by higher revenue in the Charitable Gaming, Resort Casinos, and OLG Slots and Casinos segments as well as lower expenses at the Resort Casinos. The most notable expense reductions were a decrease in depreciation, largely due to fully depreciated 10-year assets at Niagara Fallsview Casino Resort, and reduced personnel costs at all Resort Casinos.

OLG's payments to the Province of Ontario of \$2.04 billion represent the largest contribution of non-tax revenue for the province and is used by the government to invest in the operation of hospitals and other priority programs, to support Ontario's elite amateur athletes and to fund charitable and non-profit organizations through the Ontario Trillium Foundation.

Consolidated revenue was \$298.8 million or 4.3 per cent lower than budget primarily due to lower LOTTO 6/49 and LOTTO MAX sales per jackpot.

The Corporation's net income of \$1.75 billion and Net Profit to the Province of \$2.00 billion (including win contribution) fell below budget by \$55.1 million or 3.0 per cent and \$54.2 million or 2.6 per cent, respectively, due to lower revenue across all reportable segments with the exception of Resort Casinos.

A more thorough analysis of these factors is contained in the Results of Operations.

## 1. Results of Operations – Reportable Segments

The Corporation has four reportable segments, each a distinct revenue-generating business unit that offers different products and services. The segments are Lottery, Charitable Gaming, Resort Casinos and OLG Slots and Casinos.

The Lottery and OLG Slots and Casinos segments each include a portion of the Internet Gaming (“iGaming”) division that was launched in January 2015. Given that iGaming was only operational for part of the fiscal year, the financial results were determined immaterial for a stand-alone, reportable segment for fiscal 2014–15.

### A. LOTTERY

#### Summary data from statement of comprehensive income

(in thousands of dollars)

For the fiscal year	2014–15*	2013–14	\$ Variance	% Variance
<b>Revenue</b>	<b>\$ 3,272,755</b>	\$ 3,387,571	<b>(114,816)</b>	(3.4)
<b>Expenses</b>	<b>2,435,225</b>	2,502,832	<b>67,607</b>	2.7
<b>Income before the undernoted</b>	<b>\$ 837,530</b>	\$ 884,739	<b>(47,209)</b>	(5.3)
Other expenses	<b>2,296</b>	1,681	<b>615</b>	36.6
<b>Net income</b>	<b>\$ 839,826</b>	\$ 886,420	<b>(46,594)</b>	(5.3)

\*The Lottery segment includes a 50 per cent portion of iGaming financials, whereas lottery sales and prize data below reports on lottery games sold through traditional retail channels only.

#### A1. Lottery revenue

Lottery revenue for fiscal 2014–15 was \$3.27 billion, a decrease of \$114.8 million or 3.4 per cent from the previous fiscal year, primarily due to lower Lotto and INSTANT sales, partially offset by higher sales for Sports games. Lottery revenue was \$259.7 million or 7.4 per cent lower than budget due to lower than expected Lotto and INSTANT games sales as described below.

The following table sets forth lottery sales and prize data by type of game:

#### Lottery sales and prize data by type of game

Product Groupings	Number of Games		Revenue (in millions of dollars)		Percentage of Revenue		Prizes (in millions of dollars)	
	2014–15	2013–14	2014–15	2013–14	2014–15	2013–14	2014–15	2013–14
For the fiscal year								
Lotto	15	13	\$ 1,939.2	\$ 2,063.9	59.3%	60.9%	\$ 950.9	\$ 1,014.0
Sports	6	6	299.0	285.8	9.2%	8.5%	180.5	169.1
INSTANT	81	79	1,030.4	1,037.9	31.5%	30.6%	675.8	682.1
<b>Totals</b>	<b>102</b>	<b>98</b>	<b>\$ 3,268.6</b>	<b>\$ 3,387.6</b>	<b>100.0%</b>	<b>100.0%</b>	<b>\$ 1,807.2</b>	<b>\$ 1,865.2</b>

Lotto games are lotteries that are played by tickets generated on a lottery terminal, excluding Sports games. These include games such as LOTTO MAX, LOTTO 6/49 and LOTTARIO. Sports games are also played through a lottery terminal; however, these games are played by predicting the outcomes of sporting events or events within a sporting event (e.g., in baseball, the number of base hits one player achieves versus another). INSTANT games are lotteries that are played by removing the scratch-off layer on the face of the ticket to reveal a series of symbols or numbers to determine if the ticket is a winner.

Lotto sales decreased by \$124.7 million or 6.0 per cent compared to the previous fiscal year as national Lotto sales (i.e., LOTTO MAX and LOTTO 6/49) decreased by \$167.5 million or 11.9 per cent while regional (Ontario only) Lotto sales increased by \$42.8 million or 6.5 per cent. National Lotto sales were lower than in the previous fiscal year and budget primarily as a result of lower LOTTO MAX sales driven by fewer high value jackpots in fiscal 2014–15. In fact, LOTTO MAX experienced the fewest jackpot level draws (lower value jackpots offered) since fiscal 2011–12. This resulted in a drop in the average sales per jackpot draw to \$11.5 million compared to \$13.7 million in fiscal 2013–14. LOTTO 6/49 sales were lower than in the previous fiscal year mainly due to lower sales per jackpot, a direct result of lower value jackpots in fiscal 2014–15. Customers tend to wager less when the value of the jackpot is at or near its base level. LOTTO 6/49 sales were also below budget due to lower than anticipated sales from the introduction of a higher price point ticket. In contrast, regional Lotto sales improved year over year. Enhancements to ONTARIO 49 were introduced in May 2014, generating increased sales over the previous year. ONTARIO 49's price point increased from \$0.50 to \$1.00 per play with a higher value base jackpot. As a result, the average cash transactions per draw increased by 44.6 per cent, identifying potential new players to the game. In addition, new game introductions, such as NHL® LOTTO in October 2014 and LIVING THE LIFE LOTTERY in March 2015 pushed sales from regional Lotto games above the previous fiscal year as detailed above.

OLG is a member of the Interprovincial Lottery Corporation (“ILC”), an entity incorporated in 1976 to manage and conduct lotteries on behalf of Her Majesty the Queen in Right of all provinces. Other members include British Columbia Lottery Corporation, Western Canada Lottery Corporation, Loto-Québec and Atlantic Lottery Corporation. The two main games ILC oversees are LOTTO MAX and LOTTO 6/49. ILC also oversees certain INSTANT games (e.g., \$200 MILLION\$ EXTRAORDINAIRE) that are sold by each participating member across Canada.

INSTANT sales were in excess of \$1 billion again this fiscal year but slightly lower than the previous fiscal year and budget. Sales decreased \$7.5 million or 0.7 per cent driven in large part by lower activity in the \$3 games category, primarily for INSTANT BINGO, which saw a reduction in its media campaigns.

Sports product sales increased by \$13.2 million or 4.6 per cent compared to fiscal 2013–14 due to the introduction of a new sport, soccer, for wagering on Point Spread and Pro•Line. Sports product sales were consistent with budget.

## **A2. Lottery net income**

Net income from Lottery for fiscal 2014–15 was \$839.8 million, \$46.6 million or 5.3 per cent lower than in the previous fiscal year, and \$62.1 million or 6.9 per cent lower than budget. This decrease was due mainly to lower overall revenue as explained above.

## **A3. Lottery financial key performance indicators**

The Corporation continues to focus on maximizing operational efficiencies and profits and uses financial and other key performance indicators (“KPIs”) as useful tools for assessing critical expenses relative to revenue and other underlying drivers of business activity.

The following are the Lottery KPIs for fiscal 2014–15 compared to fiscal 2013–14:

<i>For the fiscal year</i>	<b>2014–15</b>	2013–14	Budget 2014–15
Adjusted EBITDA margin*	<b>62.9%</b>	64.3%	62.1%
Marketing as a percentage of adjusted gaming revenue**	<b>3.9%</b>	3.8%	3.9%
Payroll as a percentage of adjusted total revenue***	<b>2.1%</b>	1.7%	1.9%
Average sales per LOTTO MAX jackpot draw**** (\$ millions)	<b>\$ 11.5</b>	\$ 13.7	\$ 13.1
Average sales per LOTTO 6/49 jackpot draw**** (\$ millions)	<b>\$ 6.2</b>	\$ 6.7	\$ 7.1
Total retailers	<b>9,705</b>	9,813	9,800
INSTANT ticket sales (millions of tickets)	<b>261</b>	267	272
Average price per INSTANT ticket sold	<b>\$ 3.94</b>	\$ 3.89	\$ 3.83

\*The adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") margin represents earnings before finance and amortization costs, payments relating to the Gaming Revenue Sharing and Financial Agreement ("GRSFA") and modernization and other charges, as a percentage of adjusted total revenue. Adjusted EBITDA margin is a common measure used in the gaming industry and is useful to Management in assessing the performance of the Corporation's ongoing operations and its ability to generate cash flows.

\*\*Marketing as a percentage of adjusted gaming revenue is derived by dividing marketing expenses by adjusted gaming revenue. Marketing expenses include promotions, advertising, corporate marketing and marketing-related payroll costs. Adjusted gaming revenue includes revenue from lottery games net of prizes.

\*\*\*Payroll as a percentage of adjusted total revenue is derived by dividing payroll and benefit expenses by adjusted total revenue.

\*\*\*\*Jackpot draws are the winning number drawings for the single main prize of LOTTO MAX (i.e., excludes draws for \$1 million MAXMILLIONS prizes) and LOTTO 6/49.

Both marketing and payroll indicators represent key cost drivers of the Corporation that Management uses to evaluate the results of the business division.

Adjusted EBITDA, adjusted gaming revenue and adjusted total revenue are not defined terms under IFRS. Accordingly, these measures should not be considered substitutes or alternatives for net income or cash flows and/or revenue as determined in accordance with IFRS. Please refer to Section 3 – Disclosures for non-IFRS measures.

The adjusted EBITDA margin for Lottery in fiscal 2014–15 decreased compared to the previous fiscal year mainly due to a change in sales mix (higher INSTANT and Sports sales) resulting in increased prize expense as a percentage of revenue. The adjusted EBITDA margin was above budget primarily due to fewer prizes, which is a direct result of fewer jackpots, as well as a reduction in operating expenses.

Marketing as a percentage of adjusted gaming revenue increased compared to fiscal 2013–14 primarily due to the launch of ONTARIO 49, NHL® LOTTO and LIVING THE LIFE LOTTERY. This was consistent with budget.

Payroll as a percentage of adjusted total revenue increased compared to fiscal 2013–14 as a result of the decrease in revenue and an increase in payroll costs. Payroll as a percentage of adjusted total revenue increased compared to budget due to the decrease in revenue and only a marginal decrease in payroll costs.

Average sales per jackpot draw for LOTTO MAX decreased due to a marked reduction in the number of higher valued jackpot draws during fiscal 2014–15. This resulted in a decline in the average sales per jackpot draw to \$11.5 million compared to \$13.7 million in fiscal 2013–14. LOTTO MAX offers jackpots starting at \$10 million, growing to a maximum of \$50 million and then creating a series of individual \$1 million prizes ("MAXMILLIONS") thereafter. In fiscal 2014–15, LOTTO MAX had nine jackpots of \$50 million plus MAXMILLIONS, compared to 17 jackpots in the

previous year and as forecast in the budget. The infrequency of \$50 million jackpot level draws during fiscal 2014–15 did not sustain interest among those players who participate only when the \$50 million jackpot is reached. The average number of MAXMILLIONS prizes for each \$50 million LOTTO MAX jackpot plus MAXMILLIONS was four in fiscal 2014–15 compared to 16 in the previous fiscal year. Once the main jackpot reaches \$50 million, each \$1 million in excess is drawn as a separate \$1 million MAXMILLIONS prize. If the main jackpot is not won, the number of MAXMILLIONS prizes available grows. Typically, lower value jackpots result in lower sales. As a result, average sales per jackpot draw for LOTTO 6/49 decreased from \$6.7 million in fiscal 2013–14 to \$6.2 million in fiscal 2014–15.

The total number of lottery retailers decreased slightly from the previous fiscal year as normal closure rates outpaced new installations.

Overall, INSTANT ticket volume in fiscal 2014–2015 was below the previous fiscal year and budget as a result of a change in sales strategy from lower to higher price point games. The increased sales mix of higher price point games resulted in a higher average price per INSTANT ticket sold in fiscal 2014–2015 compared to fiscal 2013–14.

#### ***Addressing underperforming KPIs versus budget***

The main jackpot for national Lotto games grows until it is won (referred to as a “roll”). There is a correlation between sales and jackpot sizes, as more rolls tend to generate higher sales. Lottery performance for fiscal 2014–15 was negatively impacted by fewer rolls for LOTTO MAX and LOTTO 6/49. In an effort to increase adjusted EBITDA in fiscal 2015–16, OLG will work with ILC to continue to actively manage jackpots of national Lotto games in order to maximize revenue responsibly. Strategies include accelerating jackpots, whereby naturally generated jackpot levels are skipped in order to get to larger jackpots sooner and topping up jackpots to attract additional players. A new jackpot limit on LOTTO MAX will also be implemented in July 2015. This will raise the maximum jackpot level from \$50 million to \$60 million. In addition, promotional activities such as bonus draws for LOTTO 6/49 also will be utilized.

In an effort to offer better service to lottery customers and to align with the store hours kept by most OLG lottery retailers, OLG will extend ticket sales for evening draws from 9:30 p.m. to 10:30 p.m., effective July 13, 2015. This will give customers more time to purchase tickets. Preliminary analysis estimates a sales increase of one per cent for LOTTO MAX and LOTTO 6/49 and incremental increases for ENCORE and other regional Lotto games.

#### **A4. Lottery trends and risks**

OLG continues to act on the recommendations contained in its report, *Modernizing Lottery and Gaming in Ontario: Strategic Business Review / Advice to Government*. The report found that OLG’s current business model is not optimal over the long term and its modernization is contingent on improving the customer experience. To do this, OLG will become more customer-focused, secure qualified service providers for specific day-to-day operations of lottery and gaming and renew its role in the conduct and management of lottery and gaming.

With the launch of PlayOLG in January 2015, customers now have the option to purchase LOTTO 6/49, LOTTO MAX and ENCORE tickets on the Internet; however, the vast majority of Ontarians still purchase paper lottery tickets from a retail clerk. OLG’s current terminal technology limits where paper-based lottery tickets can be sold and is not suited to adapt to current shopping patterns. The majority of Ontario adults under 35 years of age frequently visit supermarkets, big box stores and large retail locations where OLG products are not conveniently located or are currently not offered for sale. As a result, even though about 45 per cent of adult Ontarians play the lottery regularly, only seven per cent of adults under 35 years of age play the lottery at least once a week. OLG’s modernization addresses this demographic challenge by recommending the expansion of lottery retail options to include multi-lane retailers, such as supermarkets and big box stores, where lottery products can be purchased at multiple checkouts, while continuing to support the existing retailer network. OLG is also continuing to work on broadening its player base to ensure it includes the younger generation of adults as well as new Ontarians.

In fiscal 2012–13, OLG commenced the formal strategic procurement process to obtain a lottery service provider. OLG’s procurement process includes Request for Information (“RFI”), Request for Pre-Qualification (“RFPQ”) and

Request for Proposal (“RFP”). Both the RFI and RFPQ processes have been completed. The Corporation evaluated the RFPQ submissions and pre-qualifying service providers received the RFP documents in September 2014. The RFP process is currently in progress.

Lottery revenue is expected to grow at a compound annual growth rate (“CAGR”) of 2.1 per cent from fiscal 2013–14 to fiscal 2018–19. This is primarily due to the execution of a product and channel development strategy that looks to maximize returns from Lottery’s four unique product categories and expand distribution by introducing new sales channels. Minimal increases to indirect costs are anticipated. It is anticipated that there will be incremental distribution channels culminating in net operating profit growth of 1.9 per cent CAGR.

## B. CHARITABLE GAMING

### Summary data from statement of comprehensive income

(in thousands of dollars)

For the fiscal year	2014–15	2013–14	\$ Variance	% Variance
<b>Revenue</b>	\$ 114,875	\$ 73,817	41,058	55.6
<b>Expenses</b>	144,334	105,042	(39,292)	(37.4)
<b>Loss before the undernoted</b>	\$ (29,459)	\$ (31,225)	1,766	5.7
Other expenses	22,434	29,518	7,084	24.0
<b>Net loss</b>	(51,893)	(60,743)	8,850	14.6
Add: charity payments	20,788	13,308	7,480	56.2
<b>Adjusted net loss*</b>	\$ (31,105)	\$ (47,435)	16,330	34.4

\*Adjusted net loss represents net loss before charity payments. Through its share of the 29 Charitable Gaming Centres’ gaming proceeds, OLG makes direct-to-charity contributions to the respective locations’ charity associations to help support more than 1,600 local charity and non-profit groups. Adjusted net loss is not a defined term under IFRS; however, it is useful to Management in assessing the performance of the Charitable Gaming division and its ability to generate cash flows. Accordingly, this measure should not be considered a substitute or alternative for net loss as determined in accordance with IFRS.

### B1. Charitable Gaming revenue

OLG conducts and manages the operations of 29 Charitable Gaming Centres across Ontario. These sites offer bingo products on electronic devices in addition to the classic paper-based play. Play on Demand (“POD”) games are personal Bingo games with different price and prize levels that players can play against the computer between sessions, at intermission or even during live bingo games. OLG added TapTix, formerly known as Break Open Ticket dispensers, to nine sites in fiscal 2014–15 (11 sites received TapTix in fiscal 2013–14). TapTix are electronic devices used to play a Break Open Ticket game. As the ticket is dispensed, a graphical representation of the results is displayed on a video screen.

In fiscal 2014–15, under the umbrella of Charitable Gaming, OLG entered into agreements to conduct and manage 50/50 electronic raffles in Ontario. OLG partnered with the Maple Leaf Sports and Entertainment Foundation and the Ottawa Senators Foundation to offer 50/50 electronic raffles at professional sporting events in Toronto and Ottawa. In Toronto, the 50/50 product was offered at Toronto Maple Leafs and Toronto Raptors events and at Ottawa Senators events in Ottawa. The pilot program launched in September 2014 and continued through the spring of calendar 2015. With the use of electronic devices, gross ticket sales increased by \$1.9 million or 76.8 per cent in fiscal 2014–15 compared to the manual paper operation which was in place in the previous year. Electronic raffles held at the professional sporting events contributed \$1.1 million of the increase, while the raffles held at the World Junior Hockey tournament games at both cities contributed \$0.8 million.

Charitable Gaming revenue for fiscal 2014–15 was \$114.9 million, an increase of \$41.1 million or 55.6 per cent over the previous fiscal year. This increase was primarily due to the opening of nine new sites and the deployment of TapTix at eight of these new sites and at one site launched in fiscal 2013–14. Gaming revenue from TapTix increased



by \$13.6 million or 124.0 per cent. Gaming revenue from paper Break Open Tickets increased by \$11.5 million or 37.8 per cent. Gaming revenue from Session Bingo\* increased by \$10.6 million or 38.3 per cent. In total, Charitable Gaming revenue was \$5.6 million or 4.7 per cent lower than budget primarily due to the delayed launch of two large sites resulting in an \$8.1 million revenue shortfall which was partially offset by the strong performance of TapTix.

*\*Session Bingo is a set of bingo games played with a group of players in real time. Bingo numbers are called out by a caller and players play together for the same prizes. Players must stop the game by calling bingo or getting the attention of the caller. If more than one player calls bingo, prizes are shared. With revitalization, players can now play the session bingo games on both paper and electronic devices.*

## B2. Charitable Gaming adjusted net loss

Charitable Gaming adjusted net loss in fiscal 2014–15 was \$31.1 million, a decrease of \$16.3 million or 34.4 per cent as compared to fiscal 2013–14. The decrease in adjusted net loss was primarily attributed to higher revenue, as discussed above, and lower non-cash impairment charges of \$19.4 million (\$27.4 million in fiscal 2013–14), included in other expenses above. During the year, Management identified indicators of impairment in the Charitable Gaming cash generating units (“CGUs”), being the individual Charitable Gaming Centres, as a result of a lower than expected economic performance. The recoverable amount of the Charitable Gaming CGUs continues to be less than their respective carrying values. Charitable Gaming incurred higher operating costs associated with opening new sites and the introduction of TapTix as well as higher shared services costs within the Corporation in support of the Charitable Gaming Revitalization Program. Charitable Gaming adjusted net loss was \$12.1 million or 63.8 per cent more than budget, primarily attributable to the non-cash impairment charge and lower gaming revenue as discussed above.

Payments to charitable associations that rely on funding from Charitable Gaming are included in expenses. Charities receive a commission based on a percentage of non-gaming revenue and either a percentage of net win (gaming revenue less prizes) or adjusted net win (net win after the payment of applicable marketing expenses). The payments to charitable associations totalled \$20.8 million in fiscal 2014–15 representing an increase of \$7.5 million or 56.2 per cent more than in fiscal 2013–14.

## B3. Charitable Gaming financial key performance indicators

The following are the Charitable Gaming financial KPIs for fiscal 2014–15 compared to fiscal 2013–14:

<i>For the fiscal year</i>	<b>2014–15</b>	2013–14	Budget 2014–15
Adjusted EBITDA margin**	<b>(5.3%)</b>	(15.9%)	(0.6%)
Marketing as a percentage of adjusted gaming revenue***	<b>6.1%</b>	7.2%	6.4%
Payroll as a percentage of adjusted total revenue****	<b>3.6%</b>	5.0%	3.4%

*\*\*The adjusted EBITDA margin represents earnings before finance and amortization costs, GRSFA and charity payments, and modernization and other charges, as a percentage of adjusted total revenue. Adjusted EBITDA margin is a common measure used in the gaming industry and is useful to Management in assessing the performance of the Corporation's ongoing operations and its ability to generate cash flows.*

*\*\*\*Marketing as a percentage of adjusted gaming revenue is derived by dividing marketing expenses by adjusted gaming revenue. Marketing expenses include promotions, advertising, corporate marketing and marketing-related payroll costs. Adjusted gaming revenue includes revenue from all Charitable Gaming products net of prizes except paper Break Open Tickets, which is recognized as gross sales, but excludes all non-gaming revenue.*

*\*\*\*\*Payroll as a percentage of adjusted total revenue is derived by dividing payroll and benefit expenses by adjusted total revenue.*

*Both marketing and payroll indicators represent key cost drivers of the Corporation that Management uses to evaluate the results of the business division.*

*Adjusted EBITDA, adjusted gaming revenue and adjusted total revenue are not defined terms under IFRS. Accordingly, these measures should not be considered substitutes or alternatives for net income or cash flows and/or revenue as determined in accordance with IFRS. Please refer to Section 3 – Disclosures for non-IFRS measures.*



The negative adjusted EBITDA margin for Charitable Gaming in fiscal 2014–15 improved compared to the previous fiscal year due to the opening of nine new sites and the full year impact of the nine new sites launched in fiscal 2013–14. The negative adjusted EBITDA margin was below budget primarily due to higher expenses, specifically the non-cash impairment charge.

The decrease in marketing as a percentage of adjusted gaming revenue in fiscal 2014–15 compared to fiscal 2013–14 and budget was attributed primarily to the lower expenditures in the corporate marketing fund.

Payroll as a percentage of adjusted total revenue declined from the previous fiscal year as revenue increased more significantly than payroll costs. Payroll as a percentage of adjusted total revenue was higher than budget primarily due to lower revenue in fiscal 2014–15.

***Addressing underperforming KPIs versus budget***

The Corporation plans to investigate other short-term revenue products to improve the adjusted EBITDA margin and payroll as a percentage of adjusted total revenue.

**B4. Charitable Gaming trends and risks**

In 2010, OLG began a multi-year revitalization initiative of charitable gaming in Ontario. This initiative is intended to preserve and enhance funding for local community charities across Ontario while creating economic benefits, including employment opportunities. This is to be achieved by introducing new electronic products, enhancing customer service and upgrading facilities.

Since the pilot program of this initiative began in fiscal 2005–06, more than \$85 million has been raised for charities in Ontario. Charities have been making many positive contributions in their communities such as:

- purchasing new medical equipment for the Windsor hospital
- supporting recreational baseball teams in Hawkesbury
- collecting more than one million food items each year at the Sudbury Food Bank
- supporting the Child Development Centre within the Rose of Sharon Services for Young Mothers in Newmarket
- raising funds for Kingston and District Civitan Club which provides assistance to the homeless and financial aid to young patients in need of important medical testing in Toronto
- raising funds for Niagara Falls Art Gallery and the Children's Museum for facility maintenance and ongoing programs

Working with municipalities, the Ontario Charitable Gaming Association and the Commercial Gaming Association of Ontario, OLG has launched 23 new Charitable Gaming Centres since August 2012, bringing the number of centres across Ontario to 29. The current phase includes plans to convert up to 37 of the 60 remaining commercial bingo centres in Ontario today to Charitable Gaming Centres.

New products planned for the centres include, but are not limited to:

- new electronic bingo games whereby players select their own set of numbers and then a 'winning' set is drawn, anticipated to launch in fiscal 2016–17;
- additional POD games whereby players can play with session bingo or independently; and
- other games with enhanced features and new social gaming products.

These products will continue to support the revitalization of the industry and grow revenue for participating charities across Ontario.

With the opening of new Charitable Gaming sites and new product launches as discussed above, Charitable Gaming revenue is projected to grow at a CAGR of 22.9 per cent from fiscal 2013–14 to fiscal 2018–19. These initiatives also carry significantly higher prize costs and relatively low contributions to profit. As a result, net operating profit is projected to increase, starting in fiscal 2016–17, as revenue continues to grow. The business continues to focus on operational sustainability and ensuring that responsible gambling supports and the right regulatory, reporting and planning processes are in place.

The 50/50 electronic raffle, a pilot program with the Maple Leaf Sports and Entertainment Foundation and the Ottawa Senators Foundation, has enhanced existing manual 50/50 raffle draws conducted at their respective professional sports teams' home games by using electronic hand-held mobile devices. This improved raffle system has allowed the foundations to award larger prizes for raffle players and raise more money for their respective charities. OLG is evaluating the results of the pilot.

## C. RESORT CASINOS

### Summary data from statement of comprehensive income

(in thousands of dollars)

For the fiscal year	2014–15	2013–14	\$ Variance	% Variance
<b>Revenue</b>	<b>\$ 1,255,730</b>	\$ 1,244,946	<b>10,784</b>	0.9
<b>Expenses</b>	<b>1,355,829</b>	1,369,182	<b>13,353</b>	1.0
<b>Loss before the undernoted</b>	<b>\$ (100,099)</b>	\$ (124,236)	<b>24,137</b>	19.4
Other income	<b>23,024</b>	21,203	<b>1,821</b>	8.6
<b>Net loss</b>	<b>(77,075)</b>	(103,033)	<b>25,958</b>	25.2
Add: win contribution	<b>232,502</b>	231,414	<b>1,088</b>	0.5
<b>Adjusted net income*</b>	<b>\$ 155,427</b>	\$ 128,381	<b>27,046</b>	21.1

\*Adjusted net income represents net loss adjusted for the addition back of win contribution. The Corporation remits a win contribution to the Province of Ontario equal to 20 per cent of gaming revenue from the Resort Casinos and the Great Blue Heron Slot Machine Facility, in accordance with the Ontario Lottery and Gaming Corporation Act, 1999. Adjusted net income is not a defined term under IFRS; however, it is useful to Management in assessing the performance of the Resort Casinos business division and its ability to generate cash flows. Accordingly, this measure should not be considered a substitute or alternative for net loss as determined in accordance with IFRS.

### C1. Resort Casinos revenue

OLG is responsible for four Resort Casinos – Caesars Windsor, Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort (“Fallsview”). These sites are owned and managed by OLG with day-to-day operations carried out by private sector service providers pursuant to the terms of their respective operating agreements. The private sector service provider is the employer for all employees of each Resort Casino.

Caesars Windsor is located in the City of Windsor, Ontario, and its day-to-day operations are carried out by Caesars Entertainment Windsor Limited, a subsidiary of Caesars Entertainment Corporation.

Casino Rama is located on the Chippewas of Mnjikaning First Nation (“Rama First Nation”), near Orillia, Ontario, and its day-to-day operations are carried out by CHC Casinos Canada Limited, an indirectly wholly owned subsidiary of Penn National Gaming Inc.

The Niagara Casinos – Casino Niagara and Fallsview – are located in the City of Niagara Falls, Ontario, and their day-to-day operations are carried out by Falls Management Group, L.P., the general partner of which is Falls Management Company (owned by Niagara Casino Group, L.P., Highland Gaming, Inc., Shiplake Gaming Corporation, Olympic V, Inc. and 3048505 Nova Scotia Company) and the sole limited partner of which is Falls Entertainment Corporation.

Total Resort Casinos revenue for fiscal 2014–15 was \$1.26 billion, an increase of \$10.8 million or 0.9 per cent over the previous fiscal year. Lower gaming revenue at Casino Rama was offset by increases at Caesars Windsor and the Niagara Casinos, as well as increases in non-gaming revenue at all properties. The lower gaming revenue at Casino Rama was mainly attributable to decreased slot volume and table drop, while the Niagara Casinos experienced increased slot volume as well as improved table game revenue. The increase at Caesars Windsor was due to higher slot volume. Total Resort Casinos revenue was \$11.9 million or 1.0 per cent higher than budget primarily due to higher table game revenue at Niagara Casinos more than offsetting the lower than anticipated slot and table game revenues at Casino Rama.

## C2. Resort Casinos adjusted net income

In fiscal 2014–15, the Resort Casinos adjusted net income was \$155.4 million, an increase of \$27.0 million or 21.1 per cent from fiscal 2013–14 and \$31.0 million or 24.9 per cent higher than budget. This increase is primarily due to lower depreciation attributable to fully depreciated 10-year assets at Fallsview and lower personnel costs at all Resort Casinos resulting from the successful management of staffing levels. Staffing adjustments for part-time and contract work are made based on business volumes at all properties.

Compensation for the service providers of Resort Casinos is based on a percentage of Gross Revenue and a percentage of Net Operating Margin, both defined terms in the respective operating agreement with each service provider. Total fees paid to the service providers in fiscal 2014–15 are consistent with fees paid in fiscal 2013–14.

## C3. Resort Casinos financial key performance indicators

The following are the Resort Casinos financial KPIs for fiscal 2014–15 compared to fiscal 2013–14:

<i>For the fiscal year</i>	<b>2014–15</b>	2013–14	Budget 2014–15
Adjusted EBITDA margin*	<b>24.6%</b>	23.7%	22.3%
Marketing as a percentage of adjusted gaming revenue**	<b>12.3%</b>	12.5%	12.7%
Payroll as a percentage of adjusted total revenue***	<b>35.0%</b>	35.7%	36.5%
<hr/>			
Total patrons (in millions)****	<b>15.8</b>	15.3	15.6
Win per patron****	<b>\$ 74</b>	\$ 76	\$ 74
<hr/>			
Rated U.S. play*****			
Caesars Windsor	<b>33.0%</b>	33.0%	N/A

\*The adjusted EBITDA margin represents earnings before finance and amortization costs, win contribution, GRSFA and host municipality commission payments, and modernization charges, as a percentage of adjusted total revenue. Adjusted EBITDA margin is a common measure used in the gaming industry and is useful to Management in assessing the performance of the Corporation's ongoing operations and its ability to generate cash flows. OLG adjusts EBITDA by adding back win contribution to ensure comparability of profitability margins across divisions and with other gaming organizations.

\*\*Marketing as a percentage of adjusted gaming revenue is derived by dividing marketing expenses by adjusted gaming revenue. Marketing expenses include promotions, advertising, corporate marketing and marketing-related payroll costs. Adjusted gaming revenue includes revenue from slot and table gaming operations but excludes all non-gaming revenue.

\*\*\*Payroll as a percentage of adjusted total revenue is derived by dividing payroll and benefit expenses by adjusted total revenue.

\*\*\*\*Total patrons and Win per patron have been restated for fiscal 2013–14.

\*\*\*\*\*Rated U.S. play represents theoretical win contributed by U.S. carded patrons as a percentage of theoretical win contributed by all carded patrons. Theoretical win is based on probability theory, the intended win according to table games rule of play and slots payout schedule. One benefit of using theoretical win is that it eliminates the impact of hold volatility. Rated U.S. play is not budgeted.

Both marketing and payroll indicators represent key cost drivers of the Corporation that Management uses to evaluate the results of the business division.

Adjusted EBITDA, adjusted gaming revenue and adjusted total revenue are not defined terms under IFRS. Accordingly, these measures should not be considered substitutes or alternatives for net income or cash flows and/or revenue as determined in accordance with IFRS. Please refer to Section 3 – Disclosures for non-IFRS measures.

The adjusted EBITDA margin for Resort Casinos was higher than in the previous year and higher than budget due to lower personnel costs at all Resort Casinos, lower marketing costs at Casino Rama, and higher non-gaming revenue at both Casino Rama and Caesars Windsor.

Marketing as a percentage of adjusted gaming revenue is lower than in the previous year and lower than budget due to higher gaming revenues at Caesars Windsor and the Niagara Casinos, as well as reduced marketing costs at Casino Rama.

Payroll as a percentage of adjusted total revenue is lower than in the previous year and lower than budget as a result of staffing level efficiencies and lower benefit costs at all Resort Casinos, as well as an early retirement initiative offered at the Niagara Casinos. A new collective bargaining agreement at Caesars Windsor also contributed to the favourable result.

The total number of customer visits to the Resort Casinos in fiscal 2014–15 was 15.8 million, an increase of 3.3 per cent from 15.3 million customers in fiscal 2013–14 and 1.3 per cent higher than the 15.6 million visits forecast in the budget. The win per patron\* decreased to \$74 in fiscal 2014–15 from \$76 in the previous fiscal year, but was comparable to budget.

*\*Win per patron is derived by dividing gaming revenue (net win) by the number of patrons.*

Ongoing cross-border challenges continue to impact Caesars Windsor in fiscal 2014–15. However, the weaker Canadian dollar offset the declining trend. U.S. rated play at Caesars Windsor of 33 per cent for fiscal 2014–15 has remained constant with the previous fiscal year.

#### **Addressing underperforming KPIs versus budget**

To meet future revenue expectations, the Resort Casinos have implemented new marketing initiatives with a focus on customer service and overall customer experience. These were designed to increase the respective local market share and target new niche markets. Marketing campaigns such as the Million Dollar Giveaway and \$100K Giveaway at Caesars Windsor, the 10-year anniversary celebrations at Fallsview, as well as the excitement generated in the Resort Casinos' respective entertainment centres played a significant role in offsetting declining revenues. Resort Casinos will continue to utilize marketing campaigns and entertainment events to remain competitive. Major capital investments have also been made in areas of new slot product offerings, updated food and beverage facilities and the use of modernized technologies in all gaming operations.

The Resort Casinos will continue to manage costs relative to business levels. This includes maintaining current programs to effectively manage personnel costs, as well as implementing existing and new marketing strategies.

#### **C4. Resort Casinos trends and risks**

OLG continues to act on the recommendations contained in its report, *Modernizing Lottery and Gaming in Ontario: Strategic Business Review / Advice to Government*. OLG will continue to leverage the regulated private sector involvement in the operations of the Resort Casinos.

Resort Casinos gaming revenue CAGR is projected to remain constant from fiscal 2013–14 to fiscal 2018–19. Net operating profit is expected to grow at a CAGR of 6.2 per cent due to planned new customer amenities and increased operational cost efficiencies.

Similar to a number of OLG Slots and Casinos, three of OLG's Resort Casinos are located near the U.S. border, leaving them sensitive to variances in both inbound and outbound cross-border traffic. Over the 12-year period from calendar 2002 to 2013, the number of U.S. residents entering Ontario declined by an average of eight per cent per year, while the number of Canadian residents returning from the U.S. increased by an average of three per cent per year. For the 12 months ending December 2014, the number of U.S. residents entering Ontario declined by 1.5 per cent compared to the same period in 2013. However, the trend is expected to reverse due to the weakened Canadian dollar. The Ontario Ministry of Tourism, Culture and Sport expects the number of U.S. residents entering Ontario to increase by 2.8 per cent in calendar year 2015, 2.1 per cent in 2016 and 1.9 per cent in 2017. In 2014, the number of Ontario residents entering the U.S. declined 5.6 per cent compared to the previous year. The number of Ontario residents entering the U.S. is expected to decrease by 1.7 per cent in 2015 before levelling off in 2016 and 2017.

The size of the Canadian casino-style gaming market decreased by 1.0 per cent in fiscal 2013–14, remaining at just over \$10 billion in gaming revenue. The four top performing Canadian provinces – Ontario, Alberta, Quebec and British Columbia – account for more than 80 per cent of the total Canadian casino-style gaming market. Competition from the U.S. remains a significant consideration. While much of the impact of reduced U.S. patronage is reflected in the current operating results, the opening of the four Ohio casinos, notably in Toledo and Cleveland, have put further pressure on Caesars Windsor revenues.

The operating unit of Caesars Entertainment Corporation, the parent company of Caesars Entertainment Windsor Limited, filed for Chapter 11 bankruptcy protection in a Chicago, Illinois court on January 15, 2015. The Caesars Windsor facility is owned by OLG. Caesars Entertainment Windsor Limited carries on the day-to-day operating activities of Caesars Windsor under an Operating Agreement with OLG dated December 14, 2006. OLG continues to monitor the situation with Caesars Entertainment Corporation; however Caesars Windsor will not be impacted by the bankruptcy proceedings.

In an effort to widen customers' interest, enhance their experience and increase excitement, Resort Casinos continue their investments in a number of major capital projects. Casino Rama recently completed a multi-million dollar renovation that includes a new food and beverage outlet, a centre bar on the gaming floor, a reconfigured gaming floor, and the consolidation of two entrances. At the Niagara Casinos, a buffet renovation at Fallsview, improvements to the gaming floor appearance at Casino Niagara, and various other interior updates are to be completed by the beginning of fiscal 2015–16. Fallsview also installed a 13-storey LED/HD screen, which will display casino information and show times in an effort to attract more patrons to the site. In addition to these capital improvements, OLG will continue to invest in new slot machine products to enhance growth and offer a competitive appeal in the Resort Casinos' respective markets. Resort Casinos are also looking at investment in various forms of technology. With the focus on customer satisfaction, changes have been made to the use of floor technology, including improving customer experience with digital media, such as personalizing customers' web site pages.

In order to attract more customers, Resort Casinos are also making changes to non-gaming related amenities. New campaigns have been initiated to optimize hotel occupancy rates and to reposition hotel convention communications. New partnerships are being formed with third parties to leverage their strong brand recognition and meet customers' expectations of all-inclusive properties. In December 2013, OLG released a Request for Information ("RFI") with respect to the proposed development of a new entertainment centre in the City of Niagara Falls. The RFI closed on March 3, 2014.

## D. OLG SLOTS AND CASINOS

### Summary data from statement of comprehensive income

(in thousands of dollars)

For the fiscal year	2014–15*	2013–14	\$ Variance	% Variance
<b>Revenue</b>	\$ 2,000,848	\$ 1,964,044	36,804	1.9
<b>Expenses</b>	971,771	954,332	(17,439)	(1.8)
<b>Income before the undernoted</b>	\$ 1,029,077	\$ 1,009,712	19,365	1.9
Other income	12,151	28,594	(16,443)	(57.5)
<b>Net income</b>	1,041,228	1,038,306	2,922	0.3
Add: win contribution	14,432	14,047	385	2.7
<b>Adjusted net income**</b>	\$ 1,055,660	\$ 1,052,353	3,307	0.3

\*The OLG Slots and Casinos segment includes a 50 per cent portion of iGaming financials.

\*\*Adjusted net income represents net income adjusted for the addition back of win contribution. The Corporation remits a win contribution to the Province of Ontario equal to 20 per cent of gaming revenue from the Resort Casinos and the Great Blue Heron Slot Machine Facility, in accordance with the Ontario Lottery and Gaming Corporation Act, 1999. Adjusted net income is not a defined term under IFRS; however, it is useful to Management in assessing the performance of the OLG Slots and Casinos business division and its ability to generate cash flows. Accordingly, this measure should not be considered a substitute or alternative for net income as determined in accordance with IFRS.

## D1. OLG Slots and Casinos revenue

Revenue from OLG Slots and Casinos for fiscal 2014–15 was \$2.00 billion, an increase of \$36.8 million or 1.9 per cent from the previous fiscal year. A \$22.3 million increase in revenue experienced at OLG Slots at Woodbine Racetrack is the largest contributor to the year-over-year increase. The increase can be attributed to a greater number of customer visits and higher slot volume. Overall, OLG Slots and Casinos revenue was \$45.4 million or 2.2 per cent lower than budget due to fewer than expected site visits at 12 of 20 sites.

## D2. OLG Slots and Casinos adjusted net income

Adjusted net income from OLG Slots and Casinos in fiscal 2014–15 was \$1.06 billion, an increase of \$3.3 million or 0.3 per cent from the previous fiscal year primarily due to the flow through impact of higher gaming revenue, partially offset by higher marketing expenses. Marketing expense increased due to more food and beverages provided as complimentary at OLG Slots at Woodbine Racetrack. Adjusted net income for fiscal 2014–15 was \$11.0 million or 1.0 per cent lower than budget, the result of decreased revenue partially offset by lower than expected operating costs.

## D3. OLG Slots and Casinos financial key performance indicators

The following are the OLG Slots and Casinos financial KPIs for fiscal 2014–15 compared to fiscal 2013–14:

<i>For the fiscal year</i>	<b>2014–15</b>	2013–14	Budget 2014–15
Adjusted EBITDA margin*	<b>62.4%</b>	63.4%	61.4%
Marketing as a percentage of adjusted gaming revenue**	<b>5.9%</b>	5.2%	5.3%
Payroll as a percentage of adjusted total revenue***	<b>14.5%</b>	14.8%	14.4%
Total patrons (in millions)	<b>20.7</b>	20.5	21.2
Win per patron	<b>\$ 96</b>	\$ 95	\$ 96

\*The adjusted EBITDA margin represents earnings before finance and amortization costs, win contribution, GRSFA and host municipality commission payments, and modernization charges, as a percentage of adjusted total revenue. Adjusted EBITDA margin is a common measure used in the gaming industry and is useful to Management in assessing the performance of the Corporation's ongoing operations and its ability to generate cash flows. OLG adjusts EBITDA by adding back win contribution to ensure comparability of profitability margins across divisions and with other gaming organizations.

\*\*Marketing as a percentage of adjusted gaming revenue is derived by dividing marketing expenses by adjusted gaming revenue. Marketing expenses include promotions, advertising, corporate marketing and marketing related-payroll costs. Adjusted gaming revenue includes revenue from slot and table gaming operations but excludes all non-gaming revenue.

\*\*\*Payroll as a percentage of adjusted total revenue is derived by dividing payroll and benefit expenses by adjusted total revenue.

Both marketing and payroll indicators represent key cost drivers of the Corporation that Management uses to evaluate the results of the business division.

Adjusted EBITDA, adjusted gaming revenue and adjusted total revenue are not defined terms under IFRS. Accordingly, these measures should not be considered substitutes or alternatives for net income or cash flows and/or revenue as determined in accordance with IFRS. Please refer to Section 3 – Disclosures for non-IFRS measures.

The adjusted EBITDA margin for OLG Slots and Casinos was lower in fiscal 2014–15 than in the previous fiscal year, primarily the result of increased revenue as discussed above. The adjusted EBITDA margin was higher than budget mainly due to a decrease in payroll expenses.

Marketing as a percentage of adjusted gaming revenue increased compared to fiscal 2013–14. The primary drivers for the increase were higher marketing costs as a result of implementing additional promotions in an effort to mitigate revenue declines, as well as higher costs for food and beverage complimentarys, precipitated by a great number of site visits at OLG Slots at Woodbine Racetrack. Marketing as a percentage of adjusted gaming revenue was higher than budget due to lower than anticipated revenue and higher marketing costs.



Payroll as a percentage of adjusted total revenue for OLG Slots and Casinos decreased slightly in comparison to the previous fiscal year primarily due to staffing efficiency initiatives and a voluntary buyout initiative offered in fiscal 2013–14. Payroll as a percentage of adjusted total revenue was comparable to budget.

Site visits increased by 0.2 million or 1.0 per cent overall as compared to the previous fiscal year. OLG Slots at Woodbine Racetrack experienced an increase of 0.3 million customer visits or 6.0 per cent due primarily to more favourable winter weather in fiscal 2014–15 compared to the previous year. Most of the higher number of visits to OLG Slots at Woodbine Racetrack occurred between December and March, when the number of site visits exceeded the previous year's total by 0.2 million or 13 per cent. During this same period in fiscal 2013–14, site visits were negatively affected by frequent adverse weather conditions, including a major ice storm that hit the Greater Toronto Area in December 2013. In comparison to budget, the number of site visits was down by 0.5 million or 2.4 per cent, consistent with industry trending.

Gaming revenue increased at a greater rate than site visits resulting in a slight increase to win per patron\* in fiscal 2014–15. This measure was in line with budget expectations.

*\*Win per patron is derived by dividing gaming revenue (net win) by the number of patrons.*

#### **Addressing underperforming KPIs versus budget**

More research into OLG customer behaviour has provided insights into rated customer declining play. This information will be important as OLG aims to give customers value in their gaming experience. Game offerings, clear and concise explanations of the benefits of OLG's Winner's Circle Rewards program, non-gaming entertainment and staff engagement are all areas being developed by OLG marketing teams. With a view to deliver a fun and exciting experience, OLG's investments and resources will focus on optimizing the overall player experience. OLG will also leverage its brand campaign to heighten awareness of OLG Slots and Casinos as an entertainment option.

#### **D4. OLG Slots and Casinos trends and risks**

OLG continues to act on the recommendations contained in its report, *Modernizing Lottery and Gaming in Ontario: Strategic Business Review / Advice to Government*. Under direction from government, OLG is in the midst of an evolving multi-year transformation of its business. OLG's strategic focus is on modernization and preparing the organization for transformation. Reforming the lottery and gaming business is a worthwhile endeavour – one that will provide financial benefit to the Province and the people of Ontario. OLG's modernization is consistent with the government's current strategic approach to its assets – maximizing the value of government assets while maintaining public ownership.

The original plan was launched in fiscal 2010–11 for reasons that continue to be relevant today. Over the years, land-based gaming at OLG has been financially impacted by competitive pressures and, in some cases, sub-optimal locations too far from population density. As a result, OLG designed its modernization plan to ensure that the Corporation could deliver higher and more sustainable revenue to government. Now that modernization is in its fourth year, the plan has evolved. Through the RFI and RFPQ processes, OLG has learned what the market is capable of delivering and which municipalities would be willing hosts. As of March 31, 2015, a total of 39 municipalities within defined gaming zones had continued interest in hosting a gaming site.

In order to provide efficient operations, avoid public expenditure on capital and meet customer interest in land-based gaming, OLG started to execute a competitive procurement process to identify service providers to improve the efficiency and effectiveness of gaming operations. This process has been designed from the ground up to be fair, open, and transparent for all vendors. The procurement is divided into geographically-based gaming bundles. The 29 gaming zones earlier identified by OLG were grouped into seven gaming bundles, each representing a separate bidding opportunity.

In fiscal 2014–15, OLG received submissions to RFPQs for the majority of the gaming bundles and is currently executing the first RFP process for the East Gaming Bundle. In fiscal 2015–16, OLG plans to continue the procurement process by issuing RFPs to pre-qualified proponents and selecting regulated private operators to run existing gaming sites and to begin the development of new ones.

OLG will continue to manage the provincial market, and the private sector will streamline operations and invest in the improvement, expansion or relocation of gaming sites (subject to the approval of host municipalities).

As part of the modernization strategy, OLG has launched strategic initiatives to substantially reform technology with the goal of providing a strong foundation for the future organization. Included in these initiatives is the Gaming Management System (“GMS”) Program. OLG, through its modernization process and in conjunction with service provider investment, will be replacing the GMS that tracks activities on each of the more than 12,500 slot machines in 19 Slots and Casinos locations throughout Ontario. This program is described in Section 5 – Overview of Key OLG Initiatives.

The OLG Slots and Casinos division will continue to balance revenue maximization with a local customer experience. Gaming revenue and net operating profit are projected to grow at a CAGR of 1.8 per cent and 1.0 per cent respectively from fiscal 2013–14 to fiscal 2018–19, through the introduction of a number of new and/or relocated/expanded gaming sites that are closer to areas with higher population. The reportable segment will continue to use analytics, research, and business case support in order to respond to gaming demand in existing markets, which may include an increase to the supply of electronic tables and slot machines, where appropriate, and to ensure effective execution of marketing programs. The division will continue to refine its slot pricing strategy as part of a yield management approach to ensure effective and competitive games. The OLG Slots and Casinos division also closely evaluates KPIs and adjusts marketing programs as needed to maximize revenue and optimize return on investment.

As part of OLG’s ongoing commitment to Responsible Gambling (“RG”), OLG Slots and Casinos each house a Responsible Gaming Resource Centre. RG is a core business priority that applies to all OLG business lines. The overall goals of the RG program are to reduce the incidence of problem gambling through prevention efforts and to mitigate harm for those who may have developed a problem by providing a gateway to support services and community resources. OLG provides information and tools to assist in the prevention of problem gambling and to help players make informed decisions about gambling. The RG program encompasses customer education, customer assistance, Voluntary Self-Exclusion, employee engagement and training, policy development, standards compliance and stakeholder relations.

OLG is evolving its RG program through evidence-based research and emerging best practices to build knowledge on how to best support players by gathering and using data strategically. OLG benchmarks its program and tracks its measures and progress year-over-year. All 19 OLG Slots and Casinos have been accredited with RG Check. Awarded by the Responsible Gambling Council, RG Check is the most rigorous and comprehensive responsible gambling standard in the world.



## 2. Financial condition

### Liquidity and capital resources

Cash and cash equivalents were \$316.3 million as at March 31, 2015, an increase of \$4.7 million from \$311.7 million as at March 31, 2014. The majority of the Corporation's cash and cash equivalents were denominated in Canadian dollars at March 31, 2015.

The increase in cash and cash equivalents was primarily due to greater cash generated by operating activities partially offset by cash outflows in financing activities and investing activities as set out in the following chart:

(in millions of dollars)

<i>For the fiscal year</i>	<b>2014–15</b>	2013–14
<b>Net cash flows provided by (used in):</b>		
Operating activities	<b>\$ 1,949.5</b>	\$ 1,885.4
Financing activities	<b>(1,809.5)</b>	(1,901.3)
Investing activities	<b>(135.3)</b>	(49.7)
Net increase (decrease) in cash and cash equivalents	<b>\$ 4.7</b>	\$ (65.6)

#### Cash provided by operating activities:

Cash flows provided by operating activities for fiscal 2014–15 totalled \$1.95 billion – \$64.1 million higher than in the previous fiscal year. The increase in operating cash flows was primarily a result of an increase in trade and other payables and increased deferred revenue due to higher estimated jackpots for LOTTO 6/49 and LOTTO MAX. In the previous year, there were one-time settlement payments (related to the termination of the Slots at Racetracks Program) made to racetracks that sustained capital costs on their facilities for future expansion.

#### Cash used in financing activities:

During fiscal 2014–15, cash flows used in financing activities decreased by \$91.8 million to \$1.81 billion compared with the previous fiscal year. Included in financing activities are direct payments to the Province of Ontario, which totalled \$1.80 billion in fiscal 2014–15, \$35.4 million less than in the previous fiscal year. Also included in financing activities are the repayments of funds to the Ontario Financing Authority (“OFA”) related to the renovations at OLG Slots at Woodbine Racetrack, as well as lease payments made for the Casino Niagara building and for TapTix.

During fiscal 2014–15, long-term debt repayments totalled \$15.8 million and included the following:

- Woodbine loan – \$10.1 million
- Obligations under finance leases – \$5.7 million

The loan agreement for purposes of financing the renovation and expansion of OLG Slots at Woodbine Racetrack provided for a non-revolving construction period loan facility consisting of Phase A and Phase B with an interest rate during construction based on the Province of Ontario's 90-day Treasury Bill rate plus 0.38 per cent. On May 9, 2011, the principal sum of Phase A, \$31.3 million, was converted to a five-year term loan with an interest rate of 2.931 per cent per annum. On January 8, 2013, the principal sum of Phase B, \$33.8 million, was converted to a five-year term loan with an interest rate of 2.32 per cent per annum. The balance of the Woodbine loan at March 31, 2015 was \$22.2 million comprising the Phase A and Phase B term loan.

In July 2014, the Corporation entered into a loan agreement with the OFA to borrow an amount up to \$35.2 million to finance the implementation of its Gaming Management System replacement program. During fiscal 2014–15, the Corporation drew \$5.7 million on the facility which is repayable, inclusive of interest accrued, at the earlier of the project completion date or September 2016. The loan bears interest at the rate of OFA's cost of funds as of each facility advance date plus 0.325 per cent per annum. No payments have been made on the loan to date.

In August 2014, the Corporation entered into a loan agreement with the OFA to borrow an amount up to \$1.8 million to finance the capital costs of the PlayOLG web site. The full loan balance was advanced on September 9, 2014. The loan plus accrued interest is repayable on September 9, 2016, the second anniversary of the first facility advance date. The facility bears interest at the rate of OFA's two-year cost of funds as of each facility advance date plus 0.425 per cent per annum. To date, no payments have been made on the loan.

**Cash used in investing activities:**

Cash flows used in investing activities, which include capital expenditures, totalled \$135.3 million for fiscal 2014–15 – \$85.6 million higher than in the previous fiscal year. Capital expenditures for fiscal 2014–15 were \$134.7 million, which largely consisted of capital expenditures at the Resort Casinos, upgrades to slot machines, acquisition of new lottery terminals, and investment in the new Gaming Management System.

**Capital risk management**

The capital structure of the Corporation consists of cash and cash equivalents, long-term debt and equity, comprising retained earnings, contributed surplus and reserves.

The Corporation believes its financial resources, together with future income, are sufficient to meet funding requirements for current financial commitments and future operating and capital expenditures, and to provide the necessary financial capacity to meet current and future growth expectations.

The Corporation's objectives in managing capital are to ensure sufficient resources are available for it to continue to fund future development and growth of its operations and to provide returns to the Province of Ontario.

The Board of Directors is responsible for the oversight of Management including policies related to financial and risk management. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Operating agreements require the Resort Casinos to establish reserve funds. The Corporation is not subject to any externally imposed capital requirements.

The Corporation's financial risk management and financial instruments are disclosed in Note 21 of the Notes to the Consolidated Financial Statements.

### **3. Disclosures for non-IFRS measures**

**Reconciliation of non-IFRS measures**

The adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") represents earnings before finance and amortization costs, win contribution, Gaming Revenue Sharing and Financial Agreement ("GRSFA") payments, host municipality commission payments, charity payments, and modernization and other charges. The adjusted EBITDA is used to determine the EBITDA margin, which is a common measure in the gaming industry and is useful to Management in assessing the performance of the Corporation's ongoing operations and its ability to generate positive cash flows. OLG adjusts EBITDA by adding back win contribution, municipality host commissions, charity payments, GRSFA payments, modernization and other charges to ensure comparability of profitability margins across divisions and with other gaming organizations. Adjusted EBITDA is not a defined term under IFRS. Accordingly, this non-IFRS measure should not be considered a substitute or alternative for net income or cash flows in each case as determined in accordance with IFRS.

Adjusted gaming revenue is used as the denominator in the calculation of marketing as a percentage of gaming revenue. Adjusted gaming revenue is not a defined term under IFRS. Accordingly, this non-IFRS measure should not be considered as a substitute or alternative for revenue.

Adjusted total revenue is used as the denominator in the calculation of the adjusted EBITDA margin and payroll as a percentage of adjusted total revenue. Adjusted total revenue is not a defined term under IFRS. Accordingly, this non-IFRS measure should not be considered as a substitute or alternative for revenue.

Net Profit to the Province is the amount the Corporation returns to the Province of Ontario after stakeholder and other payments. Net Profit to the Province is calculated by adding back win contribution to net income. Net Profit to the Province is not a defined term under IFRS. Accordingly, this non-IFRS measure should not be considered a substitute or alternative for net income or cash flows in each case as determined in accordance with IFRS.

The following table provides a reconciliation of net income (loss) and revenue, as defined under IFRS (see Note 25 to the Consolidated Financial Statements), to adjusted EBITDA, adjusted gaming revenue and adjusted total revenue for the fiscal years ended March 31, 2015 and March 31, 2014:

*Fiscal 2014-15  
(in thousands of dollars)*

	Lottery	Charitable Gaming	Resort Casinos	OLG Slots and Casinos	Total
Net income (loss) as referenced in Note 25	\$ 839,826	\$ (51,893)	\$ (77,075)	\$ 1,041,228	\$ 1,752,086
Amortization	8,623	–	100,481	54,081	163,185
Finance costs	146	1,132	3,797	276	5,351
Win contribution	–	–	232,502	14,432	246,934
Host municipality commissions	–	–	30,593	77,151	107,744
Charity payments	–	20,788	–	–	20,788
Gaming revenue share payments	57,589	4,392	24,769	34,813	121,563
Other charges	–	19,425	–	15,770	35,195
Modernization charges	17,643	1,631	728	29,192	49,194
<b>Adjusted EBITDA</b>	<b>\$ 923,827</b>	<b>\$ (4,525)</b>	<b>\$ 315,795</b>	<b>\$ 1,266,943</b>	<b>\$ 2,502,040</b>
Revenue	3,272,755	114,875	1,255,730	2,000,848	6,644,208
Prizes	(1,807,211)	(27,520)	–	–	(1,834,731)
Non-gaming revenue	–	–	(92,286)	(15,290)	(107,576)
<b>Adjusted Gaming Revenue</b>	<b>\$ 1,465,544</b>	<b>\$ 87,355</b>	<b>\$ 1,163,444</b>	<b>\$ 1,985,558</b>	<b>\$ 4,701,901</b>
Non-gaming revenue	–	–	92,286	15,290	107,576
Finance and other income	2,444	9	19,632	28,190	50,275
Foreign exchange (loss) gain	(2)	(1,886)	7,189	7	5,308
<b>Adjusted Total Revenue</b>	<b>\$ 1,467,986</b>	<b>\$ 85,478</b>	<b>\$ 1,282,551</b>	<b>\$ 2,029,045</b>	<b>\$ 4,865,060</b>
<b>Adjusted EBITDA %</b>	<b>62.9%</b>	<b>(5.3%)</b>	<b>24.6%</b>	<b>62.4%</b>	<b>51.4%</b>

Fiscal 2013–14  
(in thousands of dollars)

	Lottery	Charitable Gaming	Resort Casinos	OLG Slots and Casinos	Total
Net income (loss) as referenced in Note 25	\$ 886,420	\$ (60,743)	\$ (103,033)	\$ 1,038,306	\$ 1,760,950
Amortization	10,781	5,904	111,093	59,452	187,230
Finance costs	122	838	4,359	547	5,866
Win contribution	–	–	231,414	14,047	245,461
Host municipality commissions	–	–	30,069	76,678	106,747
Charity payments	–	13,308	–	–	13,308
Gaming revenue share payments	55,887	2,676	25,861	35,453	119,877
Other charges	–	27,429	–	–	27,429
Modernization charges	26,961	2,244	1,383	38,570	69,158
<b>Adjusted EBITDA</b>	<b>\$ 980,171</b>	<b>\$ (8,344)</b>	<b>\$ 301,146</b>	<b>\$ 1,263,053</b>	<b>\$ 2,536,026</b>
Revenue	3,387,571	73,817	1,244,946	1,964,044	6,670,378
Prizes	(1,865,202)	(20,079)	–	–	(1,885,281)
Non-gaming revenue	–	–	(87,574)	(15,201)	(102,775)
<b>Adjusted Gaming Revenue</b>	<b>\$ 1,522,369</b>	<b>\$ 53,738</b>	<b>\$ 1,157,372</b>	<b>\$ 1,948,843</b>	<b>\$ 4,682,322</b>
Non-gaming revenue	–	–	87,574	15,201	102,775
Finance and other income	1,803	28	18,336	28,331	48,498
Foreign exchange (loss) gain	–	(1,279)	7,226	810	6,757
<b>Adjusted Total Revenue</b>	<b>\$ 1,524,172</b>	<b>\$ 52,487</b>	<b>\$ 1,270,508</b>	<b>\$ 1,993,185</b>	<b>\$ 4,840,352</b>
<b>Adjusted EBITDA %</b>	<b>64.3%</b>	<b>(15.9%)</b>	<b>23.7%</b>	<b>63.4%</b>	<b>52.4%</b>

## FEES PAID TO EXTERNAL AUDITOR

For the fiscal year ended March 31, 2015, the Corporation retained its independent auditor, KPMG LLP, to provide services in the categories and for the amounts shown in the table below:

(in thousands of dollars)

For the fiscal year	2014–15	2013–14
Audit Services	\$ 1,393.7	\$ 1,438.7
Tax Services	70.7	262.9
Other Services	158.4	–
<b>Total of all Services</b>	<b>\$ 1,622.8</b>	<b>\$ 1,701.6</b>

## 4. Enterprise risk management

OLG is subject to a wide variety of risks that could adversely impact financial and nonfinancial business objectives related to its strategic priorities. OLG has a formal Enterprise Risk Management (“ERM”) Program in place to support Management in identifying, assessing and managing risks. These include strategic risks, governance risks (including compliance risk), operational risks, IT risks, and workforce risks. OLG’s ERM program delivers a robust and consistent approach aligned with ISO 31000 and in conformity with the Ontario Public Service risk management guidance and requirements.

It is important to the success of the Corporation that OLG assume an appropriate amount of risk in the pursuit of its objectives. ERM provides a discipline and structure to help ensure risk is managed in a considered and responsible manner. Risk awareness must be embedded in the Corporation’s culture, and people throughout the organization must take ownership for managing risk. Incorporating risk management into the Corporation’s business practices will help ensure that OLG lives its core values of accountability, integrity and respect.

This philosophy is supported by the principles that Risk Management:

- creates and protects value
- is an integral part of all organizational processes
- is part of decision-making
- explicitly addresses uncertainty
- is systematic, structured and timely
- is based on the best available information
- is tailored
- takes human and cultural factors into account
- is transparent and inclusive
- is dynamic, iterative and responsive to change
- facilitates continual improvement of the organization

Risk management is every employee’s responsibility at OLG; however, specific responsibilities are described below.

The Board of Directors, through its Audit and Risk Management Committee (“ARMC”), provides oversight for the risk management program. The ARMC receives quarterly reports on top risks, newly emerging risks, and mitigation and/or response plans to address these risks. The reports identify the likelihood, impact, and velocity of each of the key risks as well as those accountable for the management of these risks.

The President and CEO has ultimate accountability for risk management supported by the Executive Leadership Team (“ELT”) and the head of the ERM function. This group of individuals reviews all risk information on a quarterly basis and will take additional actions if required to reduce risks to acceptable levels.

OLG’s modernization has dedicated ERM resources to ensure that all program components are risk assessed and that risks are mitigated on an ongoing basis. The Executive Steering Committee, a subset of ELT, reviews the top risks for the program quarterly and will take additional actions when required. Risk reports on the modernization are provided to and reviewed by the ARMC on a quarterly basis as part of its risk governance responsibilities.

A team of experienced risk professionals supports Management who is accountable for identifying, assessing and mitigating risk. This team, in addition to providing analysis and reports for the ELT and the ARMC, performs quarterly horizon scanning to identify globally emerging risks that could be a threat to OLG.

The ERM team includes business continuity management, crisis management, fraud program management and insurance professionals. Risks that are outside of OLG’s ability to control, such as environmental risks (e.g., pandemics, extreme weather events), are mitigated through a combination of insurance policies and response plans. In addition, OLG maintains appropriate insurance policies to mitigate the impact of losses from the operation or failure of assets.

## KEY RISKS

Risk work begins with the strategic priorities. Risks are identified and assessed on an ongoing basis with quarterly reporting to the ELT and the ARMC. An annual anonymous risk survey is conducted across the organization, inviting over 100 participants to provide their views on risks for the organization. The results from the survey are used to cross-check ongoing risk work. Detailed risk identification and assessment is embedded into the project governance framework to ensure that all projects and programs have risk management as a core component of decision making.

The following key risks have been identified.

### 1. Workforce management

This encompasses the risk that OLG could lose key skills or have difficulties replacing key skills and the risk of employee disengagement. OLG's workforce has several existing challenges that make this the key risk for the organization:

- OLG is modernizing its operations through a large scale transformation program, which will result in many jobs moving to the private sector;
- OLG has a skilled workforce, with strong gaming expertise, but does not have a readily available talent pool within the Province of Ontario; and
- Wage restraints.

#### Future challenges:

- Key staff, including executives, are eligible to retire over the next three to five years;
- Retaining and attracting people during OLG's modernization; and
- Until modernization is completed, there will be continued uncertainty about job security, which in turn, can result in employee disengagement.

#### Risk mitigation strategies include:

- A focus on continual resource planning for modernization to ensure that resource needs are addressed. This includes the staff augmentation workbench which enables OLG to engage with pre-approved vendors to supply temporary resources in a timely manner;
- Open and transparent communications, both bottom-up and top-down, through dedicated channels such as the Future Ready Network ("FRN"), OLG Connections, Modernization Minute weekly update and the AskOLG Q&A database;
- Dedicated change management resources to support the organization including FRN ambassadors and leads from across OLG who help to enhance the two-way dialogue between OLG leadership and employees;
- Targeted succession planning for executives;
- A newly created Diversity and Inclusion Council to attract a diversity of employees to OLG; and
- Providing skills training for employees to help them retain and/or increase their marketability.

### 2. Continued downward pressure on revenue

OLG's gaming business operates in a market that is experiencing a world-wide decline in revenue and a declining player base. OLG's lottery business requires investments in IT infrastructure as well as entry into different delivery models and products to attract a younger player base. OLG's revenues may be further impacted by the following risk factors:

- The risk that municipal council plans negatively impact the modernization of OLG;
- The risk of the loss of staff who have knowledge of either modernization or critical components of the business;
- The risk of delays in modernization due to potential changes in the regulatory environment;
- The risk of continued low Lottery roll patterns impacting achievement of Lottery revenue targets;
- The risk of further cost reduction pressures which impact employee engagement and ability to execute on modernization; and
- The risk that government approved plans for horse racing integration negatively impact OLG's future revenues.

OLG is undertaking the following actions to manage this risk:

**Short-term tactical actions**

- Focus on the core business through data analytics and understanding current customer trends and adjusting promotional strategies to suit these trends;
- Continued focus on cost management by finding ways to drive non-value added costs out of the system (reduced spending on consultants/agency contracts/external legal, etc.);
- Careful assessment of cost containment measures against the impact on modernization progress as well as existing operations which require ongoing investment and operating capital to be sustainable;
- Further refinements in forecasting processes to ensure that revenue targets remain viable and achievable; and
- Employee engagement is being addressed through the items identified in the previous risk, “Workforce Management”.

**Long-term strategic actions**

- OLG is addressing the declining revenue risk through its modernization, which is based on three key objectives:
  - Becoming more customer-focused – being where our customers want us to be, offering products and services in their areas or in the ways they want to buy them;
  - Selecting qualified service providers for the specific day-to-day operation of lottery and gaming; and
  - Renewing OLG’s role in the conduct and management of lottery and gaming in the province.
- Rollout of the Internet gaming platform, PlayOLG, which offers Ontarians a controlled, government-regulated alternative to grey market online gaming web sites while embedding Responsible Gambling and safe play mechanisms;
- OLG’s modernization is a multi-year transformative program that requires adjustments to both outcomes and processes as it unfolds. It is administered through project management, risk management and spending management disciplines to ensure that adjustments are fully considered, assessed and then incorporated;
- Close cooperation between OLG and its regulator, the AGCO, to ensure timelines are feasible for approvals; and
- Close collaboration with external stakeholders, including the horse racing industry and municipalities that have a gaming site within their jurisdictions.

**3. Regulatory compliance**

OLG operates in a highly regulated environment. OLG’s main regulator is the AGCO, which regulates gaming in the Province of Ontario. In addition OLG is subject to a highly complex and dynamic set of federal anti-money laundering, anti-terrorist financing, and anti-bribery and anti-corruption (collectively, “AML”) laws and regulations. OLG has a reporting requirement for significant transactions conducted at its gaming sites to the Financial Transactions and Reports Analysis Centre of Canada (“FINTRAC”). OLG also complies with many other laws and regulations that govern the operations of corporate entities in Ontario and Canada. Therefore the risk of regulatory compliance is one of its key risks. Additional factors that increase this risk are:

- The AGCO is modernizing its governance model while OLG is undergoing a massive transformation that will result in conducting and managing its operations through third party service providers. This increases the risk of non-compliance; and
- The modernization of OLG is a one-of-a-kind endeavour where the Corporation’s mandate to conduct and manage as set out in the *Criminal Code* of Canada will be complied with by OLG but its operations will be carried out by third party service providers.

Risk mitigation strategies include:

- A Compliance Department is being staffed with professionals with expertise across the various legislative and regulatory requirements and the Department is putting new control structures in place;
- Automated solutions are being introduced to track the fulfillment of reporting requirements and required notifications to the regulators;
- Continued cooperation between OLG and its main regulators at the highest levels; and
- A methodology to manage future service providers has been developed and is being implemented across OLG to ensure governance models will be in place prior to new service providers being brought on board.



## Other risks

OLG has identified other high risks that are actively managed. These risks are managed through direct management or through the use of response plans and/or insurance if no further mitigation is possible and the risk remains at a level that requires action. These risks include, in no specific order: cyber security risk, strategic risk, fraud risk, change management risk, private sector engagement risk, information technology and infrastructure risk, project risk, business continuity risk (includes the risk of severe weather events), and pandemic risk.

## 5. Overview of Key OLG Initiatives

The following section provides an overview of the key initiatives that are designed to achieve the three key objectives of OLG's modernization:

- Becoming more customer-focused – being where our customers want us to be, offering products and services in their areas or in the ways they want to buy them;
- Selecting qualified service providers for the specific day-to-day operation of lottery and gaming; and
- Renewing OLG's role in the conduct and management of lottery and gaming in the province.

Together, the following initiatives will transform OLG from an organization that operates most of its own lottery and gaming businesses to one that more efficiently conducts and manages a multi-channel gaming industry in Ontario, including dynamic Lottery, Gaming, Internet and Charitable Gaming businesses.

There are six major initiatives currently underway:

1. Strategic Procurement
2. Internet Gaming
3. Charitable Gaming
4. Horse Racing Integration
5. Customer Management
6. Gaming Management System

### 1. Strategic Procurement Initiatives

OLG is following all government protocols for procurement.

OLG is committed to ensuring that its modernization is the result of a process that is, and is seen to be, fair and competitive to all relevant stakeholders. Accordingly, OLG has engaged an impartial Fairness Monitor and an independent Fairness Advisor throughout the process to provide oversight on the integrity and fairness of the procurement process.

#### Gaming Sites

In order to provide efficient operations, avoid public expenditure on capital and meet customer interest in land-based gaming, OLG has started to execute a competitive procurement process to identify service providers to improve the efficiency and effectiveness of casino operations.

This process has been designed from the ground up to be fair, open and transparent for all vendors. The procurement is divided into geographically-based gaming bundles. The 29 gaming zones identified by OLG in Ontario have been grouped into seven gaming bundles, each representing a separate bidding opportunity. Gaming bundles are intended to create opportunities for qualified service providers to be more efficient by operating multiple facilities in a given region.

In fiscal 2014–15, OLG received submissions to RFPQs for the majority of the gaming bundles and is currently executing the first RFP process for the East Gaming Bundle. In fiscal 2015–2016, OLG plans to continue executing the procurement process by issuing RFPs to pre-qualified proponents and select regulated private operators to run existing gaming sites and begin the development of new gaming sites.



OLG will continue to manage the provincial market and the private sector will streamline operations and, subject to the approval of host municipalities, invest in the improvement, expansion or relocation of gaming sites.

### **Lottery Business**

OLG is pursuing a similar process for the lottery business. In fiscal 2012–13, OLG initiated a competitive procurement process to select a private sector service provider for the operation of select components of the lottery business, including the lottery terminal network. In fiscal 2013–14, OLG received submissions to the RFPQ and is currently in the RFP phase of procurement.

The selected vendor will be expected to assist in improving lottery ticket purchase options at large multi-lane retail outlets, including supermarkets and big box stores, as well as through the Internet and mobile devices. At the same time, the selected vendor will provide innovative game development to foster sustainability and increase responsiveness.

## **2. Internet Gaming (“iGaming”) Program**

In July 2010, OLG received a mandate to deliver an iGaming program. Ontarians would be able to safely play games of skill and chance online, in a provincially regulated environment that deters minors from playing online, incorporates a gold standard in RG controls, and uses best-in-class security to ensure the safety and security of customer accounts and personal information.

On November 4, 2014, OLG invited a segment of 53,000 members of the Winner’s Circle Rewards (“WCR”) loyalty program to participate in a preview of PlayOLG prior to the province-wide launch. Over 16,000 WCR members responded favourably and opted to participate in the controlled launch. Over the course of a four-week period, the iGaming team finalized the PlayOLG web site and vetted the list of WCR members who signed up for a preview.

OLG sent invitations to the WCR members on December 4, 2014 to register and begin playing on PlayOLG. Invitations continued to be issued to the 16,000 WCR members prior to the province-wide launch.

PlayOLG was launched province-wide to all legal-aged Ontarians on January 8, 2015. Customers must be 18 years of age and over to purchase lottery tickets and 19 years of age and over to play casino games such as slots, blackjack, roulette and single-player poker.

Following the province-wide launch of PlayOLG, the iGaming team will continue to develop the site to add more games and features. Future enhancements to the web site include:

- Optimization for mobile
- Bingo
- Peer-to-peer poker
- Sports wagering

PlayOLG’s extensive RG safeguards focus on prevention and mitigation and include player education on healthy playing habits and how to seek help and support for problem gamblers.

## **3. Charitable Gaming Revitalization Program**

To meet the mandate of revitalizing an industry that supports thousands of local level charities and the benefits they bring to their communities across Ontario, OLG is striving to deliver the following key goals:

- Stabilize and grow the primary source of funding for 2,800 charities to sustain the social benefits they provide to communities across Ontario;
- Drive economic benefits into communities;
- Deliver a customer entertainment experience that is different from other forms of gaming for the charitable gaming players by modernizing the products and services offered;
- Leverage the numerous charity brands to enhance OLG’s corporate brand; and
- Realize key goals while achieving annual operational break-even performance within an eight-year period.

Industry stakeholders – charities, site service providers, municipalities and OLG – have agreed on a comprehensive plan to sustain this important source of charity fundraising in Ontario. OLG continues to focus on ensuring that this plan is sustainable in achieving the objectives for all stakeholders. The plan concentrates on:

- Deployment – rollout of a new technology platform to support modernized charitable gaming products;
- Sustainable Business – a sustainable operation that focuses on improvements to the business model to support the industry effectively, refining the operations model to meet regulatory and RG standards and continuing to build knowledge of the player base to support the retention and attraction of players;
- Product Strategy – a strategy and plan that will guide types of new products to be implemented;
- Customer Entertainment Experience – a distinct form of customer entertainment experience that will set standards for customer service, facilities and a brand for the industry; and
- Marketing Strategies – strategies, plans and processes for player communications and a loyalty program.

At the start of the program in fiscal 2012–13, 37 charities and operators expressed interest in participating in the program. As of March 31, 2015, OLG had launched 23 new charitable gaming centres, and with the original six pilot centres, OLG now manages 29 charitable gaming centres across Ontario. Deployment will continue through fiscal 2015–16 to achieve the total of 37 charitable gaming centres.

OLG has implemented four products including electronic bingo (“eBingo”), Play on Demand (“POD”) games, electronic shutter board and TapTix, formerly known as Break Open Ticket dispensers. A fifth product, Rapid Draw Bingo, is currently in development for launch in fiscal 2016–17. As of March 31, 2015, OLG had installed more than 5,500 electronic devices used for eBingo, POD and electronic shutter board games, as well as 818 TapTix devices.

#### **4. Horse Racing Integration**

OLG is working with the Ontario government and the horse racing industry on the objective to create a sustainable industry in Ontario.

The provincial gaming strategy will help to build Ontario’s horse racing industry. Helping to create the conditions for a successful horse racing industry is a critical element of OLG’s modernization.

OLG’s work to integrate horse racing includes:

- Finalizing lease agreements with racetracks;
- Hiring a senior executive to lead the integration of horse racing into the gaming strategy;
- Adding horse racing expertise to the procurement process for gaming service providers;
- Providing marketing, business and responsible gambling expertise to the horse racing industry;
- Leading the Product Review Committee with industry stakeholder participants and introducing new horse racing-themed products to promote the sport where appropriate; and
- Exploring business opportunities to grow the industry.

#### **5. Customer Management Program**

Historically, OLG has used multiple methods of capturing and storing customer information on diverse and disconnected IT systems. This often led to incomplete or disjointed customer information. As a result, OLG has launched an innovative initiative called Customer Management.

Customer Management will enable OLG to have a single view of its customers whether they interact with OLG or with a private sector service provider.

Customer Management will also improve OLG’s ability to deliver RG programs, adhere to government policy objectives and ensure a consistent and accurate customer experience across all OLG’s products, channels and services.

In 2014, OLG continued to add new sources of customer information to its systems, thereby enhancing the view of customer gaming activity across lines of business. OLG also continues to evolve the manner in which it interacts with customers. In 2014, OLG integrated new customer support channels and capabilities to support the launch of PlayOLG. This will serve to position the Corporation for continued improvements into the future.

## **6. Gaming Management System (“GMS”) Program**

OLG is replacing the Gaming Management System that tracks activities on each of the more than 12,500 slot machines in the 19 Slots and Casinos locations throughout Ontario.

The new Gaming Management System will include:

- The Central GMS – OLG-owned central systems and components to manage land-based gaming; and
- The Site GMS – service provider-owned site-based systems that will integrate with OLG systems and meet all OLG-mandated requirements.

The new Central GMS will provide key support for OLG’s modernization and its mandate to conduct and manage gaming in the province. The Central GMS will provide applications, systems configurations and business processes that support OLG’s responsibility to conduct and manage gaming, including instantaneous control of all electronic gaming devices at gaming sites operated by service providers. The system will also strengthen OLG’s ability to maintain gaming integrity, manage player protection, conduct complaint investigations, manage fraud and facilitate dispute resolution.

## **6. Significant Accounting Policies and Use of Estimates and Judgments**

The preparation of the Consolidated Financial Statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenue and expenses. Actual results could 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 years affected. Significant estimates are used in determining, but are not limited to, the following: the useful lives and residual value of depreciable assets, recoverability of property, plant and equipment, provisions, amounts due to the Government of Canada, valuation of financial instruments, employee benefits and contingencies.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Consolidated Financial Statements are used in determining, but are not limited to, the following: lease classification and accounting for an arrangement containing a lease.

The Corporation’s significant accounting policies, estimates and judgments have been reviewed and discussed with the ARMC of the Board of Directors. The Corporation’s significant accounting policies are described in Note 4 to the Consolidated Financial Statements.

## 7. Supplementary Data

### OLG Slots and Casinos gaming revenue by location:

(in millions of dollars)

For the fiscal year

Facility	2014-15	2013-14	\$ Variance	% Variance
OLG Casino Brantford	\$ 107.9	\$ 106.8	1.1	1.0
OLG Slot Operations at Great Blue Heron Charity Casino*	72.2	70.2	2.0	2.8
OLG Casino Point Edward	46.0	48.2	(2.2)	(4.6)
OLG Casino Sault Ste. Marie	25.8	25.3	0.5	2.0
OLG Casino Thousand Islands	66.9	66.7	0.2	0.3
OLG Casino Thunder Bay	45.7	45.9	(0.2)	(0.4)
OLG Slots at Ajax Downs	181.8	178.3	3.5	2.0
OLG Slots at Clinton Raceway	11.7	11.3	0.4	3.5
OLG Slots at Dresden Raceway	13.6	14.0	(0.4)	(2.9)
OLG Slots at Flamboro Downs	114.1	112.1	2.0	1.8
OLG Slots at Georgian Downs	120.7	117.9	2.8	2.4
OLG Slots at Grand River Raceway	39.0	38.9	0.1	0.3
OLG Slots at Hanover Raceway	21.0	19.3	1.7	8.8
OLG Slots at Kawartha Downs	57.3	57.5	(0.2)	(0.3)
OLG Slots at Mohawk Racetrack	138.7	135.9	2.8	2.1
OLG Slots at Rideau Carleton Raceway	123.9	128.4	(4.5)	(3.5)
OLG Slots at Sudbury Downs	43.5	44.3	(0.8)	(1.8)
OLG Slots at Western Fair District	99.4	99.2	0.2	0.2
OLG Slots at Woodbine Racetrack	625.0	602.7	22.3	3.7
OLG Slots at Woodstock Raceway	27.1	25.9	1.2	4.6
<b>Total OLG Slots and Casinos</b> (including Great Blue Heron Slot Machine Facility)	<b>\$ 1,981.3</b>	<b>\$ 1,948.8</b>	<b>32.5</b>	<b>1.7</b>

\*The Great Blue Heron Charity Casino is owned by the Mississaugas of Scugog Island First Nation and is operated by Great Blue Heron Gaming Company, which is wholly owned by CAI Ontario Inc. and others. OLG owns and maintains authority over the slot machine facility, which is located within the casino.

### OLG Resort Casinos gaming revenue by location:

(in thousands of dollars)

For the fiscal year

Facility	2014-15	2013-14	\$ Variance	% Variance
Caesars Windsor	\$ 236,326	\$ 229,456	6,870	3.0
Casino Rama	348,332	362,386	(14,054)	(3.9)
Niagara Casinos	578,786	565,530	13,256	2.3
<b>Total Resort Casinos</b>	<b>\$ 1,163,444</b>	<b>\$ 1,157,372</b>	<b>6,072</b>	<b>0.5</b>

**Key Economic Impacts:**

**OLG Resort Casinos**

*Economic Impact of Operations as of and for the year ended March 31, 2015*

Facility	Opening Date	Number of Employees	Annual Payroll		Revenue to Municipality*		Number of Patrons	Number of Slots	Gaming Tables
			<i>(in thousands of dollars)</i>						
Caesars Windsor	May 17, 1994	2,788	\$ 145,606	\$ 9,012			3,670,164	2,258	85
Casino Rama	July 31, 1996	2,481	108,867	**			3,403,766	2,553	110
Niagara Casinos	Dec 9, 1996 & June 10, 2004	3,962	193,996	21,581			8,748,525	4,515	168
<b>Total Resort Casinos</b>		<b>9,231</b>	<b>\$ 448,469</b>	<b>\$ 30,593</b>			<b>15,822,455</b>	<b>9,326</b>	<b>363</b>

\*The City of Niagara Falls and the City of Windsor receive the following as defined in the Municipal Contribution Agreement:

- i. 5.25 per cent on the first \$65 million of annual Electronic Games Revenue; plus
- ii. 3.00 per cent on the next \$135 million of annual Electronic Games Revenue; plus
- iii. 2.50 per cent on the next \$300 million of annual Electronic Games Revenue; plus
- iv. 0.50 per cent on the remainder of annual Electronic Games Revenue; plus
- v. 4.00 per cent on Table Game Revenue, where applicable.

\*\*As the host community of Casino Rama, Rama First Nation receives an amount equal to the greater of 1.9% of the Gross Revenues of the Casino Rama Complex, as defined, and \$5,500,000.

**OLG Casinos**

*Economic Impact of Operations as of and for the year ended March 31, 2015*

Facility	Opening Date	Number of Employees	Annual Payroll		Revenue to Municipality*		Number of Patrons**	Number of Slots	Gaming Tables
			<i>(in thousands of dollars)</i>						
OLG Casino Brantford	Nov 17, 1999	860	\$ 40,535	\$ 5,081			1,290,874	540	56
OLG Slot Operations at Great Blue Heron Charity Casino	May 3, 2000	***	***	****			1,269,020	539	*****
OLG Casino Point Edward	Apr 18, 2000	337	16,366	2,366			597,707	450	21
OLG Casino Sault Ste. Marie	May 19, 1999	272	13,327	1,337			602,994	440	11
OLG Casino Thousand Islands	Jun 20, 2002	409	17,910	3,427			677,508	482	22
OLG Casino Thunder Bay	Aug 28, 2000	313	14,735	2,374			753,752	450	11
<b>Total</b>		<b>2,191</b>	<b>\$ 102,873</b>	<b>\$ 14,585</b>			<b>5,191,855</b>	<b>2,901</b>	<b>121</b>

The Great Blue Heron Charity Casino is owned by the Mississaugas of Scugog Island First Nation and is operated by Great Blue Heron Gaming Company, which is wholly owned by CAI Ontario Inc., and others. OLG owns and maintains authority over the slot machine facility, which is located within the casino.

The Ontario Government receives 20 per cent of gaming revenue and 100 per cent of net profits from the OLG Slot Operations at Great Blue Heron Charity Casino.

\*Municipalities that host an OLG Casino or a Slots at Racetracks facility receive the following as defined in the Municipal Contribution Agreement:

- i. 5.25 per cent on the first \$65 million of annual Electronic Games Revenue; plus
- ii. 3.00 per cent on the next \$135 million of annual Electronic Games Revenue; plus
- iii. 2.50 per cent on the next \$300 million of annual Electronic Games Revenue; plus
- iv. 0.50 per cent on the remainder of annual Electronic Games Revenue; plus
- v. 4.00 per cent on Table Game Revenue, where applicable.

\*\*Great Blue Heron patron figures are based on entire facility.

\*\*\*253 employees of Great Blue Heron Gaming Company work in the slot operations. Annual payroll is \$13.4 million.

\*\*\*\*As the host community of the slot machines at Great Blue Heron Slot Machine Facility, the Mississaugas of Scugog Island First Nation receives 5 per cent of the Gross Revenues, as defined, of the slot machines. This amount totalled \$3.6 million in fiscal 2014–15.

\*\*\*\*\*While Great Blue Heron Charity Casino offers table games, OLG management and reporting is limited to the slot operations.

## OLG Slots

Economic Impact of Operations as of and for the year ended March 31, 2015

Facility	Opening Date	Number of Employees	Annual Payroll	Revenue to Municipality*	Number of Patrons	Number of Slots
			<i>(in thousands of dollars)</i>			
OLG Slots at Ajax Downs	Feb 28, 2006	327	\$ 14,597	\$ 6,915	1,663,224	830
OLG Slots at Clinton Raceway	Aug 24, 2000	86	4,338	614	173,096	123
OLG Slots at Dresden Raceway	Apr 18, 2001	91	4,367	716	168,064	148
OLG Slots at Flamboro Downs	Oct 11, 2000	208	10,181	4,886	1,027,219	810
OLG Slots at Georgian Downs	Nov 27, 2001	290	13,643	5,082	1,188,919	973
OLG Slots at Grand River Raceway	Dec 4, 2003	161	7,091	2,049	550,709	242
OLG Slots at Hanover Raceway	Feb 19, 2001	94	4,871	1,104	282,039	196
OLG Slots at Kawartha Downs	Nov 22, 1999	169	8,364	3,009	659,212	454
OLG Slots at Mohawk Racetrack	Aug 10, 1999	209	10,941	5,623	1,010,132	879
OLG Slots at Rideau Carleton Raceway	Feb 16, 2000	255	12,188	5,182	1,581,187	1,244
OLG Slots at Sudbury Downs	Nov 26, 1999	158	8,051	2,285	467,667	406
OLG Slots at Western Fair District	Sep 28, 1999	292	13,012	4,443	1,187,439	750
OLG Slots at Woodbine Racetrack	Mar 27, 2000	697	33,194	15,588	5,281,364	3,009
OLG Slots at Woodstock Raceway	Jun 20, 2001	91	4,769	1,421	307,883	235
<b>Total</b>		<b>3,128</b>	<b>\$ 149,607</b>	<b>\$ 58,917</b>	<b>15,548,154</b>	<b>10,299</b>

\*Municipalities that host an OLG Casino or a Slots at Racetracks facility receive the following as defined in the Municipal Contribution Agreement:

- i. 5.25 per cent on the first \$65 million of annual Electronic Games Revenue; plus
- ii. 3.00 per cent on the next \$135 million of annual Electronic Games Revenue; plus
- iii. 2.50 per cent on the next \$300 million of annual Electronic Games Revenue; plus
- iv. 0.50 per cent on the remainder of annual Electronic Games Revenue; plus
- v. 4.00 per cent on Table Game Revenue, where applicable.

## Management's Responsibility for Annual Reporting

The accompanying consolidated financial statements of the Ontario Lottery and Gaming Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. Where required, management has made informed judgments and estimates in accordance with International Financial Reporting Standards.

The Board of Directors oversees management's responsibilities for financial reporting through its Audit and Risk Management Committee, which is composed entirely of directors who are neither officers nor employees of the Corporation. The Audit and Risk Management Committee reviews the financial statements and recommends them to the Board for approval. This Committee meets periodically with management, internal audit and the external auditors.

To discharge its responsibility, management maintains an appropriate system of internal control to provide reasonable assurance that relevant and reliable consolidated financial statements are produced and that the Corporation's assets are properly safeguarded. The Corporation maintains a staff of internal auditors whose functions include reviewing internal controls and their applications, on an ongoing basis. The reports prepared by the internal auditors are reviewed by the Committee. The VP, Audit Services, responsible for Internal Audit, reports directly to the Audit and Risk Management Committee.

KPMG LLP, the independent auditor appointed by the Board of Directors upon the recommendation of the Audit and Risk Management Committee, has examined the consolidated financial statements. Their report outlines the scope of their examination and their opinion on the consolidated financial statements. The independent auditor has full and unrestricted access to the Committee.

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**Stephen Rigby**  
President and Chief Executive Officer

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**Preet Dhindsa**  
Executive Vice President, Chief Administrative Officer  
and Chief Financial Officer

June 25, 2015



# Independent Auditors' Report

To the Board of Directors of Ontario Lottery and Gaming Corporation and to the Minister of Finance of Ontario:

We have audited the accompanying consolidated financial statements of Ontario Lottery and Gaming Corporation, which comprise the consolidated statements of financial position as at March 31, 2015 and March 31, 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended March 31, 2015 and March 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

## *Management's responsibility for the consolidated financial statements*

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

## *Auditors' responsibility*

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

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

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

## *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ontario Lottery and Gaming Corporation as at March 31, 2015 and March 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years ended March 31, 2015 and March 31, 2014 in accordance with International Financial Reporting Standards.

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**Chartered Professional Accountants,  
Licensed Public Accountants**

June 25, 2015  
Toronto, Canada

# Consolidated Financial Statements

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at March 31, 2015 and 2014  
(in thousands of dollars)

	Notes	March 31, 2015	March 31, 2014
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 316,340	\$ 311,680
Trade and other receivables	6	103,637	96,242
Prepaid expenses		46,946	38,827
Inventories	7	25,474	24,642
<b>Total current assets</b>		<b>492,397</b>	<b>471,391</b>
<b>Non-current assets</b>			
Restricted cash	8	180,763	175,906
Property, plant and equipment	9	1,294,383	1,328,231
Goodwill		1,776	1,776
<b>Total non-current assets</b>		<b>1,476,922</b>	<b>1,505,913</b>
<b>Total assets</b>		<b>\$ 1,969,319</b>	<b>\$ 1,977,304</b>
<b>Liabilities and Equity</b>			
<b>Current liabilities</b>			
Trade and other payables	10	\$ 322,791	\$ 292,353
Provisions	11	5,263	7,635
Due to operators	15	34,729	38,575
Due to Rama First Nation	16	2,005	1,972
Due to the Government of Canada	18	15,754	15,735
Deferred revenues		14,091	8,885
Current portion of long-term debt	20	18,257	15,275
<b>Total current liabilities</b>		<b>412,890</b>	<b>380,430</b>
<b>Non-current liabilities</b>			
Long-term debt	20	67,366	68,796
Employee benefits	22	18,882	14,070
<b>Total non-current liabilities</b>		<b>86,248</b>	<b>82,866</b>
<b>Total liabilities</b>		<b>499,138</b>	<b>463,296</b>
<b>Equity</b>			
Retained earnings		1,282,147	1,313,243
Contributed surplus		62,345	62,345
Reserves	8	125,689	138,420
<b>Total equity</b>		<b>1,470,181</b>	<b>1,514,008</b>
<b>Total liabilities and equity</b>		<b>\$ 1,969,319</b>	<b>\$ 1,977,304</b>

Related party transactions (Note 14)  
Commitments (Notes 15,16,20 and 23)  
Contingencies (Note 24)  
Subsequent events (Notes 2 and 4.f(iii))

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board



**Philip Olsson**  
Chair



**Lori O'Neill**  
Director

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

As at March 31, 2015 and 2014  
(in thousands of dollars)

	Notes	March 31, 2015	March 31, 2014
<b>Revenues</b>			
Lottery		\$ 3,272,755	\$ 3,387,571
Charitable gaming		114,875	73,817
Resort casinos		1,255,730	1,244,946
OLG slots and casinos		2,000,848	1,964,044
		<b>6,644,208</b>	<b>6,670,378</b>
<b>Expenses</b>			
Lottery		2,435,225	2,502,832
Charitable gaming		144,334	105,042
Resort casinos		1,355,829	1,369,182
OLG slots and casinos		971,771	954,332
		<b>4,907,159</b>	<b>4,931,388</b>
<b>Income before the undernoted</b>		<b>1,737,049</b>	<b>1,738,990</b>
Other income		47,440	45,389
Finance income	13	2,835	3,109
Finance costs	13	(5,351)	(5,866)
Foreign exchange gain	21.e	5,308	6,757
Other charges	19	(35,195)	(27,429)
<b>Net income and comprehensive income</b>		<b>\$ 1,752,086</b>	<b>\$ 1,760,950</b>

Segmented information (Note 25)

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

As at March 31, 2015 and 2014  
(in thousands of dollars)

	Retained earnings	Contributed surplus	Capital renewals reserves	Operating reserves	Severance reserves	Total
<b>Balance at March 31, 2013</b>	<b>\$ 1,371,709</b>	<b>\$ 62,345</b>	<b>\$ 50,908</b>	<b>\$ 54,587</b>	<b>\$ 44,788</b>	<b>\$ 1,584,337</b>
Net income and comprehensive income	1,760,950	–	–	–	–	1,760,950
Contributions or distributions						
Transfers from reserves	11,863	–	(11,477)	(890)	504	–
Payments to the Province of Ontario	(1,831,279)	–	–	–	–	(1,831,279)
<b>Balance at March 31, 2014</b>	<b>\$ 1,313,243</b>	<b>\$ 62,345</b>	<b>\$ 39,431</b>	<b>\$ 53,697</b>	<b>\$ 45,292</b>	<b>\$ 1,514,008</b>
Net income and comprehensive income	1,752,086	–	–	–	–	1,752,086
Contributions or distributions						
Transfers from reserves	12,731	–	(13,452)	219	502	–
Payments to the Province of Ontario	(1,795,913)	–	–	–	–	(1,795,913)
<b>Balance at March 31, 2015</b>	<b>\$ 1,282,147</b>	<b>\$ 62,345</b>	<b>\$ 25,979</b>	<b>\$ 53,916</b>	<b>\$ 45,794</b>	<b>\$ 1,470,181</b>

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

As at March 31, 2015 and 2014  
(in thousands of dollars)

	Notes	March 31, 2015	March 31, 2014
<b>Cash flows from operating activities</b>			
Net income and comprehensive income		\$ 1,752,086	\$ 1,760,950
Adjustments to reconcile profit for the period to net cash from operating activities:			
Amortization	9	163,185	187,230
Loss on disposal of property, plant and equipment	9	751	2,502
Net finance costs		2,516	2,757
Impairment loss on property, plant and equipment	9	19,425	27,429
Other long-term employee benefits	22.c	4,812	(372)
Operating cash flows before change in non-cash working capital		1,942,775	1,980,496
Change in non-cash working capital items:			
(Increase) decrease in trade and other receivables		(7,395)	11,702
(Increase) in prepaid expenses		(8,119)	(10,525)
(Increase) decrease in inventories		(832)	1,007
Increase (decrease) in trade and other payables		24,005	(82,694)
(Decrease) in provisions		(2,372)	(4,484)
(Decrease) in due to operators		(3,846)	(7,091)
Increase (decrease) in due to Rama First Nation		33	(220)
Increase (decrease) in due to the Government of Canada		19	(2,219)
Increase (decrease) in deferred revenues		5,206	(598)
<b>Net cash from operating activities</b>		<b>\$ 1,949,474</b>	<b>\$ 1,885,374</b>
<b>Cash flows used in investing activities</b>			
Interest received		2,835	3,109
Capital expenditures		(134,696)	(103,288)
Proceeds on disposal of property, plant and equipment		1,458	910
(Increase) decrease in restricted cash		(4,857)	49,574
<b>Net cash used in investing activities</b>		<b>\$ (135,260)</b>	<b>\$ (49,695)</b>
<b>Cash flows used in financing activities</b>			
Interest paid		(5,351)	(5,866)
Increase in long-term debt		7,533	–
Repayments of long-term debt		(15,823)	(64,144)
Payments to the Province of Ontario		(1,795,913)	(1,831,279)
<b>Net cash used in financing activities</b>		<b>\$ (1,809,554)</b>	<b>\$ (1,901,289)</b>
Increase (decrease) in cash and cash equivalents		4,660	(65,610)
Cash and cash equivalents, beginning of year		311,680	377,290
<b>Cash and cash equivalents, end of year</b>		<b>\$ 316,340</b>	<b>\$ 311,680</b>
Supplemental disclosure relating to non-cash financing and investing activities:			
Acquisition of property, plant and equipment through finance leases	\$	8,112	8,038
Acquisition of property, plant and equipment not yet paid for	\$	11,539	3,376

The accompanying notes are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014

(tabular amounts in thousands of Canadian dollars)

## 1. Reporting entity

Ontario Lottery and Gaming Corporation (“OLG” or “the Corporation”) was established without share capital on April 1, 2000 pursuant to the *Ontario Lottery and Gaming Corporation Act, 1999*. The Corporation is classified as an Operational Enterprise Agency of the Ontario government and is responsible for conducting and managing lottery games, Charitable Gaming (“cGaming”), Internet Gaming (“iGaming”), five Casinos and the Great Blue Heron Slot Machine Facility, 14 slot operations at racetracks and four Resort Casinos (Caesars Windsor, Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort (“Fallsview”) in the Province of Ontario.

The Corporation has entered into operating agreements with GTECH Sweden Interactive AB, Caesars Entertainment Windsor Limited (“CEWL”), CHC Casinos Canada Limited, Falls Management Group, L.P. and Great Blue Heron Gaming Company for the operation of iGaming, Caesars Windsor, Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort (“Fallsview”) and the Great Blue Heron Slot Machine Facility, respectively.

The Corporation’s head office and corporate office, respectively, are located at:

- 70 Foster Drive, Suite 800, Sault Ste. Marie, Ontario, P6A 6V2
- 4120 Yonge Street, Suite 500, Toronto, Ontario, M2P 2B8

These Consolidated Financial Statements were authorized for issue by the Board of Directors of the Corporation on June 25, 2015.

## 2. Modernizing Lottery and Gaming in Ontario

On March 12, 2012, the Minister of Finance accepted a report from OLG entitled *Modernizing Lottery and Gaming in Ontario: Strategic Business Review / Advice to Government*. This report was the culmination of an evidence-based strategic business review that examined the state of the Corporation’s current operations in the context of a changing market. The report included three recommendations for how the Corporation could achieve greater sustainability and increase Net Profit to the Province (Note 25.a):

- 1) Become more customer-focused;
- 2) Expand regulated private sector delivery of lottery and gaming; and
- 3) Renew OLG’s role in oversight of lottery and gaming.

The Government of Ontario gave the Corporation approval to move forward with all three of these recommendations, and the Corporation embarked on a series of initiatives to support the modernization of its operations. These initiatives include:

- The leveraging of private sector expertise in the day-to-day operation of both the lottery network and gaming sites;
- The introduction of a new, streamlined Customer Management System and business-wide Gaming Management System;
- The launch of a new iGaming business line; and
- The revitalization of charitable gaming through the introduction of new electronic gaming at bingo halls.

In addition, as a result of the Government of Ontario’s announcement to end the Slots at Racetracks Program, and in order to continue to conduct and manage its slot machine operations beyond the March 31, 2013 expiration of the program, the Corporation entered into lease agreements or agreements in principle with all 14 racetrack facilities. As of March 31, 2015, OLG has signed lease agreements with site holders for seven of its slot machine facilities. Of the seven lease agreements in place, four are in effect until March 31, 2018 and three are in effect until March 31, 2019. The remaining seven sites continue on a month-to-month basis in accordance with their short-term binding agreements. Subsequent to March 31, 2015, OLG had signed a lease agreement with one of the seven facilities that were in a short-term binding agreement mentioned above for a term of six years with a retroactive commencement date of April 1, 2013.

OLG is also integrating horse racing into the provincial gaming strategy by working with the Ontario government and horse racing stakeholders to help create a sustainable industry. This integration includes leveraging OLG's marketing and business expertise, advertising and cross-promoting with racetracks, providing Responsible Gambling knowledge and examining options for new horse-themed products to help increase the profile of horse racing.

As of the date of these Consolidated Financial Statements, OLG is in various stages in the formal strategic procurement process to obtain lottery and land-based gaming service providers. OLG's procurement process includes: Request for Information ("RFI"), Request for Pre-Qualification ("RFPQ") and Request for Proposal ("RFP"). OLG initiated the RFP process for Lottery as well as for the East Gaming Bundle, comprising OLG Casino Thousand Islands, OLG Slots Kawartha Downs and the potential for a new build in the area of Belleville. OLG is currently evaluating RFPQs for service providers interested in providing land-based gaming services in the other gaming bundles, with the exception of the Greater Toronto Area bundle, whose RFPQ submission deadline has been extended to August 27, 2015. At the end of this RFPQ process, pre-qualified service providers will be able to participate in the RFP process. The Corporation expects the procurement process for lottery and gaming to continue throughout the 2015–16 fiscal year and beyond.

### **3. Basis of preparation**

#### **a. Statement of compliance**

These Consolidated Financial Statements include the accounts of the Corporation and the wholly owned subsidiary, Ontario Gaming Assets Corporation and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

#### **b. Basis of measurement**

These Consolidated Financial Statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments classified as financial assets through profit and loss that are measured at fair value (Note 4.j).

#### **c. Functional and presentation currency**

These Consolidated Financial Statements are presented in Canadian dollars. The Canadian dollar is the Corporation's functional currency, the currency of the primary economic environment in which the Corporation operates. All financial information is presented in Canadian dollars.

#### **d. Use of estimates and judgments**

The preparation of these Consolidated Financial Statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues 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 years affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Consolidated Financial Statements is included in the following notes:

- Lease classification (Note 4.o)
- Accounting for an arrangement containing a lease (Note 4.t)

Areas of significant estimation and uncertainty that have a significant effect on the amounts recognized in the Consolidated Financial Statements, and could result in a material adjustment within the next fiscal year, are discussed in the following notes:

- Property, plant and equipment useful lives and residual values (Note 4.l)
- Recoverability of property, plant and equipment (Note 9)
- Provisions (Note 11)



- Amounts due to the Government of Canada (Note 18)
- Valuation of financial instruments (Note 21)
- Employee benefit liabilities (Note 22)
- Contingencies (Note 24)

## 4. Significant accounting policies

The following accounting policies have been applied consistently by the Corporation and its wholly owned subsidiary to the Consolidated Financial Statements as at and for the years ended March 31, 2015 and March 31, 2014.

### a. Basis of consolidation

The Consolidated Financial Statements include the accounts of the Corporation and the wholly owned subsidiary which it controls. Control is achieved where the Corporation has the power to direct the relevant activities of an entity so as to obtain benefits from its activities. These Consolidated Financial Statements include the financial positions and results of operations of Caesars Windsor, Casino Rama, Casino Niagara and Fallsview (collectively, "Resort Casinos").

The assets, liabilities and operations of the Great Blue Heron Slot Machine Facility are also included in these Consolidated Financial Statements. These operating results are included with the results of OLG Slots and Casinos. These Consolidated Financial Statements do not include other operations carried out at the Great Blue Heron Charity Casino, which OLG does not own and over which OLG maintains no authority.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated on consolidation.

### b. Foreign currency

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the Corporation's functional currency at the exchange rates at that date. Non-monetary assets and liabilities in foreign currencies measured in terms of historical cost are translated at historical exchange rates at the date of the transaction. Transactions in foreign currencies are translated into the Corporation's functional currency using the exchange rates at the date of the transactions. The Consolidated Statements of Comprehensive Income items are translated at the rate of exchange in effect at the transaction date. Foreign currency transaction gains and losses are recognized in the Consolidated Statements of Comprehensive Income in the period in which they arise. The Corporation does not have any foreign operations.

### c. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognized for the following major business activities:

#### (i) Lottery

Lottery products are sold to the public by contracted lottery retailers, with LOTTOMAX, LOTTO 6/49 and ENCORE products also available for purchase over the Internet at PlayOLG.ca ("PlayOLG"). Revenue from tickets sold to customers for lottery games, for which results are determined based on a draw, is recognized when the related draw occurs. Revenue from INSTANT games is recognized when retailers make them available for sale to the public, as indicated by the retailer's activation of tickets. Revenue from Sports wagering games is recognized when the ticket is sold to the customer. Tickets issued as a result of the redemption of free ticket prizes are not recorded as revenue.

#### (ii) cGaming

cGaming products are sold to the public by Charitable Gaming Centre service providers and not-for-profit foundations. Revenue from paper break open tickets ("BOT") is recognized when the ticket is sold to the customer. For all other cGaming products, revenue is recognized in the same period the game is played, net of prizes paid.

**(iii) Slot and table games**

Gaming revenue includes revenue earned from slot and table game operations at OLG Slots and Casinos facilities and Resort Casinos, as well as from casino-style games available at PlayOLG. This is recognized in the same period the game is played, net of prizes paid. Gaming revenue is recorded net of the change in accrued jackpot liabilities and liabilities under customer loyalty incentive programs.

**(iv) Non-gaming revenue**

Non-gaming revenue includes revenue from accommodations, food and beverage, entertainment centres and other services excluding the retail value of accommodations, food and beverage and other goods and services provided to customers on a complimentary basis. Non-gaming revenue is recorded at the retail value and is recognized as goods are delivered and services performed.

**d. Customer loyalty incentive programs**

The Corporation has customer loyalty incentive programs whereby customers have the choice to receive free or discounted goods and services, and in many cases, the right to receive cash. These customer loyalty incentive programs at the Resort Casinos, Great Blue Heron Slot Machine Facility and OLG Slots and Casinos allow customers to earn points based on the volume of play during gaming transactions. These points are recorded as a separate deliverable in the revenue transaction.

If the customer has the right to receive free or discounted goods and services and/or the option of receiving cash, a financial liability is recognized when the points are granted and a corresponding amount equal to the cash value is recorded as a reduction to revenue. The customer's point balance will be forfeited if the customer does not earn additional points over the subsequent six- to 12-month period. If the points expire or are forfeited, the financial liability is derecognized.

For programs that provide customers the right to receive free or discounted goods and services, the revenue, as determined by the fair value of the undelivered goods and services related to the customer loyalty award, is deferred until the award is provided or expires.

**e. Lottery and Charitable Gaming prizes**

Prize expense for Lottery and certain cGaming products is recognized based on the predetermined prize structure for each game in the period revenue is recognized as described below:

- Prize expense for tickets sold to customers for lottery games, for which results are determined based on a draw, is recognized when the related draw occurs and is based on actual prize liability.
- Prize expense for INSTANT games is recognized when retailers make them available for sale to the public, as indicated by the retailers' activation of tickets, and is based on the prize structure.
- Prize expense for Sports wagering games is recognized when the last wagered event occurs and is based on actual prize liability.
- Prize expense for cGaming paper BOT is recognized when the ticket is sold to the customer and is based on actual prize liability.
- Prize expense for annuity-based top prizes is based on the cost of the annuity purchased by the Corporation from a third party.

Prize expense is adjusted on a monthly basis to reflect amounts actually won and/or unclaimed.

Unclaimed prizes on National Lotto games are returned to players through guaranteed jackpots and bonus draws. Unclaimed prizes on Regional Lotto games are returned to the Province of Ontario through distributions to the Province. Unclaimed prizes are recorded as a reduction to the prize liability included in trade and other payables as well as a reduction to the prize expense. National Lotto games are administered by the Interprovincial Lottery Corporation and sold throughout Canada, while Regional Lotto games are administered by the Corporation and sold only in Ontario.

**f. Commissions and bonuses**

Commissions and bonuses are recognized in the Consolidated Statements of Comprehensive Income in the period in which they are incurred.

**(i) Lottery**

Lottery retailers receive a commission of eight per cent on all INSTANT tickets and a commission of five per cent on all Lotto tickets sold. Where a commission has been paid to retailers for ticket sales relating to future draws, the commission amount is recorded as a prepaid expense until the related revenue is recognized. Lottery retailers receive a three per cent commission on INSTANT ticket redemptions and a two per cent commission on Lotto ticket redemptions. A bonus of up to \$1,500 is paid to any retailer who sells a major prize-winning Lotto or INSTANT ticket, excluding Sports and daily games. Commission amounts that are paid to a retailer for selling a major prize are recorded as an expense when the ticket is redeemed.

**(ii) cGaming**

Charitable Gaming Centre service providers receive a commission based on percentages of net win (gaming revenue net of prizes paid) or adjusted net win (net win after the payment of applicable marketing expenses).

Charities and not-for-profit agencies receive a commission based on percentages of net win, adjusted net win or non-gaming revenue.

**(iii) Site holders**

Effective April 1, 2013, the Corporation entered into short-term binding agreements with 14 racetrack facilities on what was effectively a periodic basis (e.g., month-to-month term) to enable the Corporation to continue to conduct and manage its slot machine operations beyond the March 31, 2013 expiration date of the Slots at Racetracks program. As of March 31, 2015, seven of these racetrack facilities remain in such short-term lease arrangements, while the other seven facilities have entered into agreements for terms of five years or longer. The agreements have been recognized as leases as disclosed in Note 4.t. The lease payments are recognized in facilities expenses in Note 25.

Subsequent to March 31, 2015, the Corporation entered into a lease agreement with one of the seven facilities that were in a short-term binding agreement mentioned above for a term of six years with a retroactive commencement date of April 1, 2013.

**(iv) Municipalities**

Municipalities that host an OLG Casino or a Slots at Racetracks facility, including the City of Niagara Falls and the City of Windsor, receive the following commissions as defined in the Municipal Contribution Agreement:

- i. 5.25 per cent on the first \$65 million of annual Electronic Games Revenue; plus
- ii. 3.00 per cent on the next \$135 million of annual Electronic Games Revenue; plus
- iii. 2.50 per cent on the next \$300 million of annual Electronic Games Revenue; plus
- iv. 0.50 per cent on the remainder of annual Electronic Games Revenue; plus
- v. 4.00 per cent on Live Table Game Revenue, where applicable.

Municipalities that host Charitable Gaming Centres receive a commission based on either a percentage of non-gaming revenue and net win or a percentage of adjusted net win, as defined in the Charitable Gaming Centre Municipality Agreements.

**(v) Mississaugas of Scugog Island First Nation**

As the host community of the Great Blue Heron Slot Machine Facility, the Mississaugas of Scugog Island First Nation receives five per cent of Gross Revenues, as defined, from the slot machines. The Mississaugas of Scugog Island First Nation will continue to receive an amount equal to five per cent of the Gross Revenues, as defined, of the slots at the Great Blue Heron Slot Machine Facility on a month-to-month basis, for up to a maximum period of 24 months from June 28, 2015, which was the expiration date of the previous extension period.

### **g. Cash and cash equivalents**

Cash and cash equivalents include cash and liquid investments that have a term to maturity at the time of purchase of less than 90 days.

### **h. Trade and other receivables**

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost, less an allowance for impairment. Trade and other receivables are due for settlement no more than 30 days from the date of recognition.

Trade and other receivables represent lottery proceeds due from lottery retailers for lottery ticket sales net of commissions and prizes paid by the retailers. Also included are cGaming proceeds due from Charitable Gaming Centre service providers for cGaming sales net of commissions and prizes paid and amounts due from customers of Resort Casinos.

Collectibility of trade receivables is reviewed on an ongoing basis. Accounts which are known to be uncollectible are written off. An allowance for impaired receivables is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, not including future credit losses, discounted at the original effective interest rate. The amount of the provision is recognized in the Consolidated Statements of Comprehensive Income.

### **i. Inventories**

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to complete the sale.

Inventories consist of finished goods including slot machine and table game parts, security and surveillance parts, lottery and charitable gaming tickets and paper, food and beverage inventory and retail inventory.

### **j. Financial instruments**

#### **(i) Non-derivative financial assets**

The Corporation has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables. The Corporation does not have available-for-sale or held-to-maturity financial assets.

The Corporation initially recognizes loans and receivables on the date that they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or when 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 the Corporation is recognized as a separate asset or liability.

#### *Financial assets at fair value through profit or loss*

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized as incurred in the Consolidated Statements of Comprehensive Income. Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognized in the Consolidated Statements of Comprehensive Income.

The Corporation classified all cash and cash equivalents and restricted cash as financial assets at fair value through profit or loss.

#### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables are comprised of trade and other receivables.

#### **(ii) Non-derivative financial liabilities**

The Corporation has the following non-derivative financial liabilities: trade and other payables, provisions, due to operators, due to Rama First Nation, due to the Government of Canada and long-term debt.

The Corporation initially recognizes financial liabilities issued on the date that they originated. Such financial liabilities are recognized 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.

All other financial liabilities (designated at fair value through profit or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. Any transaction costs that are directly attributable to these financial liabilities are expensed as incurred.

The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or have expired.

The Corporation has no non-derivative liabilities classified at fair value through profit or loss.

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statements of Financial Position when, and only when, the Corporation 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.

### **k. Restricted cash**

Restricted cash consists of cash and liquid investments that have a term to maturity at the time of purchase of less than 90 days. Cash is restricted for the purposes of funding reserves and also includes prize funds on deposit and unused proceeds received from term loans.

### **l. Property, plant and equipment**

#### **(i) Recognition and measurement**

The Corporation capitalizes any major capital purchase that has a useful life beyond the current year.

Property, plant and equipment are measured at cost less accumulated amortization and accumulated impairment losses.

Cost includes an expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and other costs directly attributable to bring the assets to a working condition for their intended use, the cost of dismantling and removing the items and restoring the site on which they are located, and capitalized borrowing costs on qualifying assets. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in the Consolidated Statements of Comprehensive Income.

**(ii) Subsequent costs**

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

**(iii) Amortization**

Amortization is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in the Consolidated Statements of Comprehensive Income on a straight-line basis over the estimated useful life of each component of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are amortized over the shorter of the lease term and their estimated useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the term of the lease.

The estimated useful lives for the current and comparative periods are as follows:

<b>Asset</b>	<b>Rate</b>
Buildings	10 to 50 years
Furniture, fixtures and equipment	2 to 10 years
Leasehold improvements	Lesser of useful life or term of lease
Lottery gaming assets	5 to 10 years
OLG Slots and Casinos and Resort Casinos gaming assets	2 to 10 years

Property, plant and equipment are amortized when ready for their intended use. Construction in progress and assets not in use are stated at cost, less any recognized impairment loss. Amortization of these assets, determined on the same basis as other property assets, commences when the assets are ready for their intended use.

Amortization methods, useful lives and residual values are reviewed at each fiscal year end and adjusted if appropriate.

Borrowing costs incurred during the construction and development of qualifying property, plant and equipment are capitalized and amortized over the estimated useful life of the associated property, plant and equipment.

**m. Goodwill**

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the exchange date) of assets given and liabilities incurred or assumed. Acquisition-related costs are recognized as incurred in the Consolidated Statements of Comprehensive Income.

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired (the "acquisition date"). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previously held equity interest in the entity over net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is not amortized

but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Corporation's cash generating units ("CGU") expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the unit may be impaired. Absent any triggering factors during the year, the Corporation conducts its goodwill impairment test in the fourth quarter of the year. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated to the unit to reduce the carrying amount of any goodwill allocated to it and then allocated pro rata to the other assets of the unit on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Goodwill is measured at cost less accumulated impairment losses and has an indefinite useful life.

## **n. Impairment**

### **(i) Financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise and indications that a debtor or issuer will enter bankruptcy.

The Corporation considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in the Consolidated Statements of Comprehensive Income and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed in the Consolidated Statements of Comprehensive Income.

### **(ii) Non-financial assets**

The carrying amounts of the Corporation's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets. Subject to a operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.



The Corporation's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset is allocated.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the Consolidated Statements of Comprehensive Income. Impairment losses recognized in respect of CGUs are first allocated to reduce the carrying amount of any goodwill allocated to the units and then to reduce, on a pro rata basis, the carrying amounts of the other assets in the unit or group of units.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

#### **o. Leased assets**

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. On a lease-by-lease basis, the Corporation estimates whether substantially all of the risks and rewards of ownership are assumed, taking into account the length of the lease, the present value of the minimum lease payments compared to the fair value of the leased asset, and other terms contained within the lease. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in the Corporation's Consolidated Statements of Financial Position. Operating lease payments are recognized as an expense on a straight-line basis over the term of the lease, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

#### **p. Deferred revenues**

Funds collected from retailers for lottery games for which results are determined based on a draw, sold in advance of the game draw, are recorded as deferred revenue and recognized as revenue once the related draw occurs.

#### **q. Trade and other payables**

These amounts represent liabilities for unpaid goods and services provided to the Corporation prior to the end of the financial year. Such liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at their amortized cost using the effective interest method. The amounts are short term in nature.

#### **r. Provisions**

Provisions are liabilities of uncertain timing and amount. A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Provisions are reviewed at each reporting date and adjusted to reflect current best estimates.

**(i) Legal claims**

The Corporation recognizes obligations for the settlement of current legal claims against the Corporation. The provision is measured based on the best estimate of the expenditure required to settle the matter. Each claim is individually reviewed for the likelihood of settlement and the expected settlement amount.

**(ii) Restructuring provisions**

A provision for restructuring is recognized when the Corporation has a legal or constructive obligation at the reporting date, which results from a detailed and formal restructuring plan approved by the Corporation, and the restructuring either has commenced or has been announced to those affected by it. Restructuring costs include only the direct incremental expenditures arising from the restructuring, which are necessitated by the restructuring and not associated with the ongoing activities of the Corporation.

**(iii) Other provisions**

The Corporation recognizes decommissioning obligations for the retirement of certain tangible property, plant and equipment, which result from the acquisition, construction, development and/or normal use of the assets. The provision is measured based on the net present value of Management's best estimate of the expenditures that will be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and amortized over the estimated useful life. The increase to the provision resulting from unwinding the discount is recognized as a finance cost.

The provision is measured each period and subsequent changes in the provision are capitalized as part of the cost of the long-lived asset and amortized prospectively over the remaining life of the item to which the costs relate. A gain or loss may be incurred upon settlement of the liability.

The Corporation recognizes a provision for insurance claims that the Corporation's insurance provider has indicated are more than likely to be settled. The provision is measured based on the amounts for each claim that settlement is probable or the amount of the deductible related to the claim.

The Corporation recognizes onerous provisions when the unavoidable costs of meeting the obligations of a contract exceed the economic benefits expected to be received by it. The provision is initially measured based on the net present value of Management's best estimate of the net obligations of the contract. Subsequent changes in the measurement amount are charged to the class of expense to which the contract relates.

**s. Employee benefits**

**(i) Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the Consolidated Statements of Comprehensive Income in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan, which are due more than 12 months after the end of the period in which the employees render the service, are discounted to their present value.

**(ii) Defined benefit plans**

A defined benefit plan is a post-employment benefit plan that requires entities to record their net obligation in respect of the plan and is not a defined contribution plan. The Corporation provides defined benefit pension plans through the Public Service Pension Fund ("PSPF") and the Ontario Public Service Employees Union Pension Fund ("OPSEU Pension Fund"). The Corporation does not have a net obligation in respect of defined benefit pension

plans as the plans are sole-sponsored defined benefit plans established by the Province of Ontario. The Province of Ontario controls all entities included in the pension plans. The Corporation has classified these plans as state plans whereby there is no contractual agreement or stated policy for charging the net defined benefit cost of the plans to the Corporation. As such, the Corporation records these post-employment benefits as defined contribution plans and has recorded no additional liability for the plan deficit.

**(iii) Other long-term employee benefits**

The Corporation's net obligation with respect to long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Corporation's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in the Consolidated Statements of Comprehensive Income in the period in which they arise.

**(iv) Termination benefits**

Termination benefits are recognized as an expense at the earlier of when the Corporation can no longer withdraw the offer of those benefits and when the Corporation recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, they are discounted to their present value.

**(v) Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be settled wholly within 12 months of the end of the reporting period if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**t. Lease payments**

Payments made under operating leases are recognized in the Consolidated Statements of Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the term of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**(i) Determining whether an arrangement contains a lease**

At the inception of an arrangement, the Corporation determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Corporation the right to control the use of the underlying asset.

At the inception or upon the reassessment of the arrangement, the Corporation separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Corporation concludes that it is impracticable to separate the payments reliably under a finance lease, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Corporation's incremental borrowing rate.

**u. Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets. The Corporation ceases to capitalize borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete. The Corporation suspends capitalization of borrowing costs during extended periods in which it has suspended active development of a qualifying asset.

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

All other borrowing costs are recognized in the Consolidated Statements of Comprehensive Income in the period in which they are incurred.

**v. Finance income and finance costs**

Finance income consists of interest income on funds invested and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in the Consolidated Statements of Comprehensive Income using the effective interest method.

Finance costs consist of interest expense on borrowings, unwinding of the discount on provisions and changes in the fair value of financial assets at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the Consolidated Statements of Comprehensive Income using the effective interest method.

**w. Segment reporting**

A reportable segment is a significant component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. The operating results of all reportable segments are reviewed regularly by the Corporation's Executive Leadership Team ("ELT"), consisting of the President and CEO and his direct reports, to make decisions about resources to be allocated to the segment and to assess the performance of the segment for which discrete financial information is available.

Segment results that are reported to the chief operating decision-maker, the Corporation's ELT, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are comprised primarily of corporate assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

**x. Income taxes**

As the Corporation is an agent of the Crown, it is not subject to federal or provincial corporate income taxes or corporate capital taxes.

**y. Initial application of standards, interpretation and amendments**

The following new or amended standards were required to be applied as of April 1, 2014 and were applied in preparing these Consolidated Financial Statements. The application of these standards did not have a material impact on the Consolidated Financial Statements.

**(i) IFRIC 21, Levies ("IFRIC 21")**

In May 2013, the International Accounting Standards Board ("IASB") issued IFRIC 21 which provides guidance on accounting for levies in accordance with the requirements of International Accounting Standards ("IAS") 27, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an

entity imposed by a government in accordance with legislation, and it notes that levies do not arise from executory contracts or other contractual arrangements. The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs.

**(ii) IAS 32, Offsetting Financial Assets and Liabilities (“IAS 32”)**

In December 2011, the IASB published an amendment to IAS 32, Financial Instruments - Presentation. The amendment provides clarification on when an entity has a legally enforceable right to offset and when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement.

**(iii) IAS 36, Recoverable Amount Disclosures for Non-Financial Assets (“IAS 36”)**

In May 2013, the IASB issued amendments to IAS 36, Impairment of Assets. The amendments reverse the unintended requirement in International Financial Reporting Standards (“IFRS”) 13, Fair Value Measurement, to disclose the recoverable amount of every CGU to which significant goodwill or indefinite-life intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed.

**z. Accounting standards issued but not yet effective**

A number of new accounting standards and amendments to standards are not yet effective as at March 31, 2015, and have not been applied in preparing these Consolidated Financial Statements.

**(i) Annual Improvements to IFRS (2010–2012) and (2011–2013)**

In December 2013, the IASB issued narrow-scope amendments to nine standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014. The Corporation does not expect the amendments to have a material impact on its Consolidated Financial Statements.

**(ii) IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)**

In May 2014, the IASB issued IFRS 15, replacing IAS 11, Construction Contracts, IAS 18, Revenue, and IFRIC 13, Customer Loyalty Programmes. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. Newly introduced estimates and judgmental thresholds may affect the amount and/or timing of revenue recognized. IFRS 15 is mandatorily effective for annual periods beginning on or after January 1, 2017. The Corporation is assessing the impact of this new standard on its Consolidated Financial Statements.

**(iii) IFRS 9, Financial Instruments (“IFRS 9”)**

In July 2014, the IASB issued the complete IFRS 9 which replaces IAS 39, Financial Instruments: Recognition and Measurement. The new standard provides guidance on the classification and measurement of financial assets and introduces a new expected credit loss model for calculating impairment. It also incorporates the final general hedge accounting requirements. IFRS 9 is mandatorily effective for annual periods beginning on or after January 1, 2018. The Corporation does not expect the new standard to have a material impact on its Consolidated Financial Statements.

**(iv) Annual Improvements to IFRS (2012–2014)**

In September 2014, the IASB issued narrow-scope amendments to four standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. The amendments will apply prospectively for annual periods beginning on or after January 1, 2016. The Corporation does not expect the amendments to have a material impact on its Consolidated Financial Statements.

**(v) IAS 1, Presentation of Financial Statements, (“IAS 1”)**

In December 2014, the IASB issued amendments to IAS 1 as part of its major initiative to improve presentation and disclosure in financial reports. The amendments relate to materiality, order of the notes, subtotals, accounting policies, and disaggregation. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016. The Corporation does not expect the amendments to have a material impact on its Consolidated Financial Statements.

## 5. Capital risk management

The capital structure of the Corporation consists of cash and cash equivalents, long-term debt and equity, comprising retained earnings, contributed surplus and reserves.

The Corporation's objectives in managing capital are to ensure sufficient resources are available for it to continue to fund future development and growth of its operations and to provide returns to the Province of Ontario.

The Board of Directors is responsible for the oversight of Management, including policies related to financial and risk management. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Operating agreements require the Resort Casinos to establish reserve funds. The Corporation is not subject to any externally imposed capital requirements. Refer to Note 21 for further details on the Corporation's financial risk management and financial instruments.

## 6. Trade and other receivables

	March 31, 2015	March 31, 2014
Trade receivables	\$ 98,320	\$ 90,309
Less: allowance for impairment	(4,210)	(3,890)
Trade receivables, net	94,110	86,419
Other	9,527	9,823
<b>Trade and other receivables</b>	<b>\$ 103,637</b>	<b>\$ 96,242</b>

The Corporation's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 21.

## 7. Inventories

	March 31, 2015	March 31, 2014
Slot machine and table game parts	\$ 3,930	\$ 3,811
Lottery and charitable gaming tickets and paper	14,537	13,666
Security and surveillance parts	541	810
Food and beverage	3,137	3,102
Retail	506	422
Other	2,823	2,831
<b>Inventories</b>	<b>\$ 25,474</b>	<b>\$ 24,642</b>

Inventory costs, included in expenses, for the year ended March 31, 2015, were \$102,410,000 (March 31, 2014 – \$97,513,000). During fiscal 2014-15, the Corporation recorded inventory write-down reversals in expenses of \$128,000 (March 31, 2014 – \$416,000 of inventory write-down).

## 8. Restricted cash

Restricted cash, consisting of the following items and respective amounts, is held in separate bank accounts.

	March 31, 2015	March 31, 2014
Reserves (a)		
Capital renewals	\$ 25,979	\$ 39,431
Operating	53,916	53,697
Severance	45,794	45,292
	125,689	138,420
Less: unrestricted capital renewals and operating	–	(4,173)
Funded reserves balance	125,689	134,247
Prize funds on deposit (b)	46,547	39,615
Other (c)	8,527	2,044
<b>Restricted cash</b>	<b>\$ 180,763</b>	<b>\$ 175,906</b>

- a. The Corporation has established reserves at the Resort Casinos in accordance with their respective operating agreements, or other terms as otherwise agreed to, for the following purposes:
- (i) Capital renewals reserves – for property, plant and equipment additions other than normal repairs, and to satisfy specified obligations in the event that cash flows will be insufficient to meet such obligations;
  - (ii) Operating reserves – to satisfy specified operating obligations in the event that cash flows will be insufficient to meet such obligations; and
  - (iii) Severance reserves – to satisfy certain obligations of the Corporation arising from the termination or layoff of employees of an operator in connection with the termination of an operator.
- b. Prize funds on deposit of \$46,547,000 (March 31, 2014 – \$39,615,000) are funds set aside representing the estimate of gross prizes outstanding of \$78,874,000 (March 31, 2014 – \$70,979,000) less an estimate for prizes not expected to be claimed by customers of \$32,327,000 (March 31, 2014 – \$31,364,000).
- c. Other restricted cash represents loan proceeds for the Gaming Management System and Internet Gaming site projects, funds held on behalf of Internet Gaming patrons and interest earned and received.



## 9. Property, plant and equipment

### Cost

	Land	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Lottery gaming assets	OLG Slots and Casinos and Resort Casinos gaming assets	Assets under finance lease	Construction in progress and assets not yet in use	Total
<b>Balance at April 1, 2013</b>	\$ 137,824	\$ 1,899,120	\$ 598,627	\$ 624,967	\$ 84,587	\$ 596,943	\$ 53,659	\$ 45,981	\$ 4,041,708
Additions and assets put into use	—	3,106	34,232	13,493	93	54,027	6,837	(5,829)	105,959
Disposals and retirements	—	(1,016)	(46,861)	(5,116)	—	(51,254)	—	(760)	(105,007)
<b>Balance at March 31, 2014</b>	<b>\$ 137,824</b>	<b>\$ 1,901,210</b>	<b>\$ 585,998</b>	<b>\$ 633,344</b>	<b>\$ 84,680</b>	<b>\$ 599,716</b>	<b>\$ 60,496</b>	<b>\$ 39,392</b>	<b>\$ 4,042,660</b>
<b>Balance at April 1, 2014</b>	\$ 137,824	\$ 1,901,210	\$ 585,998	\$ 633,344	\$ 84,680	\$ 599,716	\$ 60,496	\$ 39,392	\$ 4,042,660
Additions and assets put into use	—	5,460	40,499	15,443	1,019	63,269	8,112	17,169	150,971
Disposals and retirements	—	(1,353)	(23,453)	(2,091)	—	(49,894)	—	—	(76,791)
<b>Balance at March 31, 2015</b>	<b>\$ 137,824</b>	<b>\$ 1,905,317</b>	<b>\$ 603,044</b>	<b>\$ 646,696</b>	<b>\$ 85,699</b>	<b>\$ 613,091</b>	<b>\$ 68,608</b>	<b>\$ 56,561</b>	<b>\$ 4,116,840</b>

### Accumulated amortization and accumulated impairment losses

	Land	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Lottery gaming assets	OLG Slots and Casinos and Resort Casinos gaming assets	Assets under finance lease	Construction in progress and assets not yet in use	Total
<b>Balance at April 1, 2013</b>	\$ 41,091	\$ 1,024,857	\$ 492,780	\$ 516,632	\$ 72,977	\$ 435,513	\$ 17,515	\$ —	\$ 2,601,365
Amortization for the period	—	51,035	34,480	14,856	6,043	76,011	4,805	—	187,230
Impairment loss	—	—	17,457	—	—	—	9,972	—	27,429
Disposal and retirements	—	(796)	(45,453)	(4,397)	—	(50,949)	—	—	(101,595)
<b>Balance at March 31, 2014</b>	<b>\$ 41,091</b>	<b>\$ 1,075,096</b>	<b>\$ 499,264</b>	<b>\$ 527,091</b>	<b>\$ 79,020</b>	<b>\$ 460,575</b>	<b>\$ 32,292</b>	<b>\$ —</b>	<b>\$ 2,714,429</b>
<b>Balance at April 1, 2014</b>	\$ 41,091	\$ 1,075,096	\$ 499,264	\$ 527,091	\$ 79,020	\$ 460,575	\$ 32,292	\$ —	\$ 2,714,429
Amortization for the period	—	42,067	32,906	17,572	4,595	63,209	2,836	—	163,185
Impairment loss	—	—	11,313	—	—	—	8,112	—	19,425
Disposal and retirements	—	(651)	(22,566)	(1,778)	—	(49,587)	—	—	(74,582)
<b>Balance at March 31, 2015</b>	<b>\$ 41,091</b>	<b>\$ 1,116,512</b>	<b>\$ 520,917</b>	<b>\$ 542,885</b>	<b>\$ 83,615</b>	<b>\$ 474,197</b>	<b>\$ 43,240</b>	<b>\$ —</b>	<b>\$ 2,822,457</b>

## Carrying amounts

	Land	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Lottery gaming assets	OLG Slots and Casinos and Resort Casinos gaming assets	Assets under finance lease	Construction in progress and assets not yet in use	Total
Balance at March 31, 2014	\$ 96,733	\$ 826,114	\$ 86,734	\$ 106,253	\$ 5,660	\$ 139,141	\$ 28,204	\$ 39,392	\$ 1,328,231
Balance at March 31, 2015	\$ 96,733	\$ 788,805	\$ 82,127	\$ 103,811	\$ 2,084	\$ 138,894	\$ 25,368	\$ 56,561	\$ 1,294,383

The Corporation leases certain items of property, plant and equipment under finance lease agreements. The leases are structured in a manner that significant risks and rewards incidental to ownership of the leased assets have been assumed by OLG. At March 31, 2015, the net carrying amount of leased property, plant and equipment was \$25,368,000 (March 31, 2014 – \$28,204,000).

## Capital expenditures by reportable segment

The Corporation made the following capital outlays to the respective reportable segments:

For the fiscal year	Lottery	Charitable Gaming	Resort Casinos	OLG Slots and Casinos	Total
2014–15	\$ 11,475	\$ 19,425	\$ 60,899	\$ 59,172	\$ 150,971
2013–14	\$ 497	\$ 18,830	\$ 54,250	\$ 32,382	\$ 105,959

## Impairment

As a result of lower than expected economic performance of the Charitable Gaming CGUs, made up of the individual Charitable Gaming Centres, Management performed an impairment analysis.

The recoverable amounts of the CGUs were based on fair value less costs of disposal, which is greater than the value in use. Management performed the fair value analysis utilizing discounted cash flows based on its best estimates and using the market information currently available. The value technique used Level 3 inputs which are unobservable inputs supported by little or no market activity for the assets (Note 21.f). Cash flow projections were based on annual approved budgets and Management's projections thereafter. The cash flows are Management's best estimate of future events taking into account past experience and future economic assumptions. A discount rate of seven per cent that was applied to the cash flow projections was derived from Management's consideration of current market assessments and the risks specific to the CGUs.

Management determined that the recoverable amount of the CGUs of \$nil was less than their carrying value and, as a result, an impairment loss of \$19,425,000 (fiscal 2013–14 – \$27,429,000) was recognized in other charges in the Consolidated Statements of Comprehensive Income. The impairment loss relates to the cGaming reportable segment in Note 25.

Management did not identify any further impairment indicators at any of the Corporation's other CGUs and, therefore, has not recognized any additional impairment loss at March 31, 2015.

## 10. Trade and other payables

	March 31, 2015	March 31, 2014
Trade payables and accruals	\$ 90,115	\$ 78,812
Prizes payable	46,548	39,615
Short-term employee benefits	46,590	44,548
Gaming liability	62,397	65,832
Commissions payable	16,435	15,609
Site settlement accrual	16,970	783
Other payables and accruals	43,736	47,154
<b>Trade and other payables</b>	<b>\$ 322,791</b>	<b>\$ 292,353</b>

Prizes payable comprise unclaimed and estimated Lottery and cGaming prizes.

Short-term employee benefits include salaries payable, incentive accruals, long-term service awards, vacation pay accrual and other short-term employee-related liabilities.

Gaming liability consists of progressive jackpots, unredeemed chips, customer loyalty incentive points and other gaming-related payables. Progressive jackpots are measured based on the anticipated payout of the progressive jackpots. Unredeemed chips are funds deposited by customers before gaming play occurs for chips in the customer's possession. Customer loyalty incentive points that are earned based on the volume of play and redeemable for complimentary goods and services and/or cash are recognized as a liability and measured at the amount payable on demand.

Commissions payable include amounts payable to lottery retailers, Charitable Gaming Centre service providers and municipalities that host an OLG Casino or Slots at Racetracks facility or Charitable Gaming Centre.

Site settlement accrual consists of settlement costs payable to a site holder.

Other payables and accruals include accrued win contribution, casino customer deposits, security deposits and other amounts.

The Corporation's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 21.

## 11. Provisions

All provisions are included in current liabilities. The carrying amount is as follows:

	Legal claims	Restructuring provision	Other provisions	Total
<b>Balance at April 1, 2014</b>	\$ 2,386	\$ 1,299	\$ 3,950	\$ 7,635
Increases and additional provisions	1,408	–	1,260	2,668
Amounts paid	(622)	(99)	(908)	(1,629)
Amounts reversed	(1,636)	(1,200)	(575)	(3,411)
<b>Balance at March 31, 2015</b>	<b>\$ 1,536</b>	<b>\$ –</b>	<b>\$ 3,727</b>	<b>\$ 5,263</b>

### Legal claims

The Corporation is, from time to time, involved in various legal proceedings of a character normally incidental to its business. Estimates, where appropriate, have been included in the Consolidated Statements of Financial Position. During fiscal 2014–15, an additional \$1,408,000 of potential legal claims was accrued, with an offsetting reduction of \$622,000 due to payments to claimants. The \$1,636,000 of legal claims reversed in fiscal 2014–15 was due to the likelihood of the obligations becoming remote. The ultimate outcome or actual cost of settlement may vary significantly from the original estimates. Material obligations that have not been recognized as provisions, as the outcome is not probable or the amount cannot be reliably estimated, are disclosed as contingent liabilities, unless the likelihood of outcome is remote (Note 24).

### Restructuring provision

During fiscal 2014–15, \$99,000 of the accrued restructuring liabilities was paid and \$1,200,000 of restructuring provisions was reversed as a site settlement accrual is now recorded in trade and other payables (Note 10).

The recognition of these restructuring charges requires Management to make certain judgments and estimates regarding the nature, timing and amounts associated with these restructuring plans. Adjustments to the recognized amounts may be required to reflect actual experience or changes in future estimates.

### Other provisions

Other provisions include provisions for decommissioning obligations and insurance claims.

The Corporation recognized a discounted liability associated with decommissioning obligations arising from terms in certain lease agreements regarding the exiting of leased properties at the end of the respective lease terms. This provision is associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development and/or normal use of the assets. During fiscal 2014–15, an additional \$4,000 of decommissioning obligations was recorded.

The Corporation recognizes a provision relating to insurance claims that the Corporation's insurance provider has indicated are more than likely to be settled. The provision is measured based on the estimated amounts to be settled or actual deductible amounts for each claim that settlement is likely. During fiscal 2014–15, an additional \$1,256,000 of insurance claims was accrued, \$908,000 of claims was settled and \$575,000 of accrued claims was reversed as it was no longer likely they would be incurred.

## 12. Personnel costs

Total personnel costs for the year ended March 31, 2015 amounted to \$873,281,000 (March 31, 2014 – \$873,289,000).

## 13. Finance income and finance costs

	March 31, 2015	March 31, 2014
Interest income on financial assets at fair value through profit and loss and loans and receivables	\$ 2,835	\$ 3,109
<b>Finance income</b>	<b>\$ 2,835</b>	<b>\$ 3,109</b>
Interest on bank overdraft and loans	\$ (673)	\$ (1,334)
Interest on obligations under finance leases	(4,533)	(4,410)
Other interest expense	(145)	(122)
Total interest expense for financial liabilities not classified at fair value through profit and loss	\$ (5,351)	\$ (5,866)
<b>Finance costs</b>	<b>\$ (5,351)</b>	<b>\$ (5,866)</b>
<b>Net finance costs recognized in net income and comprehensive income</b>	<b>\$ (2,516)</b>	<b>\$ (2,757)</b>

## 14. Related parties

The Corporation is related to various other government agencies, ministries and Crown corporations. Related party transactions include loan agreements with the Ontario Financing Authority (“OFA”) (Note 20), post-employment benefit plans with the Ontario Pension Board (Note 22.b), and other long-term employee benefits with the Workplace Safety and Insurance Board (Note 22.c).

All transactions with these related parties are in the normal course of operations and are measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

### Transactions with key management personnel

#### *Key management personnel compensation*

The Corporation’s key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Corporation and consist of the Corporation’s Board of Directors and the ELT.

Key management personnel compensation was comprised of the following:

	March 31, 2015	March 31, 2014
Short-term employee benefits	\$ 4,830	\$ 3,552
Post-employment benefits	250	233
	\$ 5,080	\$ 3,785

Short-term employee benefits include salaries and benefits and other short-term compensation.

Post-employment benefits include the employer’s portion of pension and other post-retirement benefits.

## 15. Due to operators

Under the terms of the development and operating agreements for each of the Resort Casinos and the Great Blue Heron Slot Machine Facility, each operator is entitled to receive an operator’s fee calculated as a percentage of Gross Revenue and as a percentage of Net Operating Margin, both as defined in each of the related development and operating agreements. The Resort Casinos, including Great Blue Heron Slot Machine Facility, and each of their respective operators are as follows:

- Casino Niagara and Fallsview are operated by Falls Management Group, L.P., the general partner of which is Falls Management Company (owned by Niagara Casino Group, L.P., Highland Gaming, Inc., Shiplake Gaming Corporation, Olympic V, Inc. and 3048505 Nova Scotia Company) and the sole limited partner of which is Falls Entertainment Corporation.

The development and operating agreement expires June 10, 2019, subject to earlier termination and an automatic extension for a further period of ten years unless OLG elects not to extend the term.

- Casino Rama is operated by CHC Casinos Canada Limited, an indirectly wholly owned subsidiary of Penn National Gaming, Inc.

On August 1, 2011, OLG, CRC Holdings Inc., CHC Casinos Canada Limited and Casino Rama Services Inc. entered into an Interim Operating Agreement (“Interim Agreement”) related to the continued operation of the complex. On June 26, 2014, the terms of the Interim Agreement were amended to further extend the term on a month-to-month basis starting October 1, 2014, for up to a maximum period of 24 months. In addition, OLG has two successive options to further extend the Interim Agreement for periods of 12 months each. From and after October 1, 2014, OLG is entitled to terminate the month-to-month arrangement at any time by providing two months’ advance written notice to the operator.

(tabular amounts in thousands of Canadian dollars)

- Caesars Windsor is operated by Caesars Entertainment Windsor Limited (“CEWL”), a wholly owned subsidiary of Caesars Entertainment Corporation.

The development and operating agreement expires on July 31, 2020, subject to earlier termination.

- Great Blue Heron Slot Machine Facility is operated by Great Blue Heron Gaming Company, owned by CAI Ontario Inc. and others.

The development and operating agreement, which was set to expire on June 28, 2015, was extended on a month-to-month basis for up to a maximum period of 24 months.

As at March 31, 2015, the amount due to operators was \$34,729,000 (March 31, 2014 – \$38,575,000).

At each of the Resort Casinos and the Great Blue Heron Slot Machine Facility, the operator is the employer of the employees working at that facility. All payroll and payroll-related costs are charged to the Corporation on a monthly basis and expensed in the Corporation’s Consolidated Statements of Comprehensive Income and included in amounts disclosed in Note 12.

Also included in the amounts due to operators are:

#### **a) Niagara Falls**

Under the terms of the Niagara Falls Permanent Casino Operating Agreement, in a Competitive Environment, as defined, the operator is entitled to receive additional operator services fees and an Attractor fee. The Attractor fee, as defined, is calculated to allow for the amortization of the total capital contribution of the operator to external attractors of \$30,000,000, including a convention centre and a people mover. As at March 31, 2015, the Attractor fee accrual included in due to operators was \$3,117,000 (March 31, 2014 – \$3,823,000). The Corporation’s remaining commitment as at March 31, 2015 is \$11,061,000.

#### **b) Caesars Windsor**

Under the terms of a trade-mark licence agreement for the rebranding of Caesars Windsor, the Corporation pays a licence fee calculated as a percentage of the revenue and operating results, as defined, of Caesars Windsor. The trade-mark licence agreement with a wholly owned indirect subsidiary of CEWL will terminate on July 31, 2020 or on such earlier date as CEWL or its subsidiary ceases to be the operator of Caesars Windsor. As at March 31, 2015, the amount included in due to operator in respect of the trade-mark licence agreement was \$285,000 (March 31, 2014 – \$266,000).

## **16. Due to Rama First Nation**

- a. Casino Rama is located on reserve lands of Rama First Nation under the authority of a 25-year sublease (expiring in March 2021) between the Corporation and Casino Rama Inc., a wholly owned subsidiary of Rama First Nation. The lands are leased by Casino Rama Inc. from Her Majesty the Queen in Right of Canada under a 25-year lease, which expires in March 2021. Annual rent payable under this lease, adjusted for inflation, is paid out of the gross revenue of the Casino Rama Complex to Rama First Nation in accordance with instructions from Aboriginal Affairs and Northern Development Canada as representative for Her Majesty the Queen. During the year, \$4,943,000 was expensed (March 31, 2014 – \$4,866,000) and included in facilities expense in Note 25.
- b. The terms of various permits provide for parking and pedestrian access to the Casino Rama Complex at an annual rent payable of approximately \$1,700,000, adjusted for inflation. The lands are permitted by Her Majesty the Queen to Rama and are currently in use at Casino Rama for parking and pedestrian access. During the year, \$2,219,000 was expensed under permits (March 31, 2014 – \$2,185,000) and included in facilities expense in Note 25.

- c. On January 26, 2010, the Corporation and Rama First Nation announced that they had entered into an agreement dated July 17, 2009, relating to Casino Rama for the 20-year period commencing August 1, 2011 and relating to possible future development (the “Post-2011 Contract”). The contract was amended in June 2014. The key terms of the amended Post-2011 Contract, relevant to the Corporation, are as follows:
- (i) The term of the Post-2011 Contract continues until July 31, 2031, subject to earlier termination or the exercise by the Corporation in its sole discretion of two successive options to extend the Post-2011 Contract for periods of ten years and five years, respectively. The Post-2011 Contract shall terminate on March 14, 2021 if Rama First Nation and Casino Rama Inc. do not replace the existing surrenders and permits with a new surrender or establish a land management regime on or before December 31, 2015.
  - (ii) Rama First Nation shall be entitled to receive an annual fee for each successive twelve-month period commencing August 1, 2011 in an amount equal to the greater of 1.9 per cent of the Gross Revenues of the Casino Rama Complex, as defined, and \$5,500,000.
  - (iii) The Corporation agreed to contribute \$2,000,000 towards the capital cost of renovating the existing administration building.
  - (iv) The Corporation agreed to construct a four-acre on-site employee parking lot.

During the year, \$7,182,000 was expensed in connection with the Post-2011 Contract (March 31, 2014 – \$7,394,000) and included in facilities expense in Note 25. As at March 31, 2015, \$619,000 (March 31, 2014 – \$580,000) was due to Rama First Nation

- d. In connection with the Post-2011 Contract, amended in June 2014, Rama First Nation and the Corporation entered into agreements relating to the provision of fire protection and policing services for the Casino Rama Complex for a term commencing on August 1, 2011 and terminating on July 31, 2031, unless otherwise extended.

Payments made to Rama First Nation in connection with fire protection and policing services, snow removal services and water and sewer services amounted to \$7,151,000 in fiscal 2014–15 (fiscal 2013–14 – \$7,137,000). These payments were included in general and administration expenses in Note 25. At March 31, 2015, \$906,000 (March 31, 2014 – \$1,285,000) was due to Rama First Nation.

- e. Pursuant to the terms of the amended Post-2011 Contract, a company related to Rama First Nation and the Corporation agreed to enter into a lease for the rental of office space for a term commencing on August 1, 2011 and terminating on July 31, 2019. An amount of \$757,000 was expensed in fiscal 2014–15 (fiscal 2013–14 – \$745,000) and is included in general and administration expenses in Note 25.

Pursuant to the terms of the Post-2011 Contract, a company related to Rama First Nation and the Corporation entered into a lease for warehouse space for a term commencing on August 1, 2011 and terminating on March 13, 2021 (subject to extension of the Post-2011 Contract). An amount of \$383,000 was expensed in fiscal 2014–15 (fiscal 2013–14 – \$375,000) and is included in general and administration expenses in Note 25.

- f. During fiscal 2014–15, \$377,000 (fiscal 2013–14 – \$308,000) was paid to Rama First Nation to pay contractors involved in the acquisition of leasehold improvements. At March 31, 2015, \$480,000 (March 31, 2014 – \$107,000) was due to Rama First Nation.
- g. The Corporation and Rama First Nation executed a letter of intent as of September 7, 2011, as amended and restated by an amended and restated letter of intent executed as of May 31, 2012 (collectively, the “Letter of Intent”) which set out, among other things, the principal terms and conditions with respect to the planning and proposed construction, development and location of the employee parking lot. During fiscal 2014–15, \$84,000 (fiscal 2013–14 – \$nil) was paid out of the capital reserve account to Rama First Nation under the Letter of Intent.

In connection with the Post-2011 Contract, the Corporation and Casino Rama Inc. entered into an Employee Parking Lot Licence dated May 31, 2012, which terminates concurrently with the termination of the Post-2011 Contract (unless the permit underlying the licensed lands is terminated earlier in accordance with its terms). During fiscal 2014–15, \$511,000 (fiscal 2013–14 – \$505,000) was paid to Casino Rama Inc. under the Employee Parking Lot Licence.



## 17. Win contribution

The Corporation remits a contribution to the Province of Ontario equal to 20 per cent of gaming revenue from the Resort Casinos and the Great Blue Heron Slot Machine Facility in accordance with the *Ontario Lottery and Gaming Corporation Act, 1999*, which amounted to \$246,934,000 for fiscal 2014–15 (fiscal 2013–14 – \$245,461,000) and was recorded as an operating expense.

## 18. Due to the Government of Canada

As at March 31, 2015, the amount due to the Government of Canada was \$15,754,000 (March 31, 2014 – \$15,735,000). The recognition of this obligation requires Management to make certain estimates regarding the nature, timing and amounts associated with the Due to the Government of Canada.

### a. Payments on behalf of the Province of Ontario

The provincial lottery corporations make payments to the Government of Canada under an agreement dated August 1979 between the provincial governments and the Government of Canada. The agreement stipulates that the Government of Canada will not participate in the sale of lottery tickets.

### b. Goods and Services Tax / Harmonized Sales Tax (“GST/HST”)

As a prescribed registrant, the Corporation makes GST/HST remittances to the Government of Canada pursuant to the Games of Chance (GST/HST) Regulations of the *Excise Tax Act*. The Corporation’s net tax for a reporting period is calculated using net tax attributable to both gaming and non-gaming activities.

The net tax attributable to non-gaming activities is calculated similarly as it is for any other GST/HST registrant in Canada. The non-recoverable GST/HST payable to suppliers and the additional imputed tax payable to the Government of Canada on gaming-related expenses were recognized as payments to the Government of Canada.

The net tax attributable to gaming activities results in a 26 per cent tax burden on most taxable gaming expenditures incurred by the Corporation.

## 19. Other charges

	March 31, 2015	March 31, 2014
Site settlement (a)	\$ 15,770	\$ –
Impairment charge (b)	19,425	27,429
<b>Other charges</b>	<b>\$ 35,195</b>	<b>\$ 27,429</b>

### a. Site settlement

The Corporation incurred site settlement costs of \$15,770,000 for the year ended March 31, 2015 (March 31, 2014 – \$nil) in relation to reaching a settlement with a site holder. All costs incurred will be paid to the site holder in fiscal 2015–16. This amount is included in trade and other payables in Note 10.

### b. Impairment charge

The Corporation recognized an impairment loss for the year ended March 31, 2015 of \$19,425,000 (March 31, 2014 – \$27,429,000), as disclosed in Note 9.

## 20. Long-term debt

	March 31, 2015	March 31, 2014
Woodbine loan (a)	\$ 22,173	\$ 32,279
Gaming Management System loan (b)	5,720	–
Internet Gaming loan (c)	1,850	–
Obligations under finance leases (d)	55,880	51,792
	<b>85,623</b>	<b>84,071</b>
Less: current portion	(18,257)	(15,275)
<b>Long-term Debt</b>	<b>\$ 67,366</b>	<b>\$ 68,796</b>

On June 1, 2012, the Province of Ontario amended the *Ontario Lottery and Gaming Corporation Act, 1999* to require the Corporation to finance certain capital expenditures with debt obtained from the OFA. The approval of the Minister of Finance is required for the Corporation to borrow funds for major capital expenditures.

### a. Woodbine loan

In October 2010, the Corporation entered into a loan agreement with the OFA for purposes of financing the renovation and expansion (in two phases, Phase A and Phase B), of the slots facility at Woodbine Racetrack.

Phase A construction was completed and the related construction loan was converted to a term loan in May 2011. The initial loan balance for Phase A of \$31,269,000, plus interest was repayable over five years in equal monthly payments of \$560,904 until fiscal 2014–15 when the equal monthly payment changed to \$384,913 due to a lump sum payment made in fiscal 2013–14. The loan bears interest at a rate of 2.931 per cent per annum and is unsecured.

Phase B construction was completed and the related construction loan was converted to a term loan in January 2013. The initial loan balance for Phase B of \$33,802,000, plus interest was repayable over five years in equal monthly payments of \$597,222 until fiscal 2014–15 when the equal monthly payment changed to \$514,690 due to a lump sum payment made in fiscal 2013–14. The loan bears interest at a rate of 2.32 per cent per annum and is unsecured.

### b. Gaming Management System

In July 2014, the Corporation entered into a loan agreement with the OFA to borrow an amount up to \$35,200,000 to finance the implementation of its Gaming Management System replacement program. This program will replace infrastructure that tracks and records gaming activity and accounting, as well as data and security events at all of the slot machines. During fiscal 2014–15, the Corporation drew \$5,700,000 on the facility which is repayable, inclusive of interest accrued, at the earlier of the project completion date or September 2016. The loan bears interest at the rate of the OFA's cost of funds as of each facility advance date plus 0.325 percent per annum, compounded quarterly. The loan is unsecured.

### c. Internet Gaming

In August 2014, the Corporation entered into a loan agreement with the OFA to borrow an amount up to \$1,833,000 to finance the capital costs of the PlayOLG web site. The full loan balance of \$1,833,000 was advanced on September 9, 2014. The loan plus accrued interest is repayable on September 9, 2016, the second anniversary of the first facility advance date. The facility bears interest at the rate of OFA's two-year cost of funds as of each facility advance date plus 0.425 percent per annum, compounded quarterly. The loan is unsecured.

#### d. Obligations under finance leases

Effective March 2010, the Corporation entered into an amending agreement for an additional 15-year term with Maple Leaf Entertainment Inc., Canadian Niagara Hotels Inc., 1032514 Ontario Limited and Greenberg International Inc. to lease the facility that houses Casino Niagara and to license the adjacent parking facilities. The amending agreement extends the term of the original lease and licence agreements by 15 years from March 10, 2010 to March 9, 2025. This agreement is considered to be a finance lease for accounting purposes and has an implicit interest rate of 8.2 per cent. The total remaining obligation under the finance lease is \$38,625,000 at March 31, 2015 (March 31, 2014 – \$40,736,000).

The Corporation entered into a master services agreement to lease Tap-Tix, formerly known as BOT dispensers. This agreement is considered to be a finance lease for accounting purposes and has an implicit interest rate of 9.0 per cent. The total remaining obligation under the finance lease is \$17,255,000 at March 31, 2015 (March 31, 2014 – \$11,056,000).

#### e. Payments over the next five years and thereafter

Payments related to long-term debt and obligations under finance leases that are expected to be made over the next five years and thereafter are approximately as follows:

March 31	Long-term debt		Obligation under finance lease		Total
	Repayments	Principal	Interest		
2016	\$ 10,371	\$ 7,886	\$ 4,532	\$ 22,789	
2017	14,303	7,549	3,849	25,701	
2018	5,069	7,087	3,187	15,343	
2019	–	5,192	2,649	7,841	
2020	–	4,457	2,225	6,682	
Thereafter	–	23,709	5,440	29,149	
	<b>\$ 29,743</b>	<b>\$ 55,880</b>	<b>\$ 21,882</b>	<b>\$ 107,505</b>	

## 21. Financial risk management and financial instruments

### a. Overview

The Corporation has exposure to credit risk, liquidity risk and market risk from its use of financial instruments. This note presents information about the Corporation's exposure to each of the above risks and the Corporation's objectives, policies and processes for measuring and managing these risks.

### b. Risk management framework

The Board of Directors, through its Audit and Risk Management Committee ("ARMC"), provides oversight with respect to the identification and management of risk along with adherence to internal risk management policies and procedures.

The Corporation's financial risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities. The Corporation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

During fiscal 2014–15, the ARMC oversaw how Management monitored compliance with the Corporation's risk management policies and procedures and reviewed the adequacy of the risk management framework in relation to the risks faced by the Corporation. The ARMC was assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the ARMC.

The Corporation has a formal Enterprise Risk Management Program ("Program"), which is aligned with ISO 31000 and in conformity with the Ontario Public Service risk management guidance and requirements. This Program supports the Corporation in the identification, assessment and management of risks.

### **c. Credit risk**

Credit risk is the risk that the Corporation will suffer a financial loss due to a third party failing to meet its financial or contractual obligations to the Corporation. The Corporation has financial instruments that potentially expose it to a concentration of credit risk. The instruments consist of trade and other receivables and liquid investments.

#### ***Trade and other receivables***

Trade and other receivables include credit provided to retailers of lottery products, Charitable Gaming Centre service providers and customers of Resort Casinos. The Corporation performs credit evaluations of retailers, Charitable Gaming Centre service providers and customers and maintains reserves for potential credit losses on accounts receivable balances. The carrying amount of these financial assets represents the maximum credit exposure.

The amounts disclosed in the Consolidated Statements of Financial Position are net of allowances for impairment, which consist of a specific provision that relates to individually significant exposures, estimated by Management based on prior experience and its assessment of the current economic environment. The Corporation establishes an allowance for impairment that represents its estimate of potential credit losses. Historically, the Corporation has not experienced any significant losses. As at March 31, 2015, the Corporation had an allowance for impairment of \$4,210,000 (March 31, 2014 – \$3,890,000), which represented approximately 3.9 per cent (March 31, 2014 – 3.9 per cent) of the Corporation's consolidated accounts receivable. The Corporation believes that its allowance for impairment is sufficient to reflect the related credit risk.

#### ***Liquid investments***

The Corporation limits its exposure to credit risk by investing in only short-term debt securities with high credit ratings and minimal market risk. The Corporation has a formal policy for short-term investments that provides direction for Management to minimize risk. All investments held by the Corporation are low-risk and have a term to maturity of less than 90 days. As a result, this risk is considered minimal.

### **d. Liquidity risk**

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without jeopardizing the Corporation's Net Profit to the Province commitment.

The Corporation currently settles its financial obligations using cash provided by operations. The Corporation has established reserves at the Resort Casinos in accordance with their respective operating agreements or other terms as otherwise agreed. In addition, all investments held by the Corporation are low-risk and have a term to maturity of less than 90 days, further reducing liquidity risk.

The Corporation manages its liquidity risk by performing regular reviews of net income and cash flows from operations and continuously monitoring the forecast against future liquidity needs. Given the Corporation's line of business, which historically has generated positive cash flows, liquidity risk is considered minimal.

(tabular amounts in thousands of Canadian dollars)

The undiscounted contractual maturities of the financial liabilities are as follows:

<b>March 31, 2015</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>&lt; 1 year</b>	<b>1–2 years</b>	<b>2–5 years</b>	<b>&gt; 5 years</b>
Trade and other payables	\$ 322,791	\$ 322,791	\$ 322,791	\$ –	\$ –	\$ –
Due to operators	34,729	34,729	34,729	–	–	–
Due to Rama First Nation	2,005	2,005	2,005	–	–	–
Due to the Government of Canada	15,754	15,754	15,754	–	–	–
Long-term debt, including obligations under finance leases	85,623	108,362	23,213	26,080	29,918	29,151
	<b>\$ 460,902</b>	<b>\$ 483,641</b>	<b>\$ 398,492</b>	<b>\$ 26,080</b>	<b>\$ 29,918</b>	<b>\$ 29,151</b>

<b>March 31, 2014</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>&lt; 1 year</b>	<b>1–2 years</b>	<b>2–5 years</b>	<b>&gt; 5 years</b>
Trade and other payables	\$ 292,353	\$ 292,353	\$ 292,353	\$ –	\$ –	\$ –
Due to operators	38,575	38,575	38,575	–	–	–
Due to Rama First Nation	1,972	1,972	1,972	–	–	–
Due to the Government of Canada	15,735	15,735	15,735	–	–	–
Long-term debt, including obligations under finance leases	84,071	110,016	20,223	19,474	35,457	34,862
	<b>\$ 432,706</b>	<b>\$ 458,651</b>	<b>\$ 368,858</b>	<b>\$ 19,474</b>	<b>\$ 35,457</b>	<b>\$ 34,862</b>

#### **e. Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, foreign currency risk and other market price risk.

##### **(i) Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Corporation has financial assets and liabilities that potentially expose it to interest rate risk.

The Corporation is subject to interest rate risk on its cash and cash equivalents, including short-term investments with maturity dates of less than 90 days, and long-term debt.

Long-term debt currently consists of three loan agreements with the OFA and obligations under finance leases. The obligations under finance leases (Note 20.d) and one of the term loan agreements have fixed interest rates for their entire terms, while the other two loan agreements are subject to variable interest rates. Each of the long-term debt instruments is currently subject to limited interest rate risk.

At March 31, 2015, the Corporation had cash and cash equivalents of \$316,340,000 (March 31, 2014 – \$311,680,000). The impact of fluctuations in interest rates is not significant and, accordingly, a sensitivity analysis of the impact of fluctuations in interest rates on net income has not been provided.

##### **(ii) Foreign currency risk**

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Corporation is exposed to foreign currency risk by settling certain obligations in foreign currencies, primarily in U.S. dollars (“USD”), and by holding bank accounts and investments in USD.

The majority of the Corporation’s suppliers and customers are based in Canada and, therefore, transact in Canadian dollars (“CAD”). Some suppliers and customers are based outside of Canada. The suppliers located outside of Canada typically transact in USD. The Corporation’s border properties attract U.S. players who are required to

exchange their USD for CAD prior to play. The Corporation exchanges USD using the daily market exchange rate and utilizes both a 'buy' and 'sell' rate. The Corporation holds USD cash and bank accounts for the purposes of transacting in USD with customers, as well as paying its U.S.-based suppliers. The balances held in USD are closely monitored to ensure future USD requirements are met. The Corporation's foreign exchange gain for the year ended March 31, 2015 was \$5,308,000 (March 31, 2014 – \$6,757,000).

The Corporation does not enter into financial instruments for trading or speculative purposes.

The Corporation's exposure to currency risk, based on the carrying amounts, is as follows:

USD	March 31, 2015	March 31, 2014
Cash and cash equivalents	\$ 21,189	\$ 16,621
Trade and other payables	(2,390)	(3,524)
Obligations under finance lease	(17,256)	(11,056)
Net exposure	\$ 1,543	\$ 2,041

All USD balances are shown in CAD equivalents.

Sensitivity analysis

A 10 per cent increase in the value of the USD at March 31, 2015 would have increased net income by \$154,000. A 10 per cent decrease in the value of the USD at March 31, 2015 would have had the equal but opposite effect. This analysis assumes that all other variables, including interest rates, remain constant.

**(iii) Other market price risk**

The Corporation offers sports-based lottery products in the marketplace. The Corporation manages risks associated with these products by setting odds for each event within a short time frame before the actual event, by establishing sales liability thresholds by sport, by providing credit management controls, by posting conditions and prize structure statements on OLG.ca and by limiting the aggregate amount of prizes that may be won on any given day for all sports-based products. The Corporation also has the authority to suppress sales of any game at any time when liability risk is a concern.

**f. Fair values measurement**

Financial instruments are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs).

The Corporation has determined the fair value of its financial instruments as follows:

The Corporation's financial instruments carried at fair value in the Consolidated Statements of Financial Position, which consist of cash and cash equivalents and restricted cash, are valued using quoted market prices, which are included in Level 1.

The carrying amounts in the Consolidated Statements of Financial Position of trade and other payables, due to operators, due to Rama First Nation and due to the Government of Canada approximate fair values because of the short-term nature of these financial instruments or because they are payable on demand.

Trade and other receivables are carried at amortized cost using the effective interest method.

The fair value of the Corporation's long-term debt, excluding obligations under finance leases, is not determinable given its related party nature and there is no observable market for the Corporation's long-term debt. The obligations under finance leases are carried at amortized cost using the effective interest method.

There were no financial statement categories in Level 3 (valuation techniques using non-observable data) for the years ended March 31, 2015 or March 31, 2014.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

## 22. Employee benefits

### a. Defined contribution plans

The operators of the Resort Casinos and the Great Blue Heron Slot Machine Facility have created defined contribution pension plans for their employees. The pension expense for the year ended March 31, 2015 amounted to \$19,310,000 (March 31, 2014 – \$19,336,000).

### b. Other post-employment benefit plans

The Corporation provides pension benefits for all its permanent employees and to non-permanent employees who elect to participate through the PSPF and the OPSEU Pension Fund, which are sole-sponsored defined benefit pension plans established by the Province of Ontario. The Province of Ontario controls all entities included in the PSPF and OPSEU Pension Plans. Contribution rates are set by the *Public Service Pension Act*, whereby the Corporation matches all regular contributions made by the member. The Corporation classified these plans as state plans whereby there is no contractual agreement or stated policy for charging the net defined benefit cost of the plans to the Corporation. As such, the Corporation accounts for these post-employment benefits as defined contribution plans and has recorded no additional liability for the plan deficit. The annual contributions made by the Corporation are recorded as an expense in the Consolidated Statements of Comprehensive Income. The Corporation's contribution and pension expense during the year was \$19,437,000 (March 31, 2014 – \$19,607,000).

### c. Other long-term employee benefits

As a Schedule 2 employer under the *Workplace Safety and Insurance Act*, (the "Act"), the Corporation is individually responsible for the full cost of accident claims filed by its workers. The Workplace Safety and Insurance Board ("WSIB") maintains full authority over the claims entitlement process and administers and processes claims payments on the Corporation's behalf. WSIB liabilities for self-insured employers are reported in the Consolidated Statements of Financial Position.

The WSIB accrual at March 31, 2015 was \$20,304,000 (March 31, 2014 – \$15,129,000), of which \$18,882,000 (March 31, 2014 – \$14,070,000) is included in non-current employee benefits liability and \$1,422,000 (March 31, 2014 – \$1,059,000) is included in trade and other payables in Note 10. The accrued benefit costs are based on actuarial assumptions.

The operators of the Resort Casinos and the Great Blue Heron Slot Machine Facility are Schedule 1 employers under the Act and are not subject to the financial reporting requirements of self-insured employers.

### d. Short-term employee benefits

Short-term employee benefits include salaries payable, incentive accruals, vacation accruals, severance accruals and other employee-related payables which have been recorded in trade and other payables (Note 10).



## 23. Commitments

### a. Obligations under operating leases

The Corporation has entered into several operating leases for facilities, property and equipment. The future minimum lease payments are, approximately, as follows:

	<b>March 31, 2015</b>
No later than 1 year	\$ 44,481
Later than 1 year and not later than 5 years	106,239
Later than 5 years	12,937
	<b>\$ 163,657</b>

### b. HST on lease commitments

The Corporation and the Resort Casinos have entered into several agreements to lease property, plant and equipment from the Corporation's subsidiary and other external parties. The non-recoverable HST and the additional imputed tax on the gaming-related assets payable to the Government of Canada, as described in Note 18.b, on the future lease payments are, approximately, as follows:

2016	\$ 36,852
2017	30,572
2018	24,543
2019	19,630
2020	15,508
	127,105
Thereafter	241,200
	<b>\$ 368,305</b>

### c. Suppliers

The Corporation has computer hardware maintenance agreements with future payments as at March 31, 2015 of approximately:

2016	\$ 21,226
2017	20,778
2018	20,537
2019	13,871
2020	12,487
Thereafter	2,115
	<b>\$ 91,014</b>

### d. Caesars Windsor

In fiscal 2014-15, the Corporation transferred cash of \$60,000,000 (fiscal 2013-14 – \$45,000,000) to Caesars Windsor for its working capital requirements. The Corporation has committed to transfer up to \$81,000,000 to Caesars Windsor in fiscal 2015-16 for working capital.

### **e. Ontario First Nations (2008) Limited Partnership**

On February 19, 2008, Her Majesty the Queen in Right of Ontario, the Corporation, the Ontario First Nations Limited Partnership and Ontario First Nations (2008) Limited Partnership entered into the Gaming Revenue Sharing and Financial Agreement (“GRSFA”). Pursuant to the terms of the GRSFA and an Order-in-Council, the Corporation was directed to pay the Ontario First Nations (2008) Limited Partnership, commencing in fiscal 2011–12 and in each fiscal year during the remainder thereafter of the 20-year term, an amount equal to 1.7 per cent of the Gross Revenues of the Corporation, as defined (“Gaming Revenue Sharing Payment”). Pursuant to the GRSFA, during fiscal 2014–15, \$121,563,000 was expensed (fiscal 2013–14 – \$119,877,000) as Gaming Revenue Sharing Payment in Note 25.

## **24. Contingencies**

- a. On May 20, 2009, the Corporation was served with a statement of claim related to a class action for general damages and punitive damages for an amount yet to be determined. The statement of claim alleges that the Corporation was in breach of contract by not discontinuing the sales of certain INSTANT lottery game tickets once the top prizes were won. The action is at a very early stage, as no action has taken place since May 2009 and no class has been certified by the courts. The Corporation intends to vigorously defend itself. The outcome is undeterminable at this time and no amounts have been accrued in the Consolidated Statements of Financial Position as at March 31, 2015.
- b. During fiscal 2012–13, OLG and the Province of Ontario were served with a Notice of Arbitration (the “Arbitration Matter”) from a third party asserting a \$205,000,000 claim to certain cash generated by Casino Rama and the residual value of certain Casino Rama property and equipment as at March 31, 2011. On January 22, 2014, the arbitrator delivered his reasons dismissing the third party’s claims in the Arbitration Matter entirely. The third party sought leave to appeal the Arbitration Matter in the courts. On October 27, 2014, leave to appeal was denied. The parties are in the process of finalizing the payment of costs associated with the arbitration.
- c. The Corporation is, from time to time, involved in various legal proceedings of a character normally incidental to its business. The Corporation believes that the outcome of these outstanding claims will not have a material impact in its Consolidated Statements of Financial Position. Estimates, where appropriate, have been included in the Consolidated Statements of Financial Position (Note 11); however, additional settlements, if any, concerning these contingencies will be accounted for as a charge in the Consolidated Statements of Comprehensive Income in the period in which the settlement occurs.

## **25. Segmented information**

The Corporation has four reportable segments, as described below, which are the Corporation’s strategic business units. The strategic business units are distinct revenue-generating business units that offer different products and services and are managed separately because they require different technologies and marketing strategies. The chief operating decision-maker, which is the Corporation’s ELT, reviews internal management reports on a monthly basis for each of the strategic business units and makes resource allocation decisions. The following summary describes the operations in each reportable segment:

- Lottery derives its revenue from the sale of lottery products, which include Lotto, INSTANT and Sports products. Lotto products are also available for purchase over the Internet at PlayOLG.
- Charitable Gaming derives its revenue from the sale of Charitable Gaming products.
- Resort Casinos are full-service casinos that offer customers a variety of amenities in addition to slot and table games, including accommodations, entertainment and food and beverage services.
- OLG Slots and Casinos are smaller gaming facilities. OLG Casinos offer slot and table games, as well as food and beverage services. OLG Slots are located at racetrack sites and include only slot games. Food and beverage services are also offered at the racetrack sites; however, at most of the locations, OLG is not the entity providing these services. Casino-style games are also offered over the Internet at PlayOLG.

March 31, 2015	Lottery	Charitable Gaming	Resort Casinos	OLG Slots and Casinos	Total
<b>Revenues</b>					
Gaming	\$ 3,272,755	\$ 114,875	\$ 1,163,444	\$ 1,985,558	\$ 6,536,632
Non-gaming	–	–	92,286	15,290	107,576
	<b>3,272,755</b>	<b>114,875</b>	<b>1,255,730</b>	<b>2,000,848</b>	<b>6,644,208</b>
<b>Expenses</b>					
Non-gaming	–	–	227,501	36,897	264,398
Gaming and lottery operations	109,864	35,542	242,575	277,228	665,209
Prizes	1,807,211	27,520	–	–	1,834,731
Commissions	235,842	49,178	30,593	77,151	392,764
Marketing and promotion	56,442	5,356	143,359	117,157	322,314
Operators' fees	–	–	63,178	5,227	68,405
Amortization	8,623	–	100,481	54,081	163,185
General and administration	54,113	7,795	84,489	90,995	237,392
Facilities	7,101	615	122,322	175,011	305,049
Gaming Revenue Sharing Payment	57,589	4,392	24,769	34,813	121,563
Win contribution (Note 17)	–	–	232,502	14,432	246,934
Payments to the Government of Canada	98,440	13,936	84,060	88,779	285,215
	<b>2,435,225</b>	<b>144,334</b>	<b>1,355,829</b>	<b>971,771</b>	<b>4,907,159</b>
<b>Segment income (loss) before the undernoted</b>	<b>837,530</b>	<b>(29,459)</b>	<b>(100,099)</b>	<b>1,029,077</b>	<b>1,737,049</b>
Other income	2,354	–	17,003	28,083	47,440
Finance income	90	9	2,629	107	2,835
Finance costs	(146)	(1,132)	(3,797)	(276)	(5,351)
Foreign exchange gain (loss)	(2)	(1,886)	7,189	7	5,308
Other charges	–	(19,425)	–	(15,770)	(35,195)
<b>Segment income (loss)</b>	<b>\$ 839,826</b>	<b>\$ (51,893)</b>	<b>\$ (77,075)</b>	<b>\$ 1,041,228</b>	<b>\$ 1,752,086</b>
Add: Win contribution (Note 17)	–	–	232,502	14,432	246,934
<b>Net Profit to the Province (a)</b>	<b>\$ 839,826</b>	<b>\$ (51,893)</b>	<b>\$ 155,427</b>	<b>\$ 1,055,660</b>	<b>\$ 1,999,020</b>

(a) Net Profit to the Province ("NPP") is the amount the Corporation returns to the Province of Ontario after stakeholder and other payments. NPP is calculated by adding back win contribution to segment profit (loss). The chief operating decision-maker, the ELT, considers NPP to be a key measure in evaluating decisions relating to the Corporation.

(tabular amounts in thousands of Canadian dollars)

<b>March 31, 2014</b>	<b>Lottery</b>	<b>Charitable Gaming</b>	<b>Resort Casinos</b>	<b>OLG Slots and Casinos</b>	<b>Total</b>
<b>Revenues</b>					
Gaming	\$ 3,387,571	\$ 73,817	\$ 1,157,372	\$ 1,948,843	\$ 6,567,603
Non-gaming	–	–	87,574	15,201	102,775
	<b>3,387,571</b>	<b>73,817</b>	<b>1,244,946</b>	<b>1,964,044</b>	<b>6,670,378</b>
<b>Expenses</b>					
Non-gaming	–	–	219,383	36,326	255,709
Gaming and lottery operations	109,778	21,819	244,449	272,621	648,667
Prizes	1,865,202	20,079	–	–	1,885,281
Commissions	240,700	31,534	30,069	81,922	384,225
Marketing and promotion	57,904	3,869	144,737	101,861	308,371
Operators' fees	–	–	60,779	4,991	65,770
Amortization	10,781	5,904	111,093	59,452	187,230
General and administration	54,506	9,267	92,607	88,129	244,509
Facilities	8,344	482	124,653	170,918	304,397
Gaming Revenue Sharing Payment	55,887	2,676	25,861	35,453	119,877
Win contribution (Note 17)	–	–	231,414	14,047	245,461
Payments to the Government of Canada	99,730	9,412	84,137	88,612	281,891
	<b>2,502,832</b>	<b>105,042</b>	<b>1,369,182</b>	<b>954,332</b>	<b>4,931,388</b>
<b>Segment income (loss) before the undernoted</b>	<b>884,739</b>	<b>(31,225)</b>	<b>(124,236)</b>	<b>1,009,712</b>	<b>1,738,990</b>
Other income	1,539	–	15,536	28,314	45,389
Finance income	264	28	2,800	17	3,109
Finance costs	(122)	(838)	(4,359)	(547)	(5,866)
Foreign exchange gain (loss)	–	(1,279)	7,226	810	6,757
Other charges	–	(27,429)	–	–	(27,429)
<b>Segment income (loss)</b>	<b>\$ 886,420</b>	<b>\$ (60,743)</b>	<b>\$ (103,033)</b>	<b>\$ 1,038,306</b>	<b>\$ 1,760,950</b>
Add: Win contribution (Note 17)	–	–	231,414	14,047	245,461
<b>Net Profit to the Province (a)</b>	<b>\$ 886,420</b>	<b>\$ (60,743)</b>	<b>\$ 128,381</b>	<b>\$ 1,052,353</b>	<b>\$ 2,006,411</b>

(a) Net Profit to the Province ("NPP") is the amount the Corporation returns to the Province of Ontario after stakeholder and other payments. NPP is calculated by adding back win contribution to segment profit (loss). The chief operating decision-maker, the ELT, considers NPP to be a key measure in evaluating decisions relating to the Corporation.