



# Annual Report 2013-14

## Ontario Lottery and Gaming Corporation

# Table of Contents


| | |
|---|---|
| **02** | Message from the Chair |
| **04** | Message from the Acting President and Chief Executive Officer |
| **06** | Board of Directors |
| **07** | Executive Leadership Team |
| **08** | Overview |
| **09** | Governance |
| **11** | Lottery and Gaming in Ontario: Modernization and Day-to-Day Operations |
| **17** | Sources of Revenue |
| **18** | Financial Highlights |
| **19** | Economic Impact |
| **20** | Management's Discussion and Analysis |
| **49** | Management's Responsibility for Annual Reporting |
| **50** | Independent Auditors' Report |
| **51** | Consolidated Financial Statements |
| **55** | Notes to the Consolidated Financial Statements |

# Message from the Chair

In fiscal 2013–14, the Ontario government assembled a new Board of Directors for Ontario Lottery and Gaming Corporation ("OLG"). These directors represent a broad range of Ontario business and social leaders. I was pleased to be chosen to chair such a talented board.

OLG in the midst of a necessary transformation. Ontario's lottery business, which first launched with WINTARIO in 1975, has been an ongoing success. But in recent years, demographics and buying patterns have evolved and new investment in the products is required. The charitable gaming sector had also been struggling to raise funds for community causes. There had been a substantial increase in offshore Internet gambling. At the same time, gaming in Ontario grew over the past 16 years through a series of initiatives that saw casinos and slot facilities established around the province. While each site location helped address local opportunities, there was no overall strategy taking into account the future needs of the Province or new competition outside of Ontario.

OLG's modernization was developed with this in mind. It has been carefully designed to respond to trends in market demand in order to increase revenues to the Province. While conforming with the Federal and Provincial laws that govern gaming, modernization also continues OLG's dedication to responsible gambling.

OLG will retain its responsibility to "conduct and manage" gaming in Ontario. We will engage service providers who will be chosen based on their experience in lottery or gaming, willingness to invest and ability to increase revenues to the Province.

Over time, this will create additional employment for Ontarians and capital investment in communities. In most affected communities, we expect that employment and municipal revenues will increase. There will be a transition period as we move from direct operation to focus just on "conduct and manage" and responsible gambling. Local communities should be assured that no new site, expansion or relocation of an existing site will happen within their boundaries without their approval.

We are also helping to create a sustainable horse racing industry in Ontario. By the end of 2013–14, OLG had worked with the horse racing industry to extend leases for OLG gaming sites co-located at racetracks and had provided market research and marketing support. We are also exploring new horse racing-themed gaming products to benefit the industry.

OLG remains committed to the original intent of modernization – to provide increased revenue to the Province in order to support priorities such as health care and education. Upon completion, modernization will deliver approximately $1 billion annually in net new and sustainable profit to the Province.

This year, OLG employees delivered on their commitment to improving the lives of families, friends, neighbours and communities through their fundraising for charity. OLG is the top employee fundraiser in the Ontario Public Service for United Way, the second for Federated Health Charities.

OLG's 2013 United Way Campaign raised $406,400, an increase of $75,000 over the previous year. OLG employees also raised $347,540 for Federated Health Charities, the workplace charitable campaign for the Ontario Public Service.

Our board is committed to our mandate from Ontario's Minister of Finance, which includes ensuring a strong Net Profit to the Province and continuing OLG's leadership role in Responsible Gambling programming. Communication with government is critically important as we lead the organization through this industry- and province-wide transition.

Looking ahead to 2014–15, the board has confidence in senior management's business and modernization plans. We look forward to guiding management as OLG continues to build a strong lottery and gaming industry that will benefit the people of Ontario far into the future. Our focus is on a successful gaming and lottery industry, but our job is always responsible gambling.

Philip Olsson
Chair, Board of Directors

# Message from the Acting President and Chief Executive Officer

**The 2013–14 fiscal year at Ontario Lottery and Gaming Corporation ("OLG" or "the Corporation") was marked by great achievement and significant change.**

During this period, the Corporation was led by three distinct boards and two chief executive officers. In May 2013, an interim board, made up of leading government officials was appointed by the Minister of Finance. These Directors served through the summer, giving way in the late fall to a new board that was still being populated as the fiscal year drew to a close. Rod Phillips, the President and Chief Executive Officer for close to three years, resigned in January 2014 leading to my appointment on an interim basis.

Leadership change was one of many notable challenges OLG faced in 2013–14. Others include increased U.S. competition, a challenging North American economy that had most other comparable jurisdictions showing year-over-year declines in gaming revenue and a particularly tough Canadian winter. Adverse weather conditions negatively affected lottery ticket sales as well as the number of customer visits to our gaming sites, and caused the cancellation of hundreds of bingo sessions at Charitable Gaming Centres province-wide. The hard work and dedication of our employees helped the Corporation mitigate these obstacles and still pursue our business targets.

The past fiscal year saw real progress made in OLG's modernization. This too has required a continued commitment from OLG's workforce. It presents ongoing demands to balance the work being done to create a better business model for the future against the effective management of our day-to-day operations.

Given this context, the achievements of the past fiscal year become all the more impressive. Below is a sampling:

**Net Profit to Province of $2 billion –** This stands as the largest annual dividend returned to the people and the Province of Ontario by OLG since 2003–04. OLG proudly remains the greatest source of non-tax revenue for the Province.

**Historic Heights in Public Opinion –** According to the agency's tracking data, the public confidence in OLG to operate responsibly rose to 82 per cent at the end of March 2014. That's the highest recorded result since we started measuring public confidence in OLG in May 2009. The public's overall favourability rating increased to 75 per cent at the end of February 2014, just a few tenths of a percentage point off the all-time high.

**The Much-Publicized Discovery of a $50 Million Winner –** There are a number of factors contributing to the rise in public opinion, but likely none more important than the investigation that led OLG to the winner of an unclaimed $50 million LOTTO MAX jackpot that remained unclaimed for close to a year. This story of the prize finding its rightful owner – as opposed to the other way around – was told by media around the world. Conservative estimates point to nearly 1,000 media stories published or broadcast across Canada and around the world. The news reverberated most here at home. In fact, on December 8, 2013, The Toronto Star wrote that OLG "performed an impressive piece of detective work and, more than that, they went to extraordinary lengths to do the right thing". This was clearly the high point of a strong year for the Lottery Division that saw INSTANT ticket sales exceed $1 billion for the first time, a new record for overall sales for the second consecutive year and a re-launched and re-invigorated LOTTO 6/49.

**RG Check Accreditation at all OLG Slots and Casinos –** By the end of the fiscal year, OLG had achieved RG Check accreditation at 19 OLG Slots and Casinos locations. Administered by the Responsible Gambling Council, the RG Check stands globally as the most rigorous accreditation program of its kind. It measures performance against an index of eight fields informed by international best practices and standards. Achieving RG Check status at these 19 locations provides a reflection of the importance of Responsible Gambling to OLG. It is also important to note that Caesars Windsor was the first casino resort property in the world to achieve this accreditation. It is also important to note that in her report on OLG's modernization, the Auditor General of Ontario recognized our significant efforts to promote Responsible Gambling and that modernization includes commitments to continue to enhance those initiatives.

**Important Steps to Integrate Horse Racing –** OLG worked to identify and understand options to strengthen Ontario's horse racing industry, and lend its expertise in Responsible Gambling and marketing and promotions to the Ontario Racing Commission. OLG commissioned two studies: a consumer segmentation study of the horse racing market in Ontario and an inter-jurisdictional study focused on how other jurisdictions integrate gaming and horse racing. The information in these reports provides a strong foundation to build upon as OLG commits the necessary resources to contribute to the implementation of the five-year plan for a more sustainable horse racing industry released by the Ministry of Agriculture, Food and Rural Affairs.

This commitment was reflected in addendum issued to the Request for Pre-Qualification ("RFPQ") for the last of seven gaming bundles. The addendum provided new criteria to address support for horse racing by contributing to its sustainability and assisting in its integration to the provincial gaming strategy. The addendum also extended the RFPQ closing date into the new fiscal year. Support for horse racing is also a key principle in the development of all seven Requests for Proposal, the final stage of the process to procure regulated private sector service providers for its gaming operations.

**Progress in Strategic Procurement –** At the heart of OLG's modernization is a fair, competitive and comprehensive process to engage the private sector in the delivery of both lottery and gaming. In 2013–14, OLG successfully closed four RFPQs – one for Lottery and three others for gaming bundles covering a combined total of 13 properties.

OLG also issued and completed a Request for Information to gauge interest in the private development of an entertainment centre at or near its operations in Niagara Falls.

**New Charitable Gaming Installations –** As of March 31, 2014, OLG has 20 Charitable Gaming Centres in 17 communities properly outfitted with a new suite of electronic games to further the revitalization of Ontario's charitable gaming sector. Installations were completed at nine of those halls in the past fiscal year.

These achievements of the past fiscal year have positioned OLG well as it moves forward on exciting initiatives in 2014–15, including the third and final phase of strategic procurement and the launch of a safe, secure and responsible Internet gaming platform. In the case of the former, OLG will issue Requests for Proposals to select prequalified private sector service providers to assume certain daily operations of lottery and gaming under the responsibility of a new OLG. As for the latter, the agency will look to move PlayOLG.ca from an informational web site that first launched in 2013 to an interactive web site that offers a range of casino-style games for play and lottery tickets for sale.

Our overall success in 2013–14 has been driven by the dedication and commitment of our employees to provide exceptional service to our customers and strong returns to our shareholder, deserving charities and our valued host municipalities, among others. On behalf of the Executive Leadership Team, I want to thank them for their efforts in the midst of change.

Tom Marinelli
Acting President and Chief Executive Officer

# Board of Directors

| | |
|---|---|
| Philip Olsson (*Chair*) | November 20, 2013 to November 19, 2016 |
| Gail Beggs | November 20, 2013 to November 19, 2015 |
| Sunir Chandaria | March 5, 2014 to March 4, 2016 |
| Mary Beth Currie | November 20, 2013 to November 19, 2015 |
| Urban Joseph | December 11, 2013 to December 10, 2015 |
| Frances Lankin | November 20, 2013 to November 19, 2015 |
| Joanne Lefebvre | November 20, 2013 to November 19, 2015 |
| Lori O'Neill | February 12, 2014 to February 11, 2016 |
| Orlando M. Rosa | December 11, 2013 to December 10, 2015 |
| Wilson Teixeira | March 5, 2014 to March 4, 2016 |

## Interim Board of Directors
## May 2013 – November 2013

| | |
|---|---|
| Peter Wallace (*Interim Chair*) | May 16, 2013 to November 20, 2013 |
| Gail Beggs | May 17, 2013 to November 20, 2013 |
| Lynn Betzner | May 17, 2013 to November 20, 2013 |
| Greg Orencsak | May 17, 2013 to November 20, 2013 |
| Steve Orsini | May 17, 2013 to November 20, 2013 |

## Board of Directors
## April 2013 – May 2013

| | |
|---|---|
| Paul Godfrey (*Chair*) | February 18, 2010 to May 16, 2013 |
| Ron Carinci | September 15, 2010 to May 17, 2013 |
| Shirley Hoy | February 18, 2010 to May 17, 2013 |
| Jason Melbourne | September 29, 2010 to May 17, 2013 |
| Anthony Melman | February 18, 2010 to May 17, 2013 (Leave of absence effective January 22, 2013) |
| Thomas O'Brien | February 18, 2010 to May 17, 2013 |
| William Swirsky | February 18, 2010 to May 17, 2013 |
| Jan Westcott | September 15, 2010 to May 17, 2013 |
| Monique Wilberg | September 29, 2010 to May 17, 2013 |

# Executive Leadership Team

## For fiscal 2013–14, senior executive members responsible for day-to-day operations were:

Thomas Marinelli
Acting President and Chief Executive Officer (effective January 22, 2014)

Executive Vice President, Chief Transformation Officer and Chief Information Officer (through January 22, 2014)

Rod Phillips
President and Chief Executive Officer (through January 22, 2014)

Javier De la Cuba
Executive Lead, Modernization (effective January 27, 2014)

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

Walter Fioravanti
Senior Vice President, Legal, Regulatory and Compliance, General Counsel and Corporate Secretary

Larry Flynn
Senior Vice President, Gaming

David Kurdyla
Acting Chief Information Officer (effective January 27, 2014)

Greg McKenzie
Senior Vice President, Lottery

George Sweny
Senior Vice President, Charitable and iGaming

Beth Webster
Senior Vice President, Marketing, Communications and Stakeholder Relations

# 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 sites, the sale of lottery products at approximately 9,800 retail locations and the delivery of electronic gaming products at 20 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 2013–14, 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 (the "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 2013–14 these payments totalled $13.3 million.

# 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.

# Governance

The legislative authority of the Corporation is set out in the *Ontario Lottery and Gaming Corporation Act, 1999*. Classified as an Operational Enterprise, OLG has a single shareholder, the Government of Ontario, and for fiscal 2013–14 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 establishes policies for the Corporation and counsels the President and CEO and senior executives, who oversee the Corporation's business operations. 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 a well-defined strategic planning process, setting strategic direction;
- 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.

# Board Committees

As of March 31, 2014, 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.

## 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.

## 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 particular focus on preventing underage and problem gambling.

The total remuneration paid to board members in fiscal 2013–14 was $154,000.

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

OLG continued to make progress on modernizing lottery and gaming in the Province of Ontario. By the end of the fiscal year, OLG was poised to begin the final phase of its modernization, a significant transformation of an Ontario Crown agency. At the same time, the Corporation successfully met the challenge of not only maintaining but growing its traditional business, delivering an increased annual dividend to the Province. This dividend represents the largest source of non-tax revenue for the Ontario government.

The modernization of OLG will widen the appeal of gaming in Ontario, creating a broader player base while reducing the public investment required for gaming and lottery infrastructure. This will enhance OLG's contribution to the Province as it continues to provide a safe and reliable source of regulated entertainment for the people of Ontario.

## A Modern OLG

OLG's modernization began in March 2012, as the result of a year-long comprehensive strategic review of its business. The review found that technological advances, changing shopping patterns, aging demographics and declining visits from the U.S. were combining to threaten OLG's lottery and gaming business which in turn threatened the amount of OLG's annual contribution to the Province.

OLG's current business model is not sustainable over the long term. The modernization of lottery and gaming is contingent on improving the customer experience in an efficient operating manner. To achieve this, OLG is focusing on three priorities:

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

OLG will become a leaner, more focused organization, responsible for the conduct and management of lottery and gaming and providing a gold standard for its Responsible Gambling ("RG") program. And in doing so, OLG will increase its contribution to the Province by continuing to help create jobs and trigger private investment across Ontario.

The modernization of OLG includes an Internet gaming strategy that will make a full range of games available online. Working with the service provider, GTECH (formerly Boss Media AB, a part of SPIELO G2), OLG's secure customer web site – PlayOLG.ca – is expected to be available province-wide in the 2014–15 fiscal year. Initially offering table games, slots and select lottery games, the site will later add online bingo and peer-to-peer poker to its offerings – all the while with a comprehensive, fully integrated RG program as its foundation. PlayOLG.ca will also include increased player protections, secure transaction capacity and data privacy as well as mandatory registration for players. The launch of iGaming is projected to generate Net Profit to the Province in excess of $58 million within its first full year of operation (2015–16) and grow to over $100 million by 2017–18.

OLG's modernization is also about 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 bingo and gaming industry by developing a unique customer entertainment experience and introducing new products and technologies, upgrades to current bingo facilities and improvements to customer service that invigorate the traditional charitable gaming experience. The revitalization initiative is intended to preserve and enhance funding for charities across Ontario while creating economic benefits, including employment opportunities at local Charitable Gaming Centres. Already, there is evidence of more money being generated for thousands of local charities across the province. Once the revitalization of charitable gaming is complete, OLG expects to deliver a total of more than $200 million to charities within an eight-year period.

Since it was first announced in March 2012, modernization has continued to evolve. In October 2013, Ontario Premier and Minister of Agriculture and Food, Kathleen Wynne, released a five-year plan for a sustainable horse racing industry in Ontario. Part of that plan is to integrate the horse racing industry into the provincial gaming strategy by signing leases with racetracks throughout the province, developing new horse racing-themed products and including horse racing criteria in the land-based gaming procurement process. OLG is working with the government and the horse racing industry, within current federal and provincial legislative frameworks, to integrate horse racing into Ontario's provincial gaming strategy to help ensure a viable future for the industry.

The business of OLG's modernization is evolving, but the foundation of modernization remains constant.

OLG will expand the role of the private sector in lottery and gaming, asking service providers to recommend approaches that could improve customer service, increase revenue, and/or increase Net Profit to the Province. At the same time, OLG will strengthen its own role in conducting and managing lottery and gaming by continuing to:

- maintain the overall integrity of gaming and lottery operations in Ontario;
- ensure that all gaming in Ontario complies with applicable regulations and supports government objectives;
- be the sole owner of customer information and of player information;
- decide where and how gaming will be offered in the province; and,

- work within the Province's overall problem gambling strategy to contribute to the prevention and mitigation of problem gambling through its RG program, which is recognized internationally by the World Lottery Association's certification program.

Ontario currently invests more in RG and the prevention, treatment and research of problem gambling than any other jurisdiction in North America – over $50 million this past year. OLG expects this amount to increase with the modernization of OLG.

Once complete, the modernization of lottery and gaming will benefit all Ontarians. OLG's contributions of nearly $2 billion annually to the Ontario government will be protected and grown. This money is used to help fund the operation of hospitals and other provincial priorities. At the same time, modernization could result in new jobs in the industry across Ontario and trigger private sector investment.

## Key Milestones in Modernization

- In November 2012, OLG began the RFPQ process for land-based gaming with the release of three RFPQs – one each for the following Gaming Bundles: Ottawa Area, Ontario East and Ontario North. (These RFPQs closed in March 2013.) The November 2012 announcement also introduced the concept of Gaming Bundles, which were created to enable OLG to more effectively manage the gaming market in Ontario by grouping the 29 Gaming Zones geographically, with each bundle representing a separate bidding opportunity for service providers. Service providers were asked to demonstrate their ability to manage the day-to-day operations of all facilities in a Gaming Bundle. They were also asked to provide information on any business or other relationships they have had with First Nations and First Nations communities.
- In April 2013, following a competitive procurement process, GTECH was selected as OLG's primary service provider for interactive casino-style games for online play, including slots, video poker games and table games. The web site, PlayOLG.ca, will also provide customers with the ability to purchase Ontario's most popular lottery tickets, LOTTO 6/49, LOTTO MAX and ENCORE, when it launches. OLG's Internet gaming program will be launched in phases with the first to include these lottery products along with gaming offerings that include popular table games and slot machines. Subsequent phases will include bingo, sports wagering, online poker and the introduction of other new products. GTECH will provide a player account management system that will implement a strong online RG program and will include increased player protection, secure transaction and data privacy. The system will operate with an age-verification requirement and customers will have the ability to manage their online play with time and money limits, and the option to self-exclude or take breaks from play. The launch of iGaming is projected to generate Net Profit to the Province in excess of $58 million within its first full year of operation (2015–16) and grow to over $100 million by 2017–18. The contract with GTECH is for a five-year term with options to renew.
- On April 30, 2013, OLG marked the close of its Request for Pre-Qualification ("RFPQ") for the modernization of lottery. The RFPQ, which was issued on

December 14, 2012, asked service providers to demonstrate their experience as it related to the lottery business, including:

- success in developing customer-driven growth strategies;
- an ability to operate complex and dynamic businesses;
- access to the resources, tools and technology needed to operate a sustainable lottery business; and,
- capacity to lead the transition of customers, retailers, employees and technology to a new operating model.

After evaluating the RFPQ submissions, OLG will select potential service providers who will be eligible to receive the Request for Proposal documents. Following this process, OLG will select a qualified service provider for lottery.

- At the request of the Premier of Ontario, OLG reviewed its funding formula for communities that host OLG gaming facilities. In May 2013, a new fair and equitable formula was introduced that is consistent across the province and provides more money for all host municipalities. Under the new formula, host municipalities receive:

  - 5.25 per cent on the first $65 million of annual slot revenue; plus
  - 3.0 per cent on the next $135 million of annual slot revenue; plus
  - 2.5 per cent on the next $300 million of annual slot revenue; plus
  - 0.5 per cent on annual slot revenue above $500 million; plus
  - 4.0 per cent on annual table game revenue, where applicable.

  The new formula is part of a new Municipality Contribution Agreement ("MCA") that also includes a Community Recognition Program component by which host communities showcase the use of their hosting fees. The new MCA came into effect retroactively to April 1, 2013.

- In May 2013, OLG issued an RFPQ for the Southwest Gaming Bundle. Interested service providers were asked to demonstrate their ability to operate all six gaming facilities in the bundle. This RFPQ closed on August 8, 2013.
- In December 2013, OLG issued RFPQs for the remaining 10 Gaming Zones, grouped into three bundles – GTA, Central and West GTA Gaming Bundles. The RFPQs for the Central and West GTA Gaming Bundles closed on March 13, 2014. The close for the RFPQ for the GTA Gaming Bundle was extended to August 14, 2014 in order for service providers to also demonstrate their experience with horse racing activities.
- Also in December 2013, OLG issued a Request for Information ("RFI") to gauge interest in the marketplace for developing and financing a potential entertainment centre in Niagara Falls. It is anticipated that the potential multi-purpose facility would be similar to, or larger in size and scale than, facilities at Caesars Windsor and Casino Rama. This RFI closed on March 3, 2014.
- Support for OLG's modernization is consistent with the previous fiscal year, as a total of 40 communities have formally expressed interest in maintaining or building a gaming facility. Any new gaming sites must be approved by OLG and the Ontario government and must have requisite municipal support.

# Day-to-Day Operations

- On April 10, 2013, the Auditor General of Ontario was asked by the Standing Committee on Public Accounts to conduct a review of OLG's modernization, including the cancellation of the Slots at Racetracks program. OLG publicly committed to supporting the Auditor General's work in every way possible. The Auditor General's report was released on April 28, 2014.
- On July 18, 2013, the Honourable Charles Sousa, Minister of Finance, announced the nomination of Philip Olsson as Chair of the Board of Directors. Mr. Olsson would work with the CEO to advance the modernization of lottery and gaming, including better integration with the horse racing industry. Mr. Olsson's appointment became effective November 20, 2013, along with four other Directors. By the end of the fiscal, OLG's board comprised 10 members.
- The first draw of an enhanced LOTTO 6/49 was held on September 18, 2013. The main improvement was the introduction of a new guaranteed $1 million prize draw creating the opportunity for 104 more $1 million winners each year on the bi-weekly draw. Other changes included jackpots that start at $5 million instead of $3 million and a new free play for matching two of six numbers. The price of the new LOTTO 6/49 increased to $3 per play to support these new offerings.
- Later in September, the Lottery Division extended the hours of operation of the OLG Toronto Prize Centre from 5:00pm to 7:00pm weekdays and introduced new Saturday hours of 9:00am to 3:00pm. This move demonstrates OLG's commitment to become more customer-focused by better serving its lottery winners.
- The WHEEL OF FORTUNE® LOTTO game debuted on November 5, 2013. Based on the popular television game show, the new daily game offers players two chances to win on one $2 ticket. A top prize of $10,000 is available instantly to players while watching an animated 'spin of the wheel' on the retailer's customer display screen, and a top prize of $100,000 is available on the nightly Lotto Word Draw.
- On December 9, 2013, OLG released its first comprehensive Corporate Social Responsibility Report. The report serves as a baseline measure of OLG's efforts in a number of areas of social responsibility, including:
  - RG and efforts to address problem gambling;
  - earning and keeping customers' trust;
  - supporting employees' engagement in communities;
  - strengthening communities; and,
  - reducing OLG's impact on the environment.

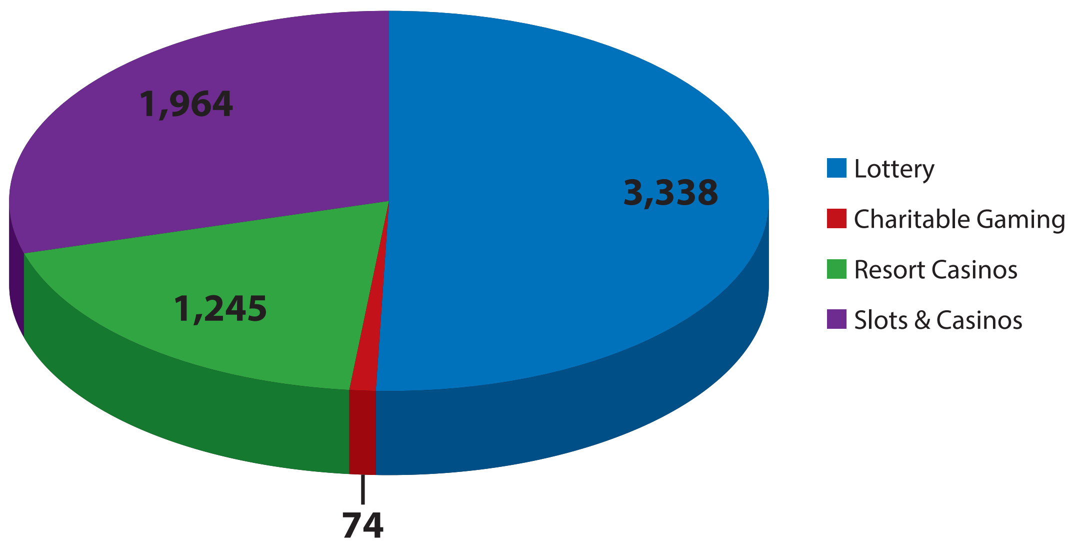
OLG's 2012–13 Corporate Social Responsibility Report can be found on olg.ca and modernolg.ca.

- On January 7, 2014, OLG presented a special $50 million cheque to the identified winner of the November 30, 2012 LOTTO MAX jackpot. The winner was identified after a unique and extensive prize claim investigation. The prize remained unclaimed for close to a year, until information uncovered in a different prize claim investigation led OLG to identify the winner.
- On January 22, 2014, Chair Philip Olsson announced that the board had received and accepted a letter of resignation from Rod Phillips, President and CEO. Mr. Phillips would be taking on a new role in the private sector. The board appointed long-serving executive Tom Marinelli, Executive Vice President, Chief Transformation Officer and Chief Information Officer to the position of Acting President and CEO. By the end of the fiscal year, the recruitment process for a permanent President and CEO was well underway.
- On March 15, 2014, INSTANT ticket sales surpassed the $1 billion mark for the first time in OLG history. By the end of the fiscal year, INSTANT ticket sales had reached $1.04 billion. This was a very strong year for the Lottery Division that also saw a new record for overall lottery sales for the second year in a row.
- On March 28, 2014, OLG Slots at Hanover Raceway, Rideau Carleton Raceway and Woodbine Racetrack received RG Check accreditation, meaning that all OLG gaming sites and the Caesars Windsor Resort Casino had been recognized by the most rigorous RG accreditation program in the world. The RG Check accreditation program is administered by the Responsible Gambling Council and is based on a RG index comprising a set of standards. These standards are informed by internal best practices and are used to evaluate eight core standards: corporate policies, self-exclusion, advertising and promotion, informed decision making, assisting customers who may have problems with gambling, access to money, venue and game features, and employee training.
- OLG continued to make significant progress in its Charitable Gaming Revitalization Initiative. Working with the Ontario Charitable Gaming Association and the Commercial Gaming Association of Ontario, nine new Charitable Gaming Centres were opened across the province by the end of the fiscal year, bringing to 20 the number of locations operating in 17 communities. In addition to traditional paper-based play, Charitable Gaming Centres offer terminals with touch screens that allow players to virtually dab the 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 play TapTix, the evolution of the classic Break Open Ticket that features an interactive display screen on a ticket dispenser.

# Sources of Revenue

OLG's operations and revenues are organized under four operating segments. In fiscal 2013–14, these operating segments collectively generated $6.67 billion in revenue.

**Revenue by Operating Segment**
**(in millions of dollars)**




Lottery – OLG operates 19 terminal-based lottery and sports games and offers 79 INSTANT lottery products through approximately 9,800 independent retailers across the province.

Charitable Gaming – OLG conducts and manages the operations of 20 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 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.

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, an aboriginal casino owned by the Mississaugas of Scugog Island First Nation. OLG also operates 14 slot machine facilities at racetracks across Ontario.

# Financial Highlights

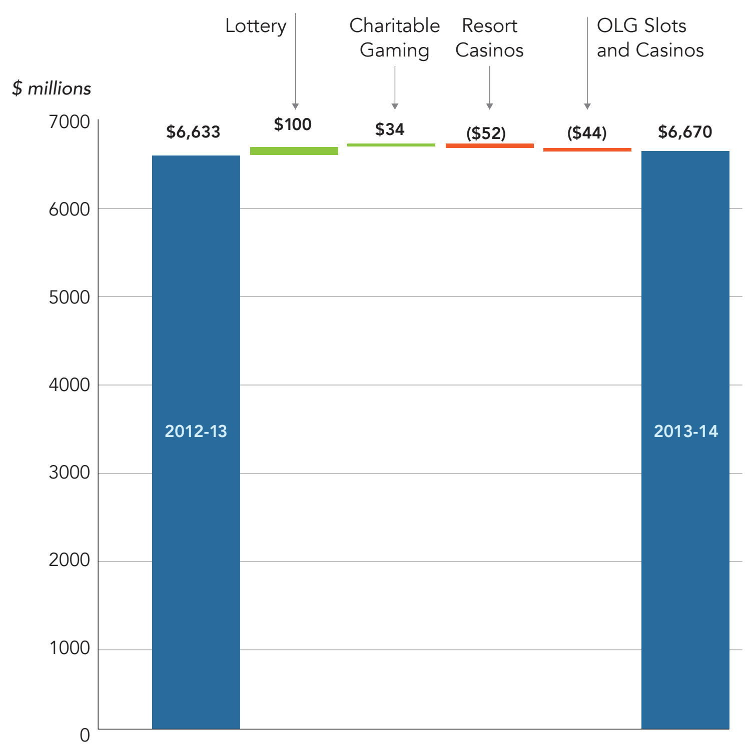
*(in thousands of dollars)*

| *For the fiscal year ended March 31* | | **2014** | | 2013* |
|---|---|---|---|---|
| Lottery revenue | **$** | **3,387,571** | $ | 3,287,469 |
| Charitable Gaming revenue | | **73,817** | | 39,876 |
| Resort Casinos revenue | | **1,244,946** | | 1,297,145 |
| OLG Slots and Casinos revenue | | **1,964,044** | | 2,008,081 |
| **Total OLG revenue** | | **6,670,378** | | 6,632,571 |
| | | | | |
| Lottery and Charitable Gaming prizes | **$** | **1,885,281** | $ | 1,805,710 |
| Commissions expense** | | **384,225** | | 637,792 |
| Marketing and promotion expense | | **308,371** | | 297,190 |
| Gaming revenue sharing payment*** | | **119,877** | | 119,901 |
| | | | | |
| Payments to the Province of Ontario**** | **$** | **2,076,740** | $ | 1,903,256 |
| Payments to the Government of Canada | | **281,891** | | 262,964 |

**Certain comparative figures have been reclassified, where necessary, to reflect the current year's presentation.*
***Racetrack site holders and the horse racing industry were entitled to receive commissions until the Government of Ontario announced the end of the Slots at Racetracks Program effective March 31, 2013.*
****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)*

| | **2013–14** |
|---|---|
| | $ Change |
| Lottery revenue | 100,102 |
| Charitable Gaming revenue | 33,941 |
| Resort Casinos revenue | (52,199) |
| OLG Slots and Casinos revenue | (44,037) |
| **Total OLG revenue change** | **37,807** |



# Economic Impact

**Since 1975, OLG has provided nearly $40 billion to the Province and the people of Ontario.**

OLG's annual payments to the Province have helped support health care; education, research, prevention and treatment 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.

Lottery and gaming also contribute to the economy in a number of other ways. In fiscal 2013–14, OLG operations generated $3.3 billion in total economic activity in Ontario.

## NET PROFIT TO THE PROVINCE*:

$2 billion

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
- **$39.0 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 slot machine gross revenue (excluding OLG Resort Casinos and OLG Slots at Great Blue Heron Charity Casino) to problem gambling funding*

## SUPPORT FOR LOCAL ECONOMIES:

$1.3 billion

This includes:

- **$873.3 million** to pay OLG's more than 16,000 direct and indirect employees across the province
- **$240.7 million** in commissions paid to lottery retailers across Ontario
- **$132.5 million** in payments to municipalities that host OLG gaming facilities, including Resort Casinos and Charitable Gaming Centres
- **$36.7 million** in goods and services purchased from Ontario businesses to support gaming operations (excludes Resort Casinos)

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

## CORPORATE RESPONSIBILITY:

$29 million

This includes:

- **$13.4 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 **$52.4 million** on responsible gambling and the prevention, treatment and research of problem gambling in Ontario
- **$13.3 million** in Charitable Gaming proceeds distributed to participating local charities
- **$2.3 million** dedicated to the sponsorship of community festivals and events

# Management's Discussion and Analysis

## For the fiscal year ended March 31, 2014

Canadian securities regulations require public companies to include a discussion of operating results in their annual reports, in addition to annual financial statements. Classified as an Operational Enterprise Agency of the Province of Ontario, the Ontario Lottery and Gaming Corporation ("OLG" or the "Corporation") is not subject to these regulations. However, this discussion has been included to increase the reader's understanding of the operations of OLG.

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, 2014. The Consolidated Financial Statements are presented in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Certain comparative figures in this MD&A and the accompanying Consolidated Financial Statements have been reclassified, where necessary, to reflect current year's presentation.

This MD&A provides information for the fiscal year ended March 31, 2014 and is dated June 26, 2014.

*This MD&A contains forward-looking statements about our 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 2013–14 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* | | **2013–14** | | 2012–13 | **$ Variance** | % Variance |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Lottery | **$** | **3,387,571** | $ | 3,287,469 | **100,102** | 3.0 |
| Charitable gaming | | **73,817** | | 39,876 | **33,941** | 85.1 |
| Resort casinos | | **1,244,946** | | 1,297,145 | **(52,199)** | (4.0) |
| OLG slots and casinos | | **1,964,044** | | 2,008,081 | **(44,037)** | (2.2) |
| | | **6,670,378** | | 6,632,571 | **37,807** | 0.6 |
| **Expenses** | | | | | | |
| Lottery | | **2,502,832** | | 2,405,580 | **(97,252)** | (4.0) |
| Charitable gaming | | **105,042** | | 61,816 | **(43,226)** | (69.9) |
| Resort casinos | | **1,369,182** | | 1,373,033 | **3,851** | 0.3 |
| OLG slots and casinos | | **954,332** | | 1,197,492 | **243,160** | 20.3 |
| | | **4,931,388** | | 5,037,921 | **106,533** | 2.1 |
| **Income before the undernoted** | **$** | **1,738,990** | $ | 1,594,650 | **144,340** | 9.1 |
| Other income (expenses) | | **21,960** | | (35,715) | **57,675** | 161.5 |
| **Net income** | **$** | **1,760,950** | $ | 1,558,935 | **202,015** | 13.0 |
| Payments to the Province of Ontario* | **$** | **2,076,740** | $ | 1,903,256 | **173,484** | 9.1 |
| Payments to the Government of Canada | **$** | **281,891** | $ | 262,964 | **(18,927)** | (7.2) |
| Net Profit to the Province** | **$** | **2,006,411** | $ | 1,815,991 | **190,420** | 10.5 |

| *As at March 31,* | | **2014** | | 2013 | **$ Variance** | % Variance |
|---|---|---|---|---|---|---|
| Total assets | **$** | **1,977,304** | $ | 2,206,784 | **(229,480)** | (10.4) |
| Total liabilities | **$** | **463,296** | $ | 622,447 | **159,151** | 25.6 |
| Total long-term liabilities | **$** | **82,866** | $ | 103,048 | **20,182** | 19.6 |
| Total equity | **$** | **1,514,008** | $ | 1,584,337 | **(70,329)** | (4.4) |

**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 2013–14, win contribution was $245,461,000 (fiscal 2012–13 $257,056,000).*

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

| *For the fiscal year* | **2013–14** | 2012–13 | **% Variance** |
|---|---|---|---|
| **Revenue** | | | |
| Lottery | **50.8%** | 49.6% | **1.2** |
| Charitable gaming | **1.1%** | 0.6% | **0.5** |
| Resort casinos | **18.7%** | 19.6% | **(0.9)** |
| OLG slots and casinos | **29.4%** | 30.2% | **(0.8)** |
| | **100.0%** | 100.0% | **–** |
| **Expenses** | | | |
| Lottery | **37.5%** | 36.3% | **(1.2)** |
| Charitable gaming | **1.6%** | 0.9% | **(0.7)** |
| Resort casinos | **20.5%** | 20.7% | **0.2** |
| OLG slots and casinos | **14.3%** | 18.1% | **3.8** |
| | **73.9%** | 76.0% | **2.1** |
| **Income before the undernoted** | **26.1%** | 24.0% | **2.1** |
| Other income (expenses) | **0.3%** | (0.5%) | **0.8** |
| **Net income** | **26.4%** | 23.5% | **2.9** |

Consolidated revenue for fiscal 2013–14 was $6.67 billion, an increase of $37.8 million or 0.6 per cent from $6.63 billion in the previous fiscal year. This change is primarily due to an increase in revenue in the Lottery and Charitable Gaming segments. Lottery revenue increased by $100.1 million or 3.0 per cent, as a result of a record setting year in INSTANT sales and higher Sports product sales, partially offset by lower Lotto sales. Contributing to the overall revenue increase is Charitable Gaming, which experienced an increase of $33.9 million or 85.1 per cent, primarily due to a greater number of sites in operation during the year as well as the strong performance of paper Break Open Tickets ("BOT"). Resort Casinos revenue was $52.2 million or 4.0 per cent lower than the previous fiscal year due to a decline in slots and table revenue at Casino Rama and the Niagara Casinos. OLG Slots and Casinos revenue decreased $44.0 million or 2.2 per cent mainly attributable to fewer site visits.

The Corporation's net income for fiscal 2013–14 was $1.76 billion, $202.0 million or 13.0 per cent higher than in the previous fiscal year. The increase in net income in fiscal 2013–14 was driven by lower commissions expense in the OLG Slots and Casinos segment due to the Government of Ontario's announcement to end the Slots at Racetracks program ("SARP") effective March 31, 2013; as well as higher revenue in the Lottery segment as discussed above. Higher net income was partially offset by increased payments to municipalities resulting from the new Municipal Contribution Agreements ("MCA") that took effect April 1, 2013 for the OLG Slots and Casinos and Resort Casinos segments and a non-cash impairment charge to the Charitable Gaming segment.

OLG's payments to the Province of Ontario of $2.08 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 $417.4 million or 5.9 per cent lower than budget primarily due to decreased site visitation at OLG Slots and Casinos and Resort Casinos, lower than expected Lottery sales for LOTTO MAX and a delay to the launch of Internet Gaming ("iGaming") now expected in fiscal 2014–15.

The Corporation's net income of $1.76 billion and Net Profit to the Province of $2.01 billion (including win contribution) fell below budget by $14.7 million or 0.8 per cent and $21.8 million or 1.1 per cent respectively, due to lower revenue across all operating segments.

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

# 1. Results of Operations – Operating Segments

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

## A. Lottery

### Summary data from statement of comprehensive income

*(in thousands of dollars)*

| *For the fiscal year* | | **2013–14** | | 2012-13 | **$ Variance** | % Variance |
|---|---|---|---|---|---|---|
| **Revenue** | **$** | **3,387,571** | $ | 3,287,469 | **100,102** | 3.0 |
| **Expenses** | | **2,502,832** | | 2,405,580 | **(97,252)** | (4.0) |
| **Income before the undernoted** | **$** | **884,739** | $ | 881,889 | **2,850** | 0.3 |
| Other income | | **1,681** | | 1,164 | **517** | 44.4 |
| **Net income** | **$** | **886,420** | $ | 883,053 | **3,367** | 0.4 |

## A1. Lottery revenue

Lottery revenue for fiscal 2013–14 was $3.39 billion, an increase of $100.1 million or 3.0 per cent from the previous fiscal year, primarily due to higher sales for INSTANT and Sports games, partially offset by lower Lotto sales. Lottery revenue was $145.3 million or 4.1 per cent lower than budget due to lower than expected Lotto and Sports games sales partially offset by favourable INSTANT 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)* | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *For the fiscal year* | **2013–14** | 2012–13 | | **2013–14** | | 2012–13 | **2013–14** | 2012–13 | | **2013–14** | | 2012–13 |
| Lotto | **13** | 12 | **$** | **2,063.9** | $ | 2,079.9 | **60.9%** | 63.3% | **$** | **1,014.0** | $ | 1,027.5 |
| Sports | **6** | 6 | | **285.8** | | 256.9 | **8.5%** | 7.8% | | **169.1** | | 153.8 |
| INSTANT | **79** | 75 | | **1,037.9** | | 950.7 | **30.6%** | 28.9% | | **682.1** | | 614.9 |
| **Totals** | **98** | 93 | **$** | **3,387.6** | $ | 3,287.5 | **100.0%** | 100.0% | **$** | **1,865.2** | $ | 1,796.2 |

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 single event (for example, 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 $16.0 million or 0.8 per cent over the previous fiscal period as national Lotto sales (i.e., LOTTO MAX and LOTTO 6/49) decreased by $28.9 million or 2.0 per cent while regional (Ontario only) Lotto sales increased by $12.9 million or 2.0 per cent. National Lotto sales were lower than in the previous fiscal year primarily as a result of lower LOTTO MAX sales driven by fewer high-valued jackpots in the first six months of fiscal 2013–14. 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 $13.7 million compared to $15.4 million in fiscal 2012–13. Enhancements to LOTTO 6/49 were introduced in September 2013, generating increased sales over the previous fiscal year. LOTTO 6/49's price point increased from $2.00 to $3.00 per play with higher-valued jackpots and a new guaranteed $1-million prize draw in addition to the jackpot draw. Average sales per jackpot increased from $6.1 million in fiscal 2012–13 to $6.7 million in fiscal 2013–14. In addition, new game introductions such as WHEEL OF FORTUNE® in November 2013 and POKER ALL IN in March 2014 pushed sales of regional Lotto games over the level of the previous fiscal year.

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., $200 MILLION$ SUPREME) that are sold by each participating member across Canada.

INSTANT product sales hit a new record this fiscal with sales in excess of $1 billion. Sales increased $87.2 million or 9.2 per cent driven in large part by the success of the $5 VARIETY category, $20 NATIONAL $200 MILLION$ SUPREME and $10 NATIONAL games (CLASSIC WHITE, $100 MILLION$ PRESTIGE and CLASSIC GOLD).

Sports product sales recovered from the NHL lockout in the previous fiscal year, increasing by $28.9 million or 11.2 per cent compared to fiscal 2012–13.

## A2. Lottery net income

Net income from Lottery for fiscal 2013–14 was $886.4 million, $3.4 million or 0.4 per cent higher than in the previous fiscal year. This increase was due mainly to higher overall revenue as explained in Section A1. Net income for fiscal 2013–14 was $51.2 million or 5.5 per cent lower than budget due to revenue being lower than budget.

## 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 2013–14 compared to fiscal 2012–13:

| *For the fiscal year* | **2013–14** | 2012–13 | Budget 2013–14 |
|---|---|---|---|
| Adjusted EBITDA margin* | **64.3%** | 64.9% | 65.8% |
| Marketing as a percentage of adjusted gaming revenue** | **3.8%** | 3.6% | 4.1% |
| Payroll as a percentage of adjusted total revenue*** | **1.7%** | 1.8% | 1.8% |
| | | | |
| Average sales per LOTTO MAX jackpot draw**** ($ millions) | **$ 13.7** | $ 15.4 | $ 15.9 |
| Average sales per LOTTO 6/49 jackpot draw**** ($ millions) | **$ 6.7** | $ 6.1 | $ 6.5 |
| Total retailers | **9,813** | 9,835 | N/A |
| INSTANT ticket sales (millions of tickets) | **267** | 266 | 275 |
| Average price per INSTANT ticket sold | **$ 3.89** | $ 3.58 | $ 3.63 |

**The adjusted EBITDA margin represents earnings before finance costs, amortization, payments relating to the Gaming Revenue Sharing and Financial Agreement ("GRSFA") 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.*
***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 prizes 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 2013–14 decreased marginally compared to the previous fiscal year mainly due to a change in sales mix (higher INSTANT sales) resulting in increased prize expense as a percentage of revenue. The adjusted EBITDA margin was below budget primarily due to lower than expected revenue as discussed above.

Marketing as a percentage of adjusted gaming revenue increased compared with fiscal 2012–13 primarily due to the launch of LOTTO 6/49, WHEEL OF FORTUNE® and POKER ALL IN; however, it was lower than budget as a result of marketing savings for LOTTO MAX due to lower jackpots.

Payroll as a percentage of adjusted total revenue was lower compared to the previous fiscal year as revenue increased while payroll costs marginally declined. Payroll as a percentage of adjusted total revenue was lower compared to budget primarily attributable to vacancies within the Support Centre department.

Average sales per jackpot draw for LOTTO MAX decreased due to a marked reduction in the number of jackpot level draws during the first six months of fiscal 2013–14. This resulted in a decline in the average sales per jackpot draw to $13.7 million compared to $15.4 million in fiscal 2012–13. 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 2013–14, LOTTO MAX had 17 jackpots of $50 million plus MAXMILLIONS in line with previous fiscal year and budget. The majority of the $50 million jackpot draws plus MAXMILLIONS occurred in the latter six months of fiscal 2013–14. The infrequency of $50 million jackpot level draws early in fiscal 2013–14 did not sustain interest among 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 16.0 in fiscal 2013–14 compared to 18.4 in the previous fiscal year. Typically, larger jackpots generate higher sales. Average sales per jackpot draw for LOTTO 6/49 increased from $6.1 million in fiscal 2012–13 to $6.7 million in fiscal 2013–14 due to the higher price point of the new game.

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

Although overall INSTANT ticket volume in fiscal 2013–14 was consistent with the previous fiscal year and below budget, the increased sales mix of higher price point games resulted in a higher average price per INSTANT ticket sold in fiscal 2013–14 generating the overall increase in INSTANT ticket sales.

### 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 2013–14 was negatively impacted by fewer rolls for LOTTO MAX. In an effort to increase adjusted EBITDA in fiscal 2014–15, and as a member of ILC, OLG will work with ILC to continue to actively manage jackpots in order to maximize revenue responsibly. Strategies include accelerating jackpots, whereby naturally generated jackpots are skipped in order to get to larger jackpots sooner and topping up jackpots to attract additional players. Promotional activity such as the bonus draws for LOTTO 6/49 also will be utilized.

## 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 sustainable 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 the day-to-day operations of lottery and gaming and renew its role in the oversight of lottery and gaming.

Today, Ontarians purchase lottery products through a retail clerk who hands them a paper ticket. OLG has a largely paper-based lottery system in an economy that is increasingly becoming paper-free. In a move to adapt to this change, OLG is developing an iGaming platform with a planned launch in fiscal 2014–15. Following a staged rollout of products, OLG will deliver a full range of games on the Internet through PlayOLG.ca — an online site accessible by computers and other Internet-connected devices offering lottery ticket sales, interactive casino-style (against the house) games and, at a later date, peer-to-peer games such as poker.

OLG's current terminal technology limits where lottery tickets can be sold and is not suited to adapt to current shopping patterns. The majority of Ontario adults under 45 years of age frequently visit supermarkets, big box stores and large retail locations where OLG products are not conveniently located or currently not offered for sale. As a result, even though about 49 per cent of adult Ontarians play the lottery regularly, only 13 per cent of adults under 45 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, the Internet and mobile devices, 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"). OLG released the RFI for modernizing lottery on June 7, 2012, and it closed on August 2, 2012. As a result of the evaluation of the RFI submissions, the Corporation issued a RFPQ on December 14, 2012 with a closing date of April 30, 2013. The Corporation has evaluated the RFPQ submissions and potential service providers have been selected to receive the RFP document. This document is expected to be issued in fiscal 2014–15.

## B. Charitable Gaming

### Summary data from statement of comprehensive income

*(in thousands of dollars)*

| *For the fiscal year* | | **2013–14** | | 2012–13 | **$ Variance** | % Variance |
|---|---|---|---|---|---|---|
| **Revenue** | **$** | **73,817** | $ | 39,876 | **33,941** | 85.1 |
| **Expenses** | | **105,042** | | 61,816 | **(43,226)** | (69.9) |
| **Loss before the undernoted** | **$** | **(31,225)** | $ | (21,940) | **(9,285)** | (42.3) |
| Other expenses | | **29,518** | | 115 | **(29,403)** | (25,567.8) |
| **Net loss** | | **(60,743)** | | (22,055) | **(38,688)** | (175.4) |
| Add: charity payments | | **13,308** | | 9,265 | **4,043** | 43.6 |
| **Adjusted net loss*** | **$** | **(47,435)** | $ | (12,790) | **(34,645)** | (270.9) |

**Adjusted net loss represents net loss before charity payments. Through its share of the 20 Charitable Gaming Centres' gaming proceeds, OLG makes direct-to-charity contributions to the respective locations' charity associations to help support hundreds of 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 20 Charitable Gaming Centres across Ontario. These sites offer bingo products on tabletop 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 BOT dispensers to 11 sites in fiscal 2013–14 (eight sites deployed BOT dispensers in fiscal 2012–13). BOT dispensers are electrical or mechanical devices used to validate and dispense paper BOT. As the ticket is dispensed, a graphical representation of the results is displayed on the screen.

Charitable Gaming revenue for fiscal 2013–14 was $73.8 million, an increase of $33.9 million or 85.1 per cent over the previous fiscal year. This increase was primarily due to the opening of nine new sites and the deployment of BOT dispensers at 11 sites. Sales of paper BOT increased by $16.1 million or 111.9 per cent. Sales of Session Bingo** increased by $6.7 million or 32.1 per cent and sales from BOT dispensers increased by $10.2 million. Charitable Gaming revenue was $38.6 million or 34.4 per cent lower than budget primarily due to a $19.8 million revenue shortfall from BOT dispensers; a direct result of lower win per unit per day than budgeted. In addition, the delayed launch of new sites resulted in a $10.8 million revenue shortfall from session bingo and a $7.0 million revenue shortfall from POD games. During the winter months, adverse weather conditions caused the cancellation of more than 200 bingo sessions at Charitable Gaming Centres province-wide.

***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 2013–14 was $47.4 million, an increase of $34.6 million as compared to fiscal 2012–13. The adjusted net loss increase was primarily attributed to a non-cash impairment charge of $27.4 million, included in other expenses above. During the year, Management identified indications of impairment in the Charitable Gaming cash generating units ("CGU"), being the individual Charitable Gaming Centres, as a result of a lower than expected economic performance. Accordingly, Management performed an impairment analysis on the Charitable Gaming CGUs by discounting the cash flow projections to determine the recoverable amount of each Charitable Gaming Centre. As a result, the Corporation determined the recoverable amount of the Charitable Gaming CGUs to be less than their respective carrying value at March 31, 2014 and recorded a non-cash impairment charge of $27.4 million in other charges. In addition, Charitable Gaming incurred higher operating costs associated with opening new sites and the launch of BOT dispensers as well as higher shared services costs within the Corporation in support of the Charitable Bingo and Gaming Revitalization Initiative ("Revitalization Initiative"). Charitable Gaming's adjusted net loss was $40.4 million more than budget primarily attributable to the non-cash impairment charge of $27.4 million 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 $13.3 million in fiscal 2013–14, representing an increase of $4.0 million or 43.6 per cent more than in fiscal 2012–13.

## B3. Charitable Gaming financial key performance indicators

The following are the Charitable Gaming financial KPIs for fiscal 2013–14 compared to fiscal 2012–13:

| *For the fiscal year* | **2013–14** | 2012-13 | Budget 2013–14 |
|---|---|---|---|
| Adjusted EBITDA margin* | **(15.9%)** | (20.9%) | 2.7% |
| Marketing as a percentage of adjusted gaming revenue** | **7.2%** | 11.4% | 8.4% |
| Payroll as a percentage of adjusted total revenue*** | **5.0%** | 7.5% | 3.1% |

**The adjusted EBITDA margin represents earnings before finance costs, amortization, GRSFA payments, charity payments, other charges 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.*
***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 BOT, 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 2013–14 improved compared to the previous fiscal year due to the opening of nine new sites. The negative adjusted EBITDA margin was below budget primarily due to lower revenue associated with a lower win per unit per day for BOT dispensers and the delayed launch of new sites and POD games.

The decrease in marketing as a percentage of adjusted gaming revenue in fiscal 2013–14 compared to fiscal 2012–13 was attributed primarily to increased revenue from opening nine new sites and increasing the number of BOT dispensers in the market. Compared to budget, marketing as a percentage of adjusted gaming revenue was lower as a result of the delayed marketing spend due to the delayed launch of new sites and products.

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 because of lower revenue in the current fiscal year.

### Addressing underperforming KPIs versus budget

The Corporation plans to adjust the rollout schedule for sites and products, expediting where possible, and also 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

Since 2010, OLG has been working on a multi-year Revitalization Initiative. Together with the Ontario Charitable Gaming Association and the Commercial Gaming Association of Ontario, OLG has been developing a unique customer entertainment experience and introducing new products and technologies, upgrades to current bingo facilities and improvements to customer service that invigorate the traditional charitable gaming experience. The Revitalization Initiative is intended to preserve and enhance funding for charities across Ontario while creating economic benefits, including employment opportunities at local Charitable Gaming Centres.

New products include, but are not limited to:

- Electronic Shutterboard – an evolution of the traditional shutterboard bingo game where players can play bingo cards on touch-screen devices that can be embedded into slanted counters instead of playing on hard, static cards with little plastic shutters. Electronic Shutterboard is scheduled to launch in the fall of fiscal 2014–15.
- Rapid Draw Bingo – a bingo game that is similar in nature to a lottery, based on a quick draw keno system, whereby players select their own set of numbers and then a 'winning' set is drawn. Rapid Draw Bingo is scheduled to launch in fiscal 2015–16.

In May 2012, OLG signed an agreement with Canadian Bank Note Company Limited for technical services to support the Revitalization Initiative. This agreement provides much-needed capacity, enables more agility and improves certainty of delivery on this program.

Of the current 61 commercial bingo centres operating in Ontario, more than 37 have committed to implement the new line of electronic products under OLG's conduct and manage responsibility. OLG will continue to work collaboratively with bingo centre service providers, charities and the host municipalities to implement the Revitalization Initiative.

To date, 20 Charitable Gaming Centres are operational, and the Corporation expects to add an additional 11 centres in fiscal 2014–15. OLG currently has six site launches scheduled for fiscal 2015–16.

In addition to the initiative underway at Charitable Gaming Centres, OLG is launching a pilot program with the Maple Leaf Sports and Entertainment Foundation and the Ottawa Senators Foundation. This program will enhance existing manual 50/50 raffle draws conducted at their respective professional sports team's home games by employing electronic hand-held mobile devices to help Ontario charities raise more money and to provide larger prizes for raffle players. This pilot program is expected to launch in late calendar 2014.

## C. Resort Casinos

### Summary data from statement of comprehensive income

*(in thousands of dollars)*

| *For the fiscal year* | | **2013–14** | | 2012-13 | **$ Variance** | % Variance |
|---|---|---|---|---|---|---|
| **Revenue** | **$** | **1,244,946** | $ | 1,297,145 | **(52,199)** | (4.0) |
| **Expenses** | | **1,369,182** | | 1,373,033 | **3,851** | 0.3 |
| **Loss before the undernoted** | **$** | **(124,236)** | $ | (75,888) | **(48,348)** | (63.7) |
| Other income | | **21,203** | | 20,125 | **1,078** | 5.4 |
| **Net loss** | | **(103,033)** | | (55,763) | **(47,270)** | (84.8) |
| Add: win contribution | | **231,414** | | 242,231 | **(10,817)** | (4.5) |
| **Adjusted net income*** | **$** | **128,381** | $ | 186,468 | **(58,087)** | (31.2) |

**Adjusted net income represents net loss adjusted for adding 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 and are operated by private casino operating companies pursuant to the terms of their respective operating agreements. The operator is the employer of all employees working at 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, which is owned by 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 2013–14 was $1.24 billion, a decrease of $52.2 million or 4.0 per cent from fiscal 2012–13. Lower gaming revenue at both Casino Rama and the Niagara Casinos was offset by a slight increase in table game revenue at Caesars Windsor. The lower gaming revenue was mainly attributable to a 5.9 per cent decline in the number of site visits (See Section 7 – Supplementary Data for further details). Total revenue was $31.5 million or 2.5 per cent lower than budget due to lower slot revenue at all properties, partially offset by improved table game revenue at Caesars Windsor and Fallsview.

## C2. Resort Casinos adjusted net income

In fiscal 2013–14, the Resort Casinos' adjusted net income was $128.4 million, a decrease of $58.1 million or 31.2 per cent from fiscal 2012–13 and $19.8 million or 13.4 per cent lower than budget. This reduction is mainly due to decreased gaming revenue at the Niagara Casinos and Casino Rama, increased payments to municipalities under the new MCA from the Niagara Casinos and Caesars Windsor and higher facilities costs at Fallsview. The decrease in adjusted net income was partially offset by lower personnel costs obtained from managing staffing levels to business volumes at the Niagara Casinos and Casino Rama.

Compensation for Resort Casinos operators is based on a percentage of gross revenue as well as a percentage of net operating margin, both as defined in each of their respective development and operating agreements. Total fees paid to the operators fell in fiscal 2013–14 by $8.0 million compared to the previous fiscal year. This is primarily attributable to the decrease in gross revenue from lower gaming revenue at the Niagara Casinos and Casino Rama as a result of fewer customer visits.

## C3. Resort Casinos financial key performance indicators

The following are the Resort Casinos financial KPIs for fiscal 2013–14 compared to fiscal 2012–13:

| *For the fiscal year* | **2013–14** | 2012-13 | Budget 2013–14 |
|---|---|---|---|
| Adjusted EBITDA margin* | **23.7%** | 25.6% | 22.4% |
| Marketing as a percentage of adjusted gaming revenue** | **12.5%** | 12.3% | 12.7% |
| Payroll as a percentage of adjusted total revenue*** | **35.7%** | 35.4% | 36.6% |
| | | | |
| Total patrons (in millions) | **13.9** | 14.8 | 15.1 |
| Win per patron | **$ 83** | $ 82 | $ 79 |
| | | | |
| Rated U.S. play**** | | | |
| Caesars Windsor | **33.0%** | 31.0% | N/A |

**The adjusted EBITDA margin represents earnings before finance costs, win contribution, amortization, GRSFA payments, municipality host commissions 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.*
*****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 lower in fiscal 2013–14 than the previous fiscal year mainly due to higher facilities costs at Fallsview and lower gaming revenue as discussed above. However, it was higher than budget of 22.4 per cent primarily driven by personnel savings from the efficient management of staffing levels.

Marketing as a percentage of adjusted gaming revenue increased from fiscal 2012–13 due to lower gaming revenue at the Niagara Casinos and Casino Rama. However, marketing as a percentage of adjusted gaming revenue was lower than budget due to fewer promotions in relation to volumes.

Payroll costs as a percentage of adjusted total revenue increased compared to the previous fiscal year as payroll costs decreased marginally in comparison to the decline in gaming revenue. In comparison to budget, payroll costs were lower due to managing lower business volumes with fewer employees at the Niagara Casinos and Casino Rama, the effect of which resulted in a lower payroll cost as a percentage of adjusted total revenue.

The total number of customer visits in fiscal 2013–14 was 13.9 million, a reduction of 5.9 per cent from 14.8 million customers in fiscal 2012–13 and 7.5 per cent lower than the 15.1 million customers budgeted. The win per patron* increased marginally to $83 in fiscal 2013–14 from $82 in the previous fiscal year and compared to budget of $79, mainly a result of increased patron spend.

**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 2013–14. However, the weaker Canadian dollar has resulted in an improved rated U.S. play from 31 per cent in fiscal 2012–13 to 33 per cent in fiscal 2013–14.

### Addressing underperforming KPIs versus budget

To meet future revenue expectations, the Resort Casinos have new marketing initiatives focusing on customer service and overall customer experience designed to increase their respective local market shares and target new niche markets. Major capital investments have been initiated including the acquisition of new slot products, updated food and beverage facilities and the use of new technologies.

Resort Casinos will continue to manage costs relative to business levels. This includes current programs to effectively manage personnel costs and existing and new marketing initiatives.

## 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 is projected to decline at a compound annual growth rate of 2.0 per cent primarily due to cannibalization from the new and/or relocated/expanded gaming sites of the Slots and Casinos division. This will result in a projected decline in net operating profit, which is partially offset by the introduction of additional amenities and improving operational cost efficiencies to offset the decline in gaming revenue.

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 has declined by an average of 7.5 per cent per year, while the number of Canadian residents returning from the U.S. has increased by an average of 3.4 per cent per year.

The size of the Canadian casino-style gaming market decreased by 1.8 per cent in fiscal 2012–13 to 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. In fiscal 2013–14, gaming revenue in the Windsor-Detroit market decreased by four per cent compared to the previous fiscal year. MGM Grand, located in Detroit, Michigan, remained the leader in market share in fiscal 2013–14 with 36 per cent, significantly greater than that of Caesars Windsor. While much of the impact of reduced U.S. patronage is reflected in the current operating results, the opening of four casinos in Ohio, notably those in Toledo and Cleveland in fiscal 2012–13, has put further pressure on revenue at Caesars Windsor.

In an effort to widen customers' interest, enhance their experience and increase excitement, Resort Casinos have initiated or are planning a number of major capital investments. Casino Rama has begun a multi-million dollar renovation that includes a new food and beverage outlet, a centre bar on the gaming floor, the consolidation of two entrances into a more dynamic Porte Cochere and a reconfigured gaming floor, all to enhance the customer experience. These refresh projects will be completed in early fiscal 2014–15. At the Niagara Casinos, improvements are also underway including a buffet renovation, a new three-sided video display sign and various updates to the interior of Casino Niagara, which are to be completed by the end of fiscal 2014–15. In addition to the capital improvements, OLG will continue to invest in new slot product offerings to enhance growth and offer a competitive appeal in the Resort Casinos' respective markets. In addition, Resort Casinos are also looking at investment in various forms of technology. With the focus on customer satisfaction, changes have been made to the utilization of floor technology, to improving customer utilization of digital media through updating their websites with personalized web pages for customers.

In an effort to attract more customers to their locations, 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. As well, new partnerships are being formed with third parties who have strong brand recognition to meet customer's requirements of an all-inclusive property. In December 2013, OLG issued a RFI to gauge interest in the marketplace for developing and financing a potential entertainment centre in Niagara Falls. It is anticipated that the potential multi-purpose facility would be similar to, or larger in size and scale than, facilities at Caesars Windsor and Casino Rama.

## D. OLG Slots and Casinos

### Summary data from statement of comprehensive income

*(in thousands of dollars)*

| *For the fiscal year* | | **2013–14** | | 2012–13 | **$ Variance** | % Variance |
|---|---|---|---|---|---|---|
| **Revenue** | **$** | **1,964,044** | $ | 2,008,081 | **(44,037)** | (2.2) |
| **Expenses** | | **954,332** | | 1,197,492 | **243,160** | 20.3 |
| **Income before the undernoted** | **$** | **1,009,712** | $ | 810,589 | **199,123** | 24.6 |
| Other income (expenses) | | **28,594** | | (56,889) | **85,483** | 150.3 |
| **Net income** | | **1,038,306** | | 753,700 | **284,606** | 37.8 |
| Add: win contribution | | **14,047** | | 14,825 | **(778)** | (5.2) |
| **Adjusted net income*** | **$** | **1,052,353** | | $ 768,525 | **283,828** | 36.9 |

**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 2013–14 was $1.96 billion, a decrease of $44.0 million or 2.2 per cent from the previous fiscal year. A decline in site visits is the largest contributor to the year-over-year decrease. The closures of OLG Slots at Fort Erie Race Track, OLG Slots at Hiawatha Horse Park and OLG Slots at Windsor Raceway in April 2012 were responsible for $9.0 million of the variance. Partially offsetting the decline in revenue was a $26.1 million increase in revenue experienced at OLG Slots at Woodbine Racetrack, which had on average 415 more slot machines on the gaming floor compared to the previous fiscal year as a result of the completion of an expansion project in the last quarter of fiscal 2012–13. Overall, OLG Slots and Casinos revenue was $145.3 million or 6.9 per cent lower than budget, again due to fewer than expected site visits.

## D2. OLG Slots and Casinos adjusted net income

Adjusted net income from OLG Slots and Casinos in fiscal 2013–14 was $1.05 billion, an increase of $283.8 million or 36.9 per cent from the previous fiscal year primarily due to the Government of Ontario's announcement to end the SARP effective March 31, 2013. Due to the program ending, expenses decreased by $243.2 million from the prior year primarily due to a $307.6 million reduction in commissions expense relating to Ontario's horse racing industry. Partially offsetting this reduction were higher facilities expense, marketing expense and government payments. Facilities expense increased by $92.7 million due to the new leases and short-term binding agreements with the racetrack site holders upon the end of SARP. Marketing costs increased due in part to the food and beverage provisions stated in the new leases and short term binding agreements. The new provisions increased costs due to the higher fee for each free floor beverage served. Also contributing to the increase were additional promotional costs following the completion of the Woodbine expansion project. Payments to the government increased versus the previous fiscal year primarily due to the new leases and short-term binding agreements. Adjusted net income for fiscal 2013–14 was $83.2 million or 7.3 per cent lower than budget, the result of lower revenue as discussed previously, partially offset by lower operating costs.

Starting April 1, 2013, communities hosting OLG Slots and Casinos received a hosting fee based on the new MCA funding formula. As a result, OLG incurred hosting fees recorded in commissions expense totalling $76.7 million, an increase of $4.7 million over the previous fiscal year. However, payments to site holders and the horse racing industry under SARP ceased at April 1, 2013, showing a decrease in commissions expense of $307.6 million from the previous fiscal year.

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

The following are the OLG Slots and Casinos financial KPIs for fiscal 2013–14 compared to fiscal 2012–13:

| *For the fiscal year* | **2013–14** | 2012–13 | Budget 2013–14 |
|---|---|---|---|
| Adjusted EBITDA margin* | **63.4%** | 55.0% | 66.8% |
| Marketing as a percentage of adjusted gaming revenue** | **5.2%** | 4.5% | 5.1% |
| Payroll as a percentage of adjusted total revenue*** | **14.8%** | 15.0% | 14.5% |
| Total patrons (in millions) | **20.5** | 21.2 | 22.0 |
| Win per patron | **$ 95** | $ 94 | $ 95 |

**The adjusted EBITDA margin represents earnings before finance costs, win contribution, amortization, GRSFA payments, municipality host commissions 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 higher in fiscal 2013–14 than in the previous fiscal year, primarily the result of the discontinuation of horse industry payments, partially offset by higher facility costs associated with new leases and short-term binding agreements with racetrack site holders. The adjusted EBITDA margin was below budget as a result of lower revenues, mainly due to fewer customer visits and a decline in non-carded play (play by customers who are not Winner's Circle Rewards loyalty program members).

Marketing as a percentage of adjusted gaming revenue increased compared to fiscal 2012–13. The primary drivers for the increase were the higher fee for each free floor beverage served as per the new provisions stated in the new site leases and short-term binding agreements with racetrack site holders, as well as the additional marketing costs incurred to promote the completion of the Woodbine expansion. Marketing as a percentage of adjusted gaming revenue was slightly higher than budget primarily due to lower than anticipated revenue as discussed previously.

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 implemented throughout fiscal 2013–14. In comparison to budget, payroll as a percentage of adjusted total revenue was slightly higher due to the decline in gaming revenue. Staffing efficiency initiatives which contributed significant payroll savings versus budget did not proportionately offset the revenue decline.

Site visits declined by 0.7 million or 3.2 per cent overall over the previous fiscal year with the exception of OLG Slots at Woodbine Racetrack that experienced an increase of 0.5 million or 12.1 per cent benefitting from the expansion project completed in December 2012. During the winter months, site visits were negatively affected by frequent adverse weather conditions. In comparison to budget, the number of customers was 1.5 million or 6.7 per cent lower, also primarily due to the adverse winter conditions.

Despite a decline in gaming revenue, patron visits decreased at a greater rate, resulting in win per patron* to increase to $95 in fiscal 2013-14. 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

Research by OLG's Gaming Marketing team in fiscal 2013–14 helped understand the reasons for customers' behaviours, particularly why some customers appear to have declining play. This information will be important as OLG aims to give customers value in their gaming experience, including games offered, benefits of the Winner's Circle Rewards program, non-gaming entertainment and staff engagement. 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*. The report found that OLG's current business model is not sustainable 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 the day-to-day operations of lottery and gaming and renew its role in the oversight of lottery and gaming.

On March 14, 2012, the Corporation announced the closure of three Slots at Racetracks facilities – OLG Slots at Windsor Raceway, OLG Slots at Hiawatha Horse Park and OLG Slots at Fort Erie Race Track – effective April 30, 2012. These closures followed an announcement by the Province of Ontario that funding for the SARP would end effective March 31, 2013. In order to continue to conduct and manage its slot machine operations beyond March 31, 2013, the Corporation entered into lease agreements or short-term binding agreements with the racetrack facilities.

As part of its modernization, OLG will consider relocating facilities closer to customers where there is an opportunity to better serve those customers; however, any new or relocated gaming site must be approved by the municipality, OLG and the Ontario government. As of March 31, 2014, a total of 40 municipalities have expressed interest in hosting a gaming site.

OLG Slots and Casinos continues to balance revenue maximization with a local customer experience. The operating segment uses analytics and business case support to respond to gaming demand in existing markets, which includes increasing the supply of electronic tables and slot machines where appropriate. It also continued to refine its pricing strategy as part of a yield management approach to ensure effective and competitive pricing.

OLG will continue to invest in new slot products, site level software and upgrades to its surveillance systems both to maintain a wide variety of product from which customers can choose and to ensure OLG maintains the highest quality of customer service.

As part of OLG's ongoing commitment to Responsible Gambling, OLG Slots and Casinos continue to provide Responsible Gaming Resource Centres at each facility. Responsible Gambling ("RG") is a central focus for all of OLG's business and its internationally recognized RG program consists of prevention-based initiatives designed to educate players and encourage healthy play habits. To assist players who may be concerned about their gambling or who may exhibit signs of potential gambling problems, employees are trained to refer them to independent support services. Other elements include:

- Continuing enhancement of OLG's Self-Exclusion program, including installing facial recognition technology across gaming sites and offering individuals the option to register for the program at treatment and debt counselling offices across the province
- Exploring new technology that will allow players to set time/money limits on slot machines
- Requiring all operators to adhere to rigorous OLG and external standards/controls.

# 2. Financial Condition

## Liquidity and capital resources

Cash and cash equivalents were $311.7 million as at March 31, 2014, a decrease of $65.6 million from $377.3 million as at March 31, 2013. The majority of the Corporation's cash and cash equivalents were denominated in Canadian dollars at March 31, 2014.

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

| | | *For the fiscal year (in millions of dollars)* | | |
|---|---|---|---|---|
| **Net cash flows provided by (used in):** | | **2013–14** | | 2012–13 |
| Operating activities | **$** | **1,885.4** | $ | 1,838.5 |
| Financing activities | | **(1,901.3)** | | (1,693.3) |
| Investing activities | | **(49.7)** | | (127.8) |
| Net (decrease) increase in cash and cash equivalents | **$** | **(65.6)** | $ | 17.4 |

### Cash provided by operating activities:

Cash flows provided by operating activities for fiscal 2013–14 totalled $1.89 billion, $46.9 million higher than in the previous fiscal year. The increase in operating cash flows was primarily a result of higher net income from operations and a decrease in trade and other receivables due to the timing of collection from lottery retailers, partially offset by the decrease in trade and other payables primarily due to the one-time site settlement payments made during fiscal 2013–14 related to the termination of the SARP for those racetracks that sustained capital costs on their facilities for future expansion.

### Cash used in financing activities:

During fiscal 2013–14, cash flows used in financing activities increased by $208.0 million to $1.90 billion compared with the previous fiscal year. Included in financing activities are direct payments to the Province of Ontario, which totalled $1.83 billion in fiscal 2013–14, $185.1 million more than in the previous fiscal year. Also included in financing activities are the repayments of funds to the Ontario Financing Authority related to the Caesars Windsor expansion and Windsor Energy Centre projects and the renovations at OLG Slots at Ajax Downs and OLG Slots at Woodbine Racetrack, as well as lease payments made for the Casino Niagara building and BOT dispensers.

During fiscal 2013–14, long-term debt repayments totalled $64.1 million and included the following:

- Caesars Windsor loan – $32.3 million
- Ajax Downs loan – $7.1 million
- Woodbine loan – $20.8 million
- Obligations under finance leases – $3.9 million

The Caesars Windsor expansion and Energy Centre projects had an initial loan balance of $226.5 million repayable over five years at an interest rate of 3.2 per cent per annum. The balance as at March 31, 2014 was nil.

The OLG Slots at Ajax Downs expansion project had an initial loan balance of $18.5 million repayable over five years at an interest rate of 2.4 per cent per annum. The balance as at March 31, 2014 was nil.

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, 2014 was $32.3 million comprising the phase A and phase B term loan.

### Cash used in investing activities:

Cash flows used in investing activities, which include capital expenditures, totalled $49.7 million for fiscal 2013–14, $78.1 million lower than in the previous fiscal year. Capital expenditures for fiscal 2013–14 were $103.3 million, which largely consisted of capital expenditures at the Resort Casinos, upgrades to slot machines and the acquisition of Charitable Gaming equipment.

### 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, future operating and capital expenditures not yet committed, 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 EBITDA represents earnings before finance costs, win contribution, amortization, municipality host commissions, charity payments, GRSFA payments, other charges and modernization charges. 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.

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, 2014 and March 31, 2013:

*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 |
| Municipality host 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 |
| **Adjusted EBITDA** | **$ 980,171** | **$ (8,344)** | **$ 301,146** | **$ 1,263,053** | **$ 2,536,026** |
| | | | | | |
| 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) |
| **Adjusted Gaming Revenue** | **$ 1,522,369** | **$ 53,738** | **$ 1,157,372** | **$ 1,948,843** | **$ 4,682,322** |
| 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 |
| **Adjusted Total Revenue** | **$ 1,524,172** | **$ 52,487** | **$ 1,270,508** | **$ 1,993,185** | **$ 4,840,352** |
| | | | | | |
| **Adjusted EBITDA %** | **64.3%** | **(15.9%)** | **23.7%** | **63.4%** | **52.4%** |

*Fiscal 2012–13*
*(in thousands of dollars)*

| | Lottery | Charitable Gaming | Resort Casinos | OLG Slots and Casinos | Total |
|---|---|---|---|---|---|
| Net income (loss) as referenced in Note 25 | $ 883,053 | $ (22,055) | $ (55,763) | $ 753,700 | $ 1,558,935 |
| Amortization | 12,046 | 1,780 | 111,816 | 73,807 | 199,449 |
| Finance costs | 67 | 126 | 5,221 | 1,032 | 6,446 |
| Win contribution | – | – | 242,231 | 14,825 | 257,056 |
| Municipality host commissions | – | – | 6,000 | 72,005 | 78,005 |
| Charity payments | – | 9,265 | – | – | 9,265 |
| Gaming revenue share payments | 55,514 | 1,499 | 25,922 | 36,966 | 119,901 |
| Modernization charges | 17,982 | 3,027 | 3,465 | 165,904 | 190,378 |
| **Adjusted EBITDA** | **$ 968,662** | **$ (6,358)** | **$ 338,892** | **$ 1,118,239** | **$ 2,419,435** |
| | | | | | |
| Revenue | 3,287,469 | 39,876 | 1,297,145 | 2,008,081 | 6,632,571 |
| Prizes | (1,796,238) | (9,472) | – | – | (1,805,710) |
| Non-gaming revenue | – | – | (84,506) | (15,538) | (100,044) |
| **Adjusted Gaming Revenue** | **$ 1,491,231** | **$ 30,404** | **$ 1,212,639** | **$ 1,992,543** | **$ 4,726,817** |
| Non-gaming revenue | – | – | 84,506 | 15,538 | 100,044 |
| Finance and other income | 1,231 | 16 | 18,440 | 23,830 | 43,517 |
| Foreign exchange (loss) gain | – | (5) | 6,906 | 995 | 7,896 |
| **Adjusted Total Revenue** | **$ 1,492,462** | **$ 30,415** | **$ 1,322,491** | **$ 2,032,906** | **$ 4,878,274** |
| | | | | | |
| **Adjusted EBITDA %** | **64.9%** | **(20.9%)** | **25.6%** | **55.0%** | **49.6%** |

*For purposes of the EBITDA calculation, certain figures have been reclassified*

## Fees paid to External Auditor

For the fiscal year ended March 31, 2014, the Corporation retained its independent auditor, KPMG LLP, to provide services in the categories and amounts shown in the table below:

*(in thousands of dollars)*

| *For the fiscal year* | **2013–14** | 2012–13 |
|---|---|---|
| Audit Services | **$ 1,438.7** | $ 1,442.5 |
| Tax Services | **262.9** | 100.1 |
| **Total of all Services** | **$ 1,701.6** | $ 1,542.6 |

# 4. Enterprise Risk Management

OLG must manage a wide variety of risks that could significantly impact the achievement of the three key objectives ("Strategic Imperatives") of OLG's modernization: become more customer-focused, secure qualified service providers for the specific day-to-day operations of lottery and gaming, and renew OLG's role in the management of lottery and gaming.

## OLG's approach to managing risk

Risk management is the responsibility of every employee and a formal Enterprise Risk Management ("ERM") function is in place at the Corporation. The ERM umbrella covers risk management, business continuity and crisis management. The ERM function is responsible for the ongoing development and execution of a corporate risk management framework that is aligned with ISO 31000 and requirements set out by the Province.

Risk management has been embedded in the Corporate Project Governance processes for project management. The risk management process for modernization includes risk identification, assessment and treatment planning at both the individual project and program levels. Results of the process are reviewed on a quarterly basis with a senior management Program Risk Committee and with the Executive Leadership Team. The risk profile is reported to the Audit and Risk Management Committee of the Board on a quarterly basis.

| | | Key Risks | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Strategic Imperatives** | **Strategic Initiatives*** | **A** | **B** | **C** | **D** | **E** | **F** | **G** | **H** |
| • Become 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 | • Strategic Procurement for Gaming Sites<br>• Strategic Procurement for the Lottery Business<br>• Internet Gaming Program<br>• Charitable Gaming Revitalization Program<br>• Horse Racing Integration<br>• Customer Management Program | ★ | ★ | ★ | ★ | ★ | ★ | | |
| • Expand regulated private sector delivery – selecting qualified service providers for the specific day-to-day operation of lottery and gaming | • Strategic Procurement for Gaming Sites<br>• Strategic Procurement for the Lottery Business<br>• Internet Gaming Program<br>• Horse Racing Integration | ★ | ★ | ★ | ★ | ★ | ★ | ★ | ★ |
| • Renew OLG's role in oversight of lottery and gaming in the Province (conduct and manage) | • Strategic Procurement for Gaming Sites<br>• Strategic Procurement for the Lottery Business<br>• Gaming Management System ("GMS") Program | ★ | | ★ | ★ | ★ | ★ | ★ | ★ |

**See Section 5.*

## Key risks

The following key inherent risks are identified for the Corporation.

| | | |
|---|---|---|
| **Strategic Risks:** | A. | Strategic Planning – OLG must respond effectively to changes in policy priorities |
| | B. | Government and Other Stakeholder Relations – OLG must meet the expectations of government and manage the interests of other parties that affect, or are affected by, the actions of the organization |
| **Workforce Risks:** | C. | Retention – The ability to retain or replace core talent required for change initiatives and for the continued success of core operations is critical |
| | D. | Communication – OLG must communicate effectively to manage staff concerns and ensure the workforce remains engaged during times of change |
| **Information Technology and Infrastructure Risks:** | E. | Access – OLG must ensure that access to systems and/or information is not compromised with expanded private sector delivery of lottery and gaming |
| | F. | Availability – Systems must continue to sustain core business while supporting modernization |
| **Accountability/ Governance Risks:** | G. | Compliance – OLG operates in a changing regulatory environment |
| **Other Risks:** | H. | Private Sector Engagement – OLG must ensure effective selection and oversight of private sector operators and effective transition of operations |

## Risk mitigation strategies

OLG has undertaken an ambitious plan to transform its business and to ensure that risks across all of these categories continue to be managed. Risk mitigation has been and continues to be a key consideration as the Corporation continues to ensure core processes remain stable and efficient while significant change initiatives are properly staffed and resourced. Risk mitigation strategies can be viewed through multiple lenses:

1. Entity-wide programs that provide governance over significant processes
    - o Transformation Program Office to govern the overall transformation process, including:
        - Communication (both internal and external)
        - Project governance
        - Risk management
        - Change management
        - Strategic procurement oversight
        - New OLG architecture
        - Human Resource planning (retention, severance, recruitment and succession planning)
        - Finance (analysis, modelling and planning)
        - Business continuity management
        - Strong links with specific business units and support functions as required
    - o Enterprise Risk Management
    - o Change Management
    - o Consultative processes with the shareholder, stakeholders and legislative bodies
    - o Independent Internal Audit practice
    - o Business Continuity Management
2. Controls built into new or changed processes to ensure risks continue to be managed
3. Specific actions undertaken to ensure risks are managed

# 5. Overview of Key OLG Initiatives

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

- become more customer-focused;
- selecting qualified service providers for the specific day-to-day operation of lottery and gaming; and
- renew OLG's role in the management of lottery and gaming.

The following initiatives together 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

OLG is engaging service providers in building a new model for gaming in Ontario – while maintaining strict control and accountability. In fiscal 2012–13, OLG initiated 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. In fiscal 2013–14, OLG continued the procurement process by issuing the remaining Requests for Pre-Qualifications ("RFPQ"). 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 plans to select regulated private sector service providers to operate existing gaming sites and begin the development of new ones.

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 as for Gaming Sites. In fiscal 2012–13, OLG initiated a competitive procurement process to select a regulated private sector service provider for the operation of the lottery terminal network, based on defined criteria, customer demand and RG standards.

The selected vendor will also be expected to assist in improving lottery purchase options at large multi-lane retail outlets including supermarkets and big box stores as well as 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 will 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.

Following a rigorous, fair and competitive procurement process, OLG selected GTECH (formerly Boss Media AB, a part of SPIELO G2) to be the primary service provider for the PlayOLG.ca interactive iGaming website. As part of OLG's iGaming program, GTECH will deliver a player account management system to provide player protection, secure transactions and data privacy. This system will provide an age-verification requirement and customers will have the ability to manage their online play with time and money limits, and the option to take breaks from play.

Following extensive OLG and regulatory testing, PlayOLG.ca is expected to enter a controlled launch phase prior to a province-wide commercial launch in fiscal 2014–15.

At launch, PlayOLG.ca will offer a mix of slot-style games, casino table games and select lottery games. Additional products to be added following launch will include peer-to-peer games.

## 3. Charitable Gaming Revitalization Program

OLG is working in collaboration with the charitable gaming industry to revitalize the sector in order to:

- support 2,800 local-level charities and the social benefits that they bring to their communities;
- drive economic benefits back to local markets; and
- provide a modernized and distinct entertainment experience to players across Ontario in a socially responsible manner.

This revitalization of the industry will leverage the current unique customer entertainment experience and make it better, through the introduction of new electronic products and technology, and improvements to both bingo facilities and to customer service. To accomplish this, a number of changes are required to the business model, financial sharing model, stakeholder relationship model, the regulatory model and the operational model. Industry stakeholders, comprising charities, site service providers, municipalities and OLG, have agreed on a comprehensive plan to sustain this important source of charity fundraising in Ontario. The plan has five key elements:

- Deployment – the 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 and refining the operations model to meet regulatory and RG standards;
- 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 sets standards on customer service, facilities and a brand for the industry; and
- Marketing Strategies – strategies, plans and processes for player communications and a loyalty program.

## 4. Horse Racing Integration

OLG is working with the Ontario government and the horse racing industry to support and contribute to a vibrant and sustainable horse racing industry in Ontario. OLG is examining options for integrating horse racing into the provincial gaming strategy and is currently assessing products related to this initiative.

Racetracks with OLG slot facilities, live race dates and five-year funding under the Horse Racing Partnership Plan will have the option for leases with a guaranteed term to 2019. This aligns with the Ontario government's commitment for stable funding to the horse racing industry over the next five years under the Horse Racing Partnership Plan.

In addition, OLG will continue to provide marketing and business expertise to Ontario Horse Racing to support its work with the horse racing industry. OLG will advertise and cross-promote with racetracks to publicize horse racing across the province and will provide its expertise in responsible gambling to the horse racing industry as part of integration.

## 5. Customer Management Program

Historically, OLG implemented multiple methods of capturing customer information and stored that information in many 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 is enabling OLG to have a single view of the customer whether they interact with OLG or with a private sector service provider. Customer Management will also improve OLG's capability to deliver RG programs, adhere to Government policy and ensure a consistent and accurate customer experience across OLG's products, channels and services.

## 6. Gaming Management System ("GMS") Program

OLG is replacing the GMS that tracks activities on each of the more than 12,500 slot machines in OLG's 19 Slots and Casino locations throughout Ontario.

The new GMS 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 game integrity, manage player protection, conduct complaint investigations, manage fraud and facilitate dispute resolution.

## Market Trends

### Lottery

The Canadian lottery market increased by 2.8 per cent to over $8.0 billion in fiscal 2012–13 following a 1.8 per cent decrease in fiscal 2011–12.

OLG lottery sales, which account for over 40 per cent of total lottery sales in Canada, is larger than the combined lottery sales of Atlantic Lottery Corporation, British Columbia Lottery Corporation ("BCLC") and Western Canada Lottery Corporation.

### Canadian casino gaming

The Canadian casino-style gaming market decreased by 1.8 per cent to just more than $10 billion in fiscal 2012–13.

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.

### U.S. casino gaming

Of the top 12 U.S. jurisdictions with commercial casino revenue of $1 billion or more, four states marked a gaming revenue increase in calendar 2013: Louisiana, Nevada, New York and Ohio.

In Las Vegas, the largest U.S. casino market, gaming revenue declined by 10.4 per cent and 9.3 per cent in the 2008 and 2009 calendar years respectively from pre-recession levels, before rebounding by 4.1 per cent to $5.8 billion in the 2010 calendar year. In addition, the most recent four years have seen continued growth with gaming revenue reaching $6.5 billion in the 2013 calendar year, which is still 4.7 per cent lower than the pre-recession record of $6.8 billion set in the 2007 calendar year.

Atlantic City, New Jersey, the third-largest U.S. casino market, saw gaming revenue decline over the past seven years from a pre-recession high of $5.2 billion in calendar year 2006 to $2.9 billion in calendar year 2013.

The opening of casinos in Pennsylvania triggered the decline in Atlantic City gaming revenue in the 2007 calendar year, which was then worsened by the economic downturn of 2008 and the subsequent slow recovery.

## Internet Gaming

Gaming industry analysts estimated the total Canadian iGaming market in 2010 to be at $800 million to $1 billion.

Over the past four fiscal years there have been a number of important milestones with regard to iGaming in Canada:

- In July 2010, OLG received a mandate from the Ontario government and its Board of Directors to deliver an iGaming program. Following a competitive procurement process, GTECH (formerly Boss Media AB, a part of SPIELO G2) was selected in April 2013 as OLG's primary service provider to provide interactive casino-style games for online play including slots, video poker games and table games.
- Also in July 2010, the British Columbia Lottery Corporation ("BCLC") became the first North American jurisdiction to offer online gaming over the Internet. PlayNow.com, BCLC's iGaming site, offers online players in British Columbia lottery products, bingo, sports betting and casino-style games including slots, table games and poker. In fiscal 2012–13, PlayNow.com generated more than $73 million in gaming revenue.
- In December 2010, Loto-Québec became the second North American jurisdiction to offer online gaming over the Internet. Its Espacejeux.com gaming site currently offers poker, slots, table games, sports betting and lottery games.
- In February 2011, BCLC and Loto-Québec partnered to offer online poker through the Canadian Poker Network in order to achieve the critical mass of players that is required to make online poker successful for their clientele.
- In November 2012, the minister responsible for the Saskatchewan Liquor and Gaming Authority decided the Province would not offer online gaming, stating that the risks outweighed the benefits. Alberta is currently considering whether to enter the Internet gaming market.
- In January 2013, Manitoba Lotteries officially introduced online gaming over the Internet for players in Manitoba. The newly launched site is provided by BCLC and based on British Columbia's PlayNow.com business model, with many of the same games, RG tools and a shared poker network.
- The Atlantic Lottery Corporation is currently exploring options for a potential iGaming solution. No decisions have been made.

There are a number of risk factors that could potentially restrict growth levels in the Ontario Internet-based gaming market. These include, among other factors, changes to government legislation at either the federal or the provincial level, changes to consumer opinions relating to iGaming and changes to banking and financial regulations regarding the processing of iGaming transactions in both Canada and the United States.

Notably, on December 23, 2011, the United States Department of Justice Office of Legal Counsel issued a Memorandum Opinion stating that the federal Interstate Wire Act of 1961 prohibited online betting only for sporting events or contests, and did not apply to lottery tickets sold online. This has paved the way for several states to investigate options and legislation required to facilitate or enter into iGaming within their own state boundaries. In March 2012, Illinois became the first state to sell individual lottery tickets online. Other U.S. states, including California, Delaware and Mississippi, are considering offering lottery tickets for sale online.

Even in the absence of federal standards to regulate online gaming, several U.S. states have passed legislation approving iGaming, a market that may reach $7.4 billion by 2017. In 2011, Nevada became the first state to pass a statute authorizing iGaming. In February 2013, New Jersey's governor signed legislation authorizing online gaming in that state. In June 2013, Nevada passed legislation putting the state on a path toward striking online gaming compacts not only with other U.S. states, but with tribal and foreign governments as well. In November 2013, Delaware became the first state to offer a full suite of online casino-style gaming with slots, blackjack and poker web portals.

## 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 useful lives and residual value of depreciable assets, recoverability of property, plant and equipment, provisions, 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 not limited to, 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 Audit and Risk Management Committee 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 | | 2013–14 | | 2012–13 | $ Variance | % Variance |
|---|---|---|---|---|---|---|
| OLG Casino Brantford | **$** | **106.8** | $ | 110.8 | **(4.0)** | (3.6) |
| OLG Slot Operations at Great Blue Heron Charity Casino** | | **70.2** | | 74.2 | **(4.0)** | (5.4) |
| OLG Casino Point Edward | | **48.2** | | 49.0 | **(0.8)** | (1.6) |
| OLG Casino Sault Ste. Marie | | **25.3** | | 26.7 | **(1.4)** | (5.2) |
| OLG Casino Thousand Islands | | **66.7** | | 71.5 | **(4.8)** | (6.7) |
| OLG Casino Thunder Bay | | **45.9** | | 48.8 | **(2.9)** | (5.9) |
| OLG Slots at Ajax Downs | | **178.3** | | 180.3 | **(2.0)** | (1.1) |
| OLG Slots at Clinton Raceway | | **11.3** | | 12.4 | **(1.1)** | (8.9) |
| OLG Slots at Dresden Raceway | | **14.0** | | 14.2 | **(0.2)** | (1.4) |
| OLG Slots at Flamboro Downs | | **112.1** | | 116.7 | **(4.6)** | (3.9) |
| OLG Slots at Fort Erie Race Track* | | **–** | | 2.3 | **(2.3)** | (100.0) |
| OLG Slots at Georgian Downs | | **117.9** | | 123.4 | **(5.5)** | (4.5) |
| OLG Slots at Grand River Raceway | | **38.9** | | 41.3 | **(2.4)** | (5.8) |
| OLG Slots at Hanover Raceway | | **19.3** | | 21.7 | **(2.4)** | (11.1) |
| OLG Slots at Hiawatha Horse Park* | | **–** | | 2.7 | **(2.7)** | (100.0) |
| OLG Slots at Kawartha Downs | | **57.5** | | 61.6 | **(4.1)** | (6.7) |
| OLG Slots at Mohawk Racetrack | | **135.9** | | 147.3 | **(11.4)** | (7.7) |
| OLG Slots at Rideau Carleton Raceway | | **128.4** | | 132.0 | **(3.6)** | (2.7) |
| OLG Slots at Sudbury Downs | | **44.3** | | 47.6 | **(3.3)** | (6.9) |
| OLG Slots at Western Fair District | | **99.2** | | 102.1 | **(2.9)** | (2.8) |
| OLG Slots at Windsor Raceway* | | **–** | | 4.0 | **(4.0)** | (100.0) |
| OLG Slots at Woodbine Racetrack | | **602.7** | | 576.7 | **26.0** | 4.5 |
| OLG Slots at Woodstock Raceway | | **25.9** | | 25.2 | **0.7** | 2.8 |
| **Total OLG Slots and Casinos (including Great Blue Heron Slot Machine Facility)** | **$** | **1,948.8** | $ | 1,992.5 | **(43.7)** | (2.2) |

**closed effective April 30, 2012.*

***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 | | 2013–14 | | 2012–13 | $ Variance | % Variance |
|---|---|---|---|---|---|---|
| Caesars Windsor | $ | **229,456** | $ | 227,644 | **1,812** | 0.8 |
| Casino Rama | | **362,386** | | 394,047 | **(31,661)** | (8.0) |
| Niagara Casinos | | **565,530** | | 590,948 | **(25,418)** | (4.3) |
| **Total Resort Casinos** | **$** | **1,157,372** | $ | 1,212,639 | **(55,267)** | (4.6) |

# Key Economic Impacts:

## OLG Resort Casinos

*Economic Impact of Operations as of and for the year ended March 31, 2014*

| Facility | Opening Date | Number of Employees | Annual Payroll | Revenue to Municipality* | Number of Patrons | Number of Slots | Gaming Tables |
|---|---|---|---|---|---|---|---|
| | | | *(in thousands of dollars)* | | | | |
| Caesars Windsor | May 17, 1994 | 2,844 | $ 146,370 | $ 8,805 | 3,564,724 | 2,269 | 84 |
| Casino Rama | Jul 31, 1996 | 2,552 | 111,845 | ** | 3,002,985 | 2,294 | 116 |
| Niagara Casinos | Dec 9, 1996 & June 10, 2004 | 3,936 | 195,661 | 21,264 | 7,375,392 | 4,521 | 174 |
| **Total Resort Casinos** | | **9,332** | **$ 453,876** | **$ 30,069** | **13,943,101** | **9,084** | **374** |

**The City of Niagara Falls and the City of Windsor receive the following as defined in the agreement:*
*i. 5.25 per cent on the first $65 million of annual slot revenue; plus*
*ii. 3.00 per cent on the next $135 million of annual slot revenue; plus*
*iii. 2.50 per cent on the next $300 million of annual slot revenue; plus*
*iv. 0.50 per cent on the remainder of annual slot 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, 2014*

| Facility | Opening Date | Number of Employees | | Annual Payroll | | Revenue to Municipality* | Number of Patrons** | Number of Slots | Gaming Tables |
|---|---|---|---|---|---|---|---|---|---|
| | | | | *(in thousands of dollars)* | | | | | |
| OLG Casino Brantford | Nov 17, 1999 | 881 | $ | 40,075 | $ | 5,046 | 1,257,249 | 540 | 57 |
| OLG Slot Operations at Great Blue Heron Charity Casino | May 3, 2000 | *** | | *** | | **** | 1,285,838 | 539 | ***** |
| OLG Casino Point Edward | Apr 18, 2000 | 342 | | 17,366 | | 2,480 | 620,068 | 450 | 27 |
| OLG Casino Sault Ste. Marie | May 19, 1999 | 275 | | 13,328 | | 1,309 | 584,181 | 430 | 13 |
| OLG Casino Thousand Islands | Jun 20, 2002 | 403 | | 17,806 | | 3,420 | 721,596 | 481 | 22 |
| OLG Casino Thunder Bay | Aug 28, 2000 | 315 | | 14,997 | | 2,385 | 806,652 | 450 | 11 |
| **Totals** | | **2,216** | **$** | **103,572** | **$** | **14,640** | **5,275,584** | **2,890** | **130** |

*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 agreement:*
*i. 5.25 per cent on the first $65 million of annual slot revenue; plus*
*ii. 3.00 per cent on the next $135 million of annual slot revenue; plus*
*iii. 2.50 per cent on the next $300 million of annual slot revenue; plus*
*iv. 0.50 per cent on the remainder of annual slot revenue; plus*
*v. 4.00 per cent on table game revenue, where applicable.*
***Great Blue Heron patron figures are based on entire facility.*
****248 employees of Great Blue Heron Gaming Company work in the slot operations. Annual payroll is $13.3 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 2013–14.*
******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, 2014*

| Facility | Opening Date | Number of Employees | Annual Payroll | Revenue to Municipality* | Number of Patrons | Number of Slots |
|---|---|---|---|---|---|---|
| | | | *(in thousands of dollars)* | | | |
| OLG Slots at Ajax Downs | Feb 28, 2006 | 326 | $ 14,733 | $ 6,812 | 1,670,929 | 830 |
| OLG Slots at Clinton Raceway | Aug 24, 2000 | 85 | 4,243 | 594 | 161,087 | 123 |
| OLG Slots at Dresden Raceway | Apr 18, 2001 | 83 | 4,322 | 732 | 167,538 | 148 |
| OLG Slots at Flamboro Downs | Oct 11, 2000 | 204 | 10,053 | 4,825 | 1,028,249 | 806 |
| OLG Slots at Georgian Downs | Nov 27, 2001 | 314 | 13,512 | 5,001 | 1,161,510 | 979 |
| OLG Slots at Grand River Raceway | Dec 4, 2003 | 165 | 6,934 | 2,042 | 534,541 | 238 |
| OLG Slots at Hanover Raceway | Feb 19, 2001 | 94 | 4,696 | 1,013 | 265,480 | 131 |
| OLG Slots at Kawartha Downs | Nov 22, 1999 | 164 | 8,365 | 3,016 | 670,025 | 460 |
| OLG Slots at Mohawk Racetrack | Aug 10, 1999 | 224 | 11,283 | 5,537 | 1,038,185 | 857 |
| OLG Slots at Rideau Carleton Raceway | Feb 16, 2000 | 243 | 12,528 | 5,314 | 1,641,375 | 1,252 |
| OLG Slots at Sudbury Downs | Nov 26, 1999 | 151 | 7,794 | 2,327 | 474,526 | 404 |
| OLG Slots at Western Fair District | Sep 28, 1999 | 292 | 13,530 | 4,440 | 1,150,766 | 756 |
| OLG Slots at Woodbine Racetrack | Mar 27, 2000 | 720 | 34,119 | 15,476 | 4,986,310 | 3,005 |
| OLG Slots at Woodstock Raceway | Jun 20, 2001 | 92 | 4,691 | 1,357 | 301,334 | 235 |
| **Totals** | | **3,157** | **$ 150,803** | **$ 58,487** | **15,251,855** | **10,224** |

**Municipalities that host an OLG Casino or a Slots at Racetracks facility receive the following as defined in the agreement:*
*i. 5.25 per cent on the first $65 million of annual slot revenue; plus*
*ii. 3.00 per cent on the next $135 million of annual slot revenue; plus*
*iii. 2.50 per cent on the next $300 million of annual slot revenue; plus*
*iv. 0.50 per cent on the remainder of annual slot 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.

**Tom Marinelli**
*Acting President and Chief Executive Officer*

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

*June 26, 2014*

# 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, 2014 and March 31, 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended March 31, 2014 and March 31, 2013, 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, 2014 and March 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years ended March 31, 2014 and March 31, 2013 in accordance with International Financial Reporting Standards.

KPMG LLP

**Chartered Professional Accountants,**
**Licensed Public Accountants**
*Toronto, Ontario*

*June 26, 2014*

# Consolidated Financial Statements

## Consolidated Statements of Financial Position

*As at March 31, 2014 and 2013*
*(in thousands of dollars)*

| | Notes | March 31, 2014 | March 31, 2013 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | $ 311,680 | $ 377,290 |
| Trade and other receivables | 6 | 96,242 | 107,944 |
| Prepaid expenses | | 38,827 | 28,302 |
| Inventories | 7 | 24,642 | 25,649 |
| **Total current assets** | | 471,391 | 539,185 |
| **Non-current assets** | | | |
| Restricted cash | 8 | 175,906 | 225,480 |
| Property, plant and equipment | 9 | 1,328,231 | 1,440,343 |
| Goodwill | | 1,776 | 1,776 |
| **Total non-current assets** | | 1,505,913 | 1,667,599 |
| **Total assets** | | **$ 1,977,304** | **$ 2,206,784** |
| **Liabilities and Equity** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 10 | $ 292,353 | $ 380,414 |
| Provisions | 11 | 7,635 | 12,119 |
| Due to operators | 15 | 38,575 | 45,666 |
| Due to Rama First Nation | 16 | 1,972 | 2,192 |
| Due to the Government of Canada | 18 | 15,735 | 17,954 |
| Deferred revenues | | 8,885 | 9,483 |
| Current portion of long-term debt | 20 | 15,275 | 51,571 |
| **Total current liabilities** | | 380,430 | 519,399 |
| **Non-current liabilities** | | | |
| Long-term debt | 20 | 68,796 | 88,606 |
| Employee benefits | 22 | 14,070 | 14,442 |
| **Total non-current liabilities** | | 82,866 | 103,048 |
| **Total liabilities** | | **463,296** | **622,447** |
| **Equity** | | | |
| Retained earnings | | 1,313,243 | 1,371,709 |
| Contributed surplus | | 62,345 | 62,345 |
| Reserves | 8 | 138,420 | 150,283 |
| **Total equity** | | 1,514,008 | 1,584,337 |
| **Total liabilities and equity** | | **$ 1,977,304** | **$ 2,206,784** |

**Approved on behalf of the Board**

**Philip Olsson**
*Chair*

**Lori O'Neill**
*Director*

*Related party transactions (Note 14)*
*Commitments (Note 23)*
*Contingencies (Note 24)*
*Subsequent events (Notes 4.f(iii) and 23)*

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

## Consolidated Statements of Comprehensive Income

*For the years ended March 31, 2014 and 2013*
*(in thousands of dollars)*

| | Notes | March 31, 2014 | March 31, 2013 |
|---|---|---|---|
| **Revenues** | | | |
| Lottery | | $ 3,387,571 | $ 3,287,469 |
| Charitable gaming | | 73,817 | 39,876 |
| Resort casinos | | 1,244,946 | 1,297,145 |
| OLG slots and casinos | | 1,964,044 | 2,008,081 |
| | | **6,670,378** | **6,632,571** |
| **Expenses** | | | |
| Lottery | | 2,502,832 | 2,405,580 |
| Charitable gaming | | 105,042 | 61,816 |
| Resort casinos | | 1,369,182 | 1,373,033 |
| OLG slots and casinos | | 954,332 | 1,197,492 |
| | | **4,931,388** | **5,037,921** |
| **Income before the undernoted** | | **1,738,990** | **1,594,650** |
| Other income | | 45,389 | 39,984 |
| Finance income | 13 | 3,109 | 3,533 |
| Finance costs | 13 | (5,866) | (6,446) |
| Foreign exchange gain | 21.e | 6,757 | 7,896 |
| Other charges | 19 | (27,429) | (80,682) |
| **Net income and comprehensive income** | | **$ 1,760,950** | **$ 1,558,935** |

*Segmented information (Note 25)*

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

## Consolidated Statements of Changes in Equity

*For the years ended March 31, 2014 and 2013*
*(in thousands of dollars)*

| | Retained earnings | Contributed surplus | Capital renewals reserves | Operating reserves | Severance reserves | Total |
|---|---|---|---|---|---|---|
| **Balance at March 31, 2012** | **$ 1,483,174** | **$ 62,345** | **$ 21,984** | **$ 57,829** | **$ 46,270** | **$ 1,671,602** |
| Net income and comprehensive income | 1,558,935 | – | – | – | – | 1,558,935 |
| Contributions or distributions | | | | | | |
| Transfers from reserves | (24,200) | – | 28,924 | (3,242) | (1,482) | – |
| Payments to the Province of Ontario | (1,646,200) | – | – | – | – | (1,646,200) |
| **Balance at March 31, 2013** | **$ 1,371,709** | **$ 62,345** | **$ 50,908** | **$ 54,587** | **$ 44,788** | **$ 1,584,337** |
| 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) |
| **Balance at March 31, 2014** | **$ 1,313,243** | **$ 62,345** | **$ 39,431** | **$ 53,697** | **$ 45,292** | **$ 1,514,008** |

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

## Consolidated Statements of Cash Flows

*For the years ended March 31, 2014 and 2013*
*(in thousands of dollars)*

| | Notes | March 31, 2014 | March 31, 2013 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net income and comprehensive income | | $ 1,760,950 | $ 1,558,935 |
| Adjustments to reconcile profit for the period to net cash from operating activities: | | | |
| Amortization | 9 | 187,230 | 247,449 |
| Loss on disposal of property, plant and equipment | 9 | 2,502 | 2,003 |
| Settlement of loans receivable | | – | 16,991 |
| Net finance costs | | 2,757 | 2,913 |
| Impairment loss on property, plant and equipment | 9 | 27,429 | – |
| Other long-term employee benefits | 22.c | (372) | (7,125) |
| Operating cash flows before change in non-cash working capital | | 1,980,496 | 1,821,166 |
| Change in non-cash working capital items: | | | |
| Decrease (increase) in trade and other receivables | | 11,702 | (30,176) |
| (Increase) decrease in prepaid expenses | | (10,525) | 5,809 |
| Decrease in inventories | | 1,007 | 1,028 |
| (Decrease) increase in trade and other payables | | (82,694) | 75,925 |
| (Decrease) in provisions | | (4,484) | (43,350) |
| (Decrease) increase in due to operators | | (7,091) | 7,556 |
| (Decrease) increase in due to Rama First Nation | | (220) | 599 |
| (Decrease) increase in due to the Government of Canada | | (2,219) | 2,837 |
| (Decrease) in deferred revenues | | (598) | (2,940) |
| **Net cash from operating activities** | | **$ 1,885,374** | **$ 1,838,454** |
| **Cash flows used in investing activities** | | | |
| Interest received | | 3,109 | 3,533 |
| Issuance of loans receivable | | – | (1,554) |
| Proceeds received on loans receivable | | – | 4,742 |
| Capital expenditures | | (103,288) | (108,234) |
| Proceeds on disposal of property, plant and equipment | | 910 | 1,121 |
| Decrease (increase) in restricted cash | | 49,574 | (27,408) |
| **Net cash used in investing activities** | | **$ (49,695)** | **$ (127,800)** |
| **Cash flows used in financing activities** | | | |
| Interest paid | | (5,866) | (6,446) |
| Increase in long-term debt | | – | 19,215 |
| Repayments of long-term debt | | (64,144) | (59,826) |
| Payments to the Province of Ontario | | (1,831,279) | (1,646,200) |
| **Net cash used in financing activities** | | **$ (1,901,289)** | **$ (1,693,257)** |
| (Decrease) increase in cash and cash equivalents | | (65,610) | 17,397 |
| Cash and cash equivalents, beginning of year | | 377,290 | 359,893 |
| **Cash and cash equivalents, end of year** | | **$ 311,680** | **$ 377,290** |
| Supplemental disclosure relating to non-cash financing and investing activities: | | | |
| Acquisition of property, plant and equipment through finance leases | | $ 8,038 | $ 5,046 |
| Acquisition of property, plant and equipment not yet paid for | | $ 3,376 | $ 8,743 |

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

# Notes to the Consolidated Financial Statements

*Years ended March 31, 2014 and 2013*
*(tabular amounts in thousands of Canadian dollars)*

## 1. Reporting entity

The 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, 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 Caesars Entertainment Windsor Limited ("CEWL"), which superseded Windsor Casino Limited on June 6, 2012, CHC Casinos Canada Limited, Falls Management Group, L.P. and Great Blue Heron Gaming Company for the operation of 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 26, 2014.

## 2. Modernizing Lottery and Gaming in Ontario

On March 12, 2012, then Finance Minister Dwight Duncan 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 Internet Gaming 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 of the racetrack facilities.

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, Request for Pre-Qualification ("RFPQ") and Request for Proposal ("RFP"). OLG is currently evaluating RFPQs for the lottery service provider and various land-based gaming service providers. At the end of this RFPQ process, pre-qualified service providers will be able to participate in the RFP process, expected to occur in fiscal 2014–15. As of the date of these Consolidated Financial Statements, OLG was completing the last of six RFPQs for land-based gaming service providers and had initiated the RFP process for the East Gaming Bundle. The Lottery RFPQ was published on December 14, 2012 and closed on April 30, 2013. The Corporation expects the procurement process for lottery and gaming to continue through the 2014–15 fiscal year.

## 3. Basis of preparation

### a. Statement of compliance

These Consolidated Financial Statements include the accounts of the Corporation and its wholly owned subsidiary 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 are 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 subsequent Notes. These items and the Notes in which they are discussed appear below:

- Property, plant and equipment useful lives and residual values (Note 4.l – Significant accounting policies - Property, plant and equipment)
- Recoverability of property, plant and equipment (Note 9 – Property, plant and equipment)

- Provisions (Note 11)
- Valuation of financial instruments (Note 21 – Financial risk management and financial instruments)
- Employee benefit liabilities (Note 22 – Employee benefits)
- 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, 2014 and March 31, 2013.

### a. Basis of consolidation

The Consolidated Financial Statements include the accounts of the Corporation and its 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 Niagara Fallsview Casino Resort (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, Canadian dollars, 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. Revenue from tickets sold to consumers 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 consumer. Tickets issued as a result of the redemption of free ticket prizes are not recorded as revenue.

ii) Charitable Gaming

Charitable Gaming products are sold to the public by Charitable Gaming Centre service providers. Revenue from paper break open tickets ("BOT") is recognized when the ticket is sold to the consumer. For all other Charitable Gaming products, revenue is recognized, net of prizes paid, in the same period the game is played.

iii) Slot and table games

Gaming revenue from slot and table game operations is recognized, net of prizes paid, in the same period the game is played. Gaming revenue is 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 centre 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 Charitable Gaming 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 consumers 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 Charitable Gaming's paper BOT is recognized when the ticket is sold to the consumer 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 commission of two per cent 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) Charitable Gaming

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

Charities and non-profit agencies receive a commission based on percentages of net win, adjusted net win, total revenue or non-gaming revenue.

(iii) Site holders

Prior to April 1, 2013, racetrack site holders were entitled to receive twenty per cent of the revenue generated from slots, or other amounts as agreed to, as outlined in the site holder agreement with the corresponding racetrack operators; half of which or ten per cent was then owed to the horse racing industry. The payments were recognized in commissions expense in Note 25. Three of the site holder agreements were terminated by the Corporation on April 30, 2012, one during fiscal 2012–13 and the remaining 14 effective March 31, 2013.

Effective April 1, 2013, the Corporation entered into short-term binding agreements with 11 facilities on a month-to-month basis and lease agreements with three facilities for a term of five years. The agreements have been recognized as leases as disclosed in Note 4.t. This enabled 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. The payments are recognized in facilities expense in Note 25.

Subsequent to March 31, 2014, the Corporation entered into a lease agreement with one of the 11 facilities mentioned above for a term of five years commencing 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 as defined in the Municipal Contribution Agreement:

i. 5.25 per cent on the first $65 million of annual slot revenue; plus

ii. 3.00 per cent on the next $135 million of annual slot revenue; plus

iii. 2.50 per cent on the next $300 million of annual slot revenue; plus

iv. 0.50 per cent on the remainder of annual slot revenue; plus

v. 4.00 per cent on table game revenue, where applicable.

Prior to April 1, 2013, municipalities that hosted an OLG Casino or a Slots at Racetracks facility received five per cent of revenue from slot machines up to a total of 450 slot machines and two per cent of revenue from slot machines over 450.

In fiscal 2012–13, under the terms of the agreements between Fallsview and the City of Niagara Falls, and Caesars Windsor and the City of Windsor, these municipalities received compensatory payments of $3,000,000 each from the Corporation.

Municipalities that host the Corporation's Charitable Gaming Centres receive a commission based on either a percentage of total revenue or net win or a percentage of adjusted net win.

(v) Mississaugas of Scugog Island First Nation

As the host community of the slot machines at the Great Blue Heron Slot Machine Facility, the Mississaugas of Scugog Island First Nation receive 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, 2013, which was the date the original agreement expired.

## 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 Charitable Gaming proceeds due from Charitable Gaming Centres' service providers for Charitable Gaming sales net of commissions and prizes paid and amounts due from customers of Resort Casinos.

Collectability 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 is 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:

| Asset | Rate |
|---|---|
| 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 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 of 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 an 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 in terms of which 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

An operating segment is a 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 operating 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 Corporation adopted the following accounting standards on April 1, 2013:

(i) IFRS 7, Financial Instruments: Disclosures (amended 2011) ("IFRS 7")

On April 1, 2013, the Corporation adopted the amendments to the disclosure requirements in IFRS 7. The amendments require information about all recognized financial instruments that are offset in accordance with IAS 32, Financial Instruments: Presentation ("IAS 32"). The Corporation has assessed the impact of these amendments and determined it did not have a material impact on the Consolidated Financial Statements.

(ii) IFRS 10, Consolidated Financial Statements ("IFRS 10")

On April 1, 2013, the Corporation adopted IFRS 10, which replaced the consolidation guidance contained in IAS 27, Consolidated and Separate Financial Statements. IFRS 10 provides a single model to be applied in the control analysis for all investees. The Corporation has assessed the impact of the new standard and determined it did not have a material impact on the Consolidated Financial Statements.

(iii) IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12")

On April 1, 2013, the Corporation adopted IFRS 12, which contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. These disclosures provide information to enable users to evaluate the nature of, and the risks associated with, an entity's financial position, financial performance and cash flows. The Corporation has assessed the impact of the new standard and determined it did not have a material impact on the Consolidated Financial Statements.

(iv) IFRS 13, Fair Value Measurement ("IFRS 13")

On April 1, 2013, the Corporation adopted IFRS 13, which aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The disclosures required under IFRS 13 are included in Note 21.

(v) IAS 19, Employee Benefits (amended 2011) ("IAS 19")

On April 1, 2013, the Corporation adopted the amendments in IAS 19, which eliminated the use of the 'corridor' approach and mandates all remeasurement impacts be recognized in other comprehensive income and clarified when an entity should recognize a liability and an expense for termination benefits. The Corporation has assessed the impact of these amendments and determined it did not have a material impact on the Consolidated Financial Statements.

## z. Accounting standards issued but not yet effective

A number of new accounting standards, and amendments to standards and interpretations, are not yet effective as at March 31, 2014, and have not been applied in preparing these Consolidated Financial Statements.

(i) IFRS 9, Financial Instruments ("IFRS 9")

In November 2009, the IASB issued IFRS 9 and in October 2010, it published amendments to IFRS 9. IFRS 9 replaces IAS 39, Financial Instruments: Recognition and Measurement, and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. In February 2014, the IASB tentatively decided that IFRS 9 would be mandatorily effective for annual periods beginning on or after January 1, 2018. The Corporation is assessing the impact of this new standard on its Consolidated Financial Statements.

(ii) IAS 32 Offsetting Financial Assets and Liabilities

In December 2011, the IASB published amendments to IAS 32, which provide clarification on when an entity has a legally enforceable right to offset and clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The amendments are effective for annual reporting periods beginning on or after January 1, 2014. The Corporation does not expect the amendments to IAS 32 to have a material impact on its Consolidated Financial Statements.

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

In May 2013, the IAS issued amendments to IAS 36, Impairment of Assets ("IAS 36"), which reverse the unintended requirement in IFRS 13, 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. The amendments are effective for annual reporting periods beginning on or after January 1, 2014. The Corporation does not expect the amendments to IAS 36 to have a material impact on its Consolidated Financial Statements.

(iv) IFRIC 21, Levies ("IFRIC 21")

In May 2013, the IASB issued IFRIC 21 which provides guidance on accounting for levies in accordance with the requirements of IAS 37 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. IFRIC 21 is effective for annual reporting periods beginning on or after January 1, 2014 and is to be applied retrospectively. The Corporation is assessing the impact of IFRIC 21 on its Consolidated Financial Statements.

(v) 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 on or after July 1, 2014. 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, 2014 | March 31, 2013 |
|---|---|---|
| Trade receivables | $ 90,309 | $ 92,595 |
| Less: allowance for impairment | (3,890) | (4,597) |
| Trade receivables, net | 86,419 | 87,998 |
| Other receivables | 9,823 | 19,946 |
| **Trade and other receivables** | **$ 96,242** | **$ 107,944** |

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, 2014 | March 31, 2013 |
|---|---|---|
| Slot machine and table game parts | $ 3,811 | $ 4,334 |
| Lottery and charitable gaming tickets and paper | 13,666 | 14,750 |
| Security and surveillance parts | 810 | 979 |
| Food and beverage | 3,102 | 2,954 |
| Retail | 422 | 343 |
| Other | 2,831 | 2,289 |
| **Inventories** | **$ 24,642** | **$ 25,649** |

Inventory costs, included in expenses, for the year ended March 31, 2014, were $97,513,000 (March 31, 2013 – $95,987,000). During fiscal 2013–14, the Corporation recorded inventory write-downs in expenses of $416,000 (March 31, 2013 – $464,000).

## 8. Restricted cash

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

| | March 31, 2014 | March 31, 2013 |
|---|---|---|
| Reserves (a) | | |
| Capital renewals | $ 39,431 | $ 50,908 |
| Operating | 53,697 | 54,587 |
| Severance | 45,292 | 44,788 |
| | 138,420 | 150,283 |
| Less: unrestricted capital renewals and operating (b) | (4,173) | (17) |
| Funded reserves balance | 134,247 | 150,266 |
| Prize funds on deposit (c) | 39,615 | 39,891 |
| Other (d) | 2,044 | 35,323 |
| **Restricted cash** | **$ 175,906** | **$ 225,480** |

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. Given the continuing negative cash flows at Caesars Windsor, the Corporation and the operator of Caesars Windsor have agreed that both the operating and capital renewals reserves at Caesars Windsor, totalling $4,173,000 at March 31, 2014 (March 31, 2013 – $17,000), although contractually set aside for the above uses, are available to fund current operations.

c. Prize funds on deposit of $39,615,000 (March 31, 2013 - $39,891,000) are funds set aside representing the estimate of gross prizes outstanding of $70,979,000 (March 31, 2013 – $70,652,000) less an estimate for prizes not expected to be claimed by consumers of $31,364,000 (March 31, 2013 – $30,761,000).

d. Other restricted cash includes interest earned and received at March 31, 2014. At March 31, 2013, the balance included unspent term loan proceeds representing restricted cash used for construction purposes at Caesars Windsor and for the renovation and expansion at Ajax Downs and Woodbine Racetrack. These funds were returned to Ontario Financing Authority during fiscal 2013–14.

## 9. Property, plant and equipment

### Cost

| | Land | Buildings | Furniture, fixtures and equipment | Leasehold improvements | Lottery gaming assets | OLG Slots and Casinos gaming assets | Assets under finance lease | Construction in progress and assets not yet in use | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at April 1, 2012** | $ 137,824 | $ 1,894,747 | $ 591,836 | $ 603,508 | $ 84,131 | $ 609,167 | $ 48,287 | $ 49,729 | $ 4,019,229 |
| Additions and assets put into use | – | 5,501 | 32,281 | 23,504 | 458 | 42,568 | 5,372 | (3,292) | 106,392 |
| Disposals and retirements | – | (1,128) | (25,490) | (2,045) | (2) | (54,792) | – | (456) | (83,913) |
| **Balance at March 31, 2013** | **$ 137,824** | **$ 1,899,120** | **$ 598,627** | **$ 624,967** | **$ 84,587** | **$ 596,943** | **$ 53,659** | **$ 45,981** | **$ 4,041,708** |
| **Balance at April 1, 2013** | $ 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) |
| **Balance at March 31, 2014** | **$ 137,824** | **$ 1,901,210** | **$ 585,998** | **$ 633,344** | **$ 84,680** | **$ 599,716** | **$ 60,496** | **$ 39,392** | **$ 4,042,660** |

### Accumulated amortization and accumulated impairment losses

| | Land | Buildings | Furniture, fixtures and equipment | Leasehold improvements | Lottery gaming assets | OLG Slots and Casinos gaming assets | Assets under finance lease | Construction in progress and assets not yet in use | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at April 1, 2012** | $ 41,091 | $ 970,954 | $ 474,671 | $ 445,192 | $ 66,505 | $ 421,876 | $ 14,416 | – | $ 2,434,705 |
| Amortization for the period | – | 54,459 | 42,870 | 72,913 | 6,473 | 67,635 | 3,099 | – | 247,449 |
| Disposals and retirements | – | (556) | (24,761) | (1,473) | (1) | (53,998) | – | – | (80,789) |
| **Balance at March 31, 2013** | **$ 41,091** | **$ 1,024,857** | **$ 492,780** | **$ 516,632** | **$ 72,977** | **$ 435,513** | **$ 17,515** | **–** | **$ 2,601,365** |

**Accumulated amortization and accumulated impairment losses (continued)**

| | Land | Buildings | Furniture, fixtures and equipment | Leasehold improvements | Lottery gaming assets | OLG Slots and Casinos gaming assets | Assets under finance lease | Construction in progress and assets not yet in use | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at April 1, 2013** | $ 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 |
| Disposals and retirements | – | (796) | (45,453) | (4,397) | – | (50,949) | – | – | (101,595) |
| **Balance at March 31, 2014** | **$ 41,091** | **$ 1,075,096** | **$ 499,264** | **$ 527,091** | **$ 79,020** | **$ 460,575** | **$ 32,292** | **–** | **$ 2,714,429** |

**Carrying amounts**

| | Land | Buildings | Furniture, fixtures and equipment | Leasehold improvements | Lottery gaming assets | OLG Slots and Casinos gaming assets | Assets under finance lease | Construction in progress and assets not yet in use | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at March 31, 2013** | $ 96,733 | $ 874,263 | $ 105,847 | $ 108,335 | $ 11,610 | $ 161,430 | $ 36,144 | $ 45,981 | $ 1,440,343 |
| **Balance at March 31, 2014** | **$ 96,733** | **$ 826,114** | **$ 86,734** | **$ 106,253** | **$ 5,660** | **$ 139,141** | **$ 28,204** | **$ 39,392** | **$ 1,328,231** |

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 transferred to OLG. At March 31, 2014, the net carrying amount of leased property, plant and equipment was $28,204,000 (March 31, 2013 – $36,144,000).

## *Capital expenditures by operating segment*

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

| For the fiscal year | Lottery | Charitable Gaming | Resort Casinos | OLG Slots and Casinos | Total |
|---|---|---|---|---|---|
| 2013–14 | $ 497 | $ 18,830 | $ 54,250 | $ 32,382 | $ 105,959 |
| 2012–13 | $ 1,192 | $ 14,049 | $ 58,313 | $ 32,838 | $ 106,392 |

## *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 their 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 was less than their carrying value and, as a result, an impairment loss of $27,429,000 was recognized in other charges in the Consolidated Statements of Comprehensive Income. The impairment loss relates to the Charitable Gaming operating 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, 2014.

## 10. Trade and other payables

| | March 31, 2014 | March 31, 2013 |
|---|---|---|
| Trade payables and accruals | $ 78,812 | $ 96,936 |
| Prizes payable | 39,615 | 39,891 |
| Short-term employee benefits | 44,548 | 46,579 |
| Gaming liability | 65,832 | 67,140 |
| Commissions payable | 15,609 | 30,461 |
| Site settlement accrual | 783 | 63,691 |
| Other payables and accruals | 47,154 | 35,716 |
| **Trade and other payables** | **$ 292,353** | **$ 380,414** |

Prizes payable comprise unclaimed and estimated Lottery and Charitable Gaming 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 the costs associated with negotiating new short-term binding agreements with site holders.

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 |
|---|---|---|---|---|
| **Balance at April 1, 2013** | $ 1,863 | $ 6,865 | $ 3,391 | $ 12,119 |
| Increases and additional provisions | 5,165 | – | 1,909 | 7,074 |
| Amounts paid | (3,842) | (1,791) | (657) | (6,290) |
| Amounts reversed | (800) | (3,775) | (693) | (5,268) |
| **Balance at March 31, 2014** | **$ 2,386** | **$ 1,299** | **$ 3,950** | **$ 7,635** |

### 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 2013–14, an additional $5,165,000 of potential legal claims was accrued, with an offsetting reduction of $3,842,000 due to payments to claimants. The $800,000 of legal claims reversed in fiscal 2013–14 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 2013–14, $1,791,000 of the accrued restructuring liabilities were paid and $3,775,000 of restructuring provisions were reversed as it was no longer likely they would be incurred. It is Management's expectation the remaining amounts will be paid during fiscal 2014–15.

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 2013–14, an additional $399,000 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 2013–14, an additional $1,510,000 of insurance claims was accrued, $657,000 of claims were settled and $693,000 of accrued claims were reversed as it was no longer likely they would be incurred.

## 12. Personnel expenses

Total personnel expenses for the year ended March 31, 2014 amounted to $873,289,000 (March 31, 2013 – $892,470,000).

## 13. Finance income and finance costs

| | | March 31, 2014 | | March 31, 2013 |
|---|---|---|---|---|
| Interest income on financial assets at fair value through profit and loss and loans and receivables | $ | 3,109 | $ | 3,533 |
| **Finance income** | **$** | **3,109** | **$** | **3,533** |
| Interest on bank overdraft and loans | $ | (1,334) | $ | (2,523) |
| Interest on obligations under finance lease | | (4,410) | | (3,855) |
| Other interest expenses | | (122) | | (68) |
| Total interest expense for financial liabilities not classified at fair value through profit and loss | | (5,866) | | (6,446) |
| **Finance costs** | **$** | **(5,866)** | **$** | **(6,446)** |
| **Net finance costs recognized in net income and comprehensive income** | **$** | **(2,757)** | **$** | **(2,913)** |

## 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 (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 ("WSIB") (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 ELT.

Key management personnel compensation comprised the following:

| | March 31, 2014 | March 31, 2013 |
|---|---|---|
| Short-term employee benefits | $ 3,552 | $ 3,988 |
| Post-employment benefits | 233 | 230 |
| | $ 3,785 | $ 4,218 |

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, 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, operated by CHC Casinos Canada Limited, an indirectly wholly owned subsidiary of Penn National Gaming, Inc. ("Penn").

  The Corporation and CHC Casinos Canada Limited along with other Penn-related entities entered into an interim operating agreement dated August 1, 2011 (the "Interim Operating Agreement"). The initial terms of the Interim Operating Agreement expired on September 30, 2012 and OLG exercised an option to extend the term on a month-to-month basis immediately following October 1, 2012, for up to a maximum period of 24 months. OLG may terminate the month-to-month arrangement at any time by providing two months' advance written notice.

- Caesars Windsor, operated by Caesars Entertainment Windsor Limited, 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, 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, 2013, was extended on a month-to-month basis for up to a maximum period of 24 months.

As at March 31, 2014, the amount due to operators was $38,575,000 (March 31, 2013 – $45,666,000).

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 is calculated, as defined, 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, 2014, the Attractor fee accrual included in due to operators was $3,823,000 (March 31, 2013 – $4,528,000). The Corporation's remaining commitment as at March 31, 2014 is $14,336,000.

b) Caesars Windsor

   Under the terms of a trademark 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 trademark 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, 2014, the amount included in due to operator in respect of the trademark licence agreement was $266,000 (March 31, 2013 – $2,957,000).

## 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, $4,866,000 was expensed (March 31, 2013 – $4,821,000) and included in facilities expense in Note 25.

b. The terms of various agreements provide for the designation and leasing of Additional Parking Lands, as defined, by Rama First Nation to Casino Rama with an annual rent payable of approximately $1,700,000, adjusted for inflation. While the designation and leases are not yet complete, the lands are permitted and currently in use at Casino Rama for parking. During the year, $2,185,000 was expensed (March 31, 2013 – $2,164,000) 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 key terms of the 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 of two successive options to extend the Post-2011 Contract for successive extension 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; and

(iii) The Corporation agreed to contribute $2,000,000 towards the capital cost of a gaming and executive development training centre upon presentation to and acceptance by the Corporation of a detailed business plan and development concept.

During the year, $7,394,000 was expensed in connection with the Post-2011 Contract (March 31, 2013 – $7,961,000) and included in facilities expense in Note 25. As at March 31, 2014, $580,000 (March 31, 2013 – $674,000) was due to Rama First Nation.

d. In connection with the Post-2011 Contract, Rama First Nation and the Corporation entered into agreements relating to the provision of fire protection and policing services to 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 $7,137,000 for the year ended March 31, 2014 (March 31, 2013 – $7,014,000). These payments were included in general and administration expenses in Note 25. At March 31, 2014, $1,285,000 (March 31, 2013 – $1,377,000) was due to Rama First Nation.

e. Pursuant to the terms of the 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, 2014. An amount of $745,000 was expensed in fiscal 2013–14 (fiscal 2012–13 – $738,000) 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. An amount of $375,000 was expensed in fiscal 2013–14 (fiscal 2012–13– $372,000) and is included in general and administration expenses in Note 25.

f. Under the Letter of Agreement entered into by the Corporation in January 2007 regarding the management and administration of leasehold improvement projects at Casino Rama, Rama First Nation contracts directly with the contractors selected by the Corporation. During the year, $308,000 (March 31, 2013 – $2,320,000) was paid to Rama First Nation under this Letter of Agreement to pay contractors involved in the acquisition of leasehold improvements. At March 31, 2014, $107,000 (March 31, 2013 – $141,000) 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 2013–14, $nil (fiscal 2012–13 – $2,662,000) was paid out of the capital reserve account to Rama First Nation under the Letter of Intent.

   Pursuant to the Letter of Intent, and 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 2013–14, $505,000 (March 31, 2013 – $417,000) 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 $245,461,000 for fiscal 2013–14 (fiscal 2012–13 – $257,056,000) and was recorded as an operating expense.

## 18. Due to the Government of Canada

As at March 31, 2014, the amount due to the Government of Canada was $15,735,000 (March 31, 2013 – $17,954,000). 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 to 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, 2014 | March 31, 2013 |
|---|---|---|
| Site settlement (a) | $ – | $ 80,682 |
| Impairment charge (b) | 27,429 | – |
| **Other charges** | **$ 27,429** | **$ 80,682** |

### a. Site settlement

The Corporation incurred site settlement costs of $80,682,000 for the year ended March 31, 2013, as a result of negotiating the new short-term binding agreements with site holders as disclosed in Note 4.f(iii). Part of the costs incurred were $16,991,000 of loans receivable that were settled on a non-cash basis and an additional $63,691,000 in compensatory costs. The payable for site settlement costs is disclosed in Note 10.

### b. Impairment charge

The Corporation recognized an impairment loss for the year ended March 31, 2014 of $27,429,000 (March 31, 2013 – $nil), as disclosed in Note 9.

## 20. Long-term debt

| | March 31, 2014 | March 31, 2013 |
|---|---|---|
| Caesars Windsor loan (a) | $ – | $ 32,345 |
| Ajax Downs loan (b) | – | 7,052 |
| Woodbine loan (c) | 32,279 | 53,069 |
| Obligation under finance lease (d) | 51,792 | 47,711 |
| | **84,071** | **140,177** |
| Less: current portion | (15,275) | (51,571) |
| **Long-term Debt** | **$ 68,796** | **$ 88,606** |

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 Ontario Financing Authority. The approval of the Minister of Finance is required for the Corporation to borrow funds for major capital expenditures.

### a. Caesars Windsor loan

In November 2008, the Corporation entered into a loan agreement with the Ontario Financing Authority for purposes of financing the renovation and expansion of Caesars Windsor and for financing the construction of the Windsor Clean Energy Centre (the "Energy Centre"). The Energy Centre was constructed to provide electricity, heating and cooling to the expanded Caesars Windsor facilities. The initial loan balance of $226,483,000 plus interest was repayable over five years in equal monthly payments of $4,092,206. The loan had interest at a rate of 3.2 per cent per annum and was unsecured. The loan was repaid during fiscal 2013–14.

### b. Ajax Downs loan

In June 2009, the Corporation entered into a loan agreement with the Ontario Financing Authority for purposes of financing the renovation and expansion of the slots facility at Ajax Downs. The initial loan balance of $18,524,000 plus interest was repayable over five years in equal monthly payments of $327,941. The loan had interest at a rate of 2.4 per cent per annum and was unsecured. The loan was repaid during fiscal 2013–14.

### c. Woodbine loan

In October 2010, the Corporation entered into a loan agreement with the Ontario Financing Authority 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 facility was converted to a term loan in May 2011. The initial loan balance for Phase A of $31,269,000, plus interest is repayable over five years in equal monthly payments of $560,904 until fiscal 2014–15 when the equal monthly payment changes 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 during fiscal 2012–13 and the related construction loan facility was converted to a term loan in January 2013. The initial loan balance for Phase B of $33,802,000, plus interest is repayable over five years in equal monthly payments of $597,222 until fiscal 2014–15 when the equal monthly payment changes 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.

### d. Obligations under finance leases

Effective March 2010, the Corporation entered into an amending agreement for an additional 15-year lease term with Maple Leaf Entertainment Inc., Canadian Niagara Hotels Inc., 1032514 Ontario Limited and Greenberg International Inc., to lease the facility which houses Casino Niagara and to license the adjacent parking facilities. The amending agreement extends the term of the original lease and licence agreements by an additional term of 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 $40,736,000 at March 31, 2014 (March 31, 2013 – $42,665,000).

During fiscal 2012–13, the Corporation entered into a five-year lease arrangement for the use of 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 $11,056,000 at March 31, 2014 (March 31, 2013 – $5,046,000).

### 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 | Obligations under finance leases | | Total |
|---|---|---|---|---|
| | Repayments | Principal | Interest | |
| 2015 | $ 10,106 | $ 5,169 | $ 4,260 | $ 19,535 |
| 2016 | 10,371 | 4,871 | 3,808 | 19,050 |
| 2017 | 6,733 | 4,619 | 3,408 | 14,760 |
| 2018 | 5,069 | 5,559 | 2,965 | 13,593 |
| 2019 | – | 4,344 | 2,510 | 6,854 |
| Thereafter | – | 27,230 | 7,632 | 34,862 |
| | **$ 32,279** | **$ 51,792** | **$ 24,583** | **$ 108,654** |

## 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. For the period of May 2013 to April 2014, the ARMC met regularly whereby all the members of the Board of Directors were members of the ARMC.

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 2013–14, 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.

### 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 with 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 ongoing 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, 2014, the Corporation had an allowance for impairment of $3,890,000 (March 31, 2013 – $4,597,000), which represented approximately 3.9 per cent (March 31, 2013 – 4.1 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 only in short-term debt securities with high credit ratings and minimal market risk. The Corporation has a formal policy in place for short-term investments which 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, and as a result, the 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 far 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 of minimal concern.

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

| **March 31, 2014** | **Carrying amount** | **Contractual cash flows** | **< 1 year** | **1–2 years** | **2–5 years** | **> 5 years** |
|---|---|---|---|---|---|---|
| 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 |
| | **$ 432,706** | **$ 458,651** | **$ 368,858** | **$ 19,474** | **$ 35,457** | **$ 34,862** |

| March 31, 2013 | | Carrying amount | | Contractual cash flows | | < 1 year | | 1–2 years | | 2–5 years | | > 5 years |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Trade and other payables | $ | 380,414 | $ | 380,414 | $ | 380,414 | $ | – | $ | – | $ | – |
| Due to operators | | 45,666 | | 45,666 | | 45,666 | | – | | – | | – |
| Due to Rama First Nation | | 2,192 | | 2,192 | | 2,192 | | – | | – | | – |
| Due to the Government of Canada | | 17,954 | | 17,954 | | 17,954 | | – | | – | | – |
| Long-term debt, including obligations under finance leases | | 140,177 | | 170,760 | | 57,283 | | 24,542 | | 48,373 | | 40,562 |
| | **$** | **586,403** | **$** | **616,986** | **$** | **503,509** | **$** | **24,542** | **$** | **48,373** | **$** | **40,562** |

## 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 one loan agreement entered into with the Ontario Financing Authority and obligations under finance leases. The obligations under finance leases (Note 20.d), and the term loan agreements have fixed interest rates for their entire terms and are currently subject to limited interest rate risk.

At March 31, 2014, the Corporation had cash and cash equivalents of $311,680,000 (March 31, 2013 – $377,290,000). 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. As a result, there is some exposure to foreign currency fluctuations and the Corporation's foreign exchange gain for the year ended March 31, 2014 was $6,757,000 (March 31, 2013 – $7,896,000).

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, 2014 | March 31, 2013 |
|---|---|---|
| Cash and cash equivalents | $ 16,621 | $ 19,957 |
| Trade and other payables | (3,524) | (3,246) |
| Obligations under finance lease | (11,056) | (5,046) |
| **Net exposure** | **$ 2,041** | **$ 11,665** |

All USD balances are shown in CAD equivalents.

Sensitivity analysis

A 10 per cent increase in the value of the USD at March 31, 2014 would have increased net income by $204,000. A 10 per cent decrease in the value of the USD at March 31, 2014 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 (e.g. as prices) or indirectly (e.g. 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 (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, 2014 or March 31, 2013.

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 period ended March 31, 2014 amounted to $19,336,000 (March 31, 2013 – $19,621,000).

### 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*, 1990, 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 $19,607,000 (March 31, 2013 – $20,073,000).

### c. Other long-term employee benefits

As a Schedule 2 employer under the *Workplace Safety and Insurance Act,* 1997, (the "Act"), the Corporation is individually responsible for the full cost of accident claims filed by its workers. The 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, 2014 was $15,129,000 (March 31, 2013 – $15,698,000), of which $14,070,000 (March 31, 2013 – $14,442,000) is included in non-current employee benefits liability and $1,059,000 (March 31, 2013 – $1,256,000) is included in trade and other payables (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 property and equipment.

The future minimum lease payments are approximately, as follows:

| | | March 31, 2014 |
|---|---|---|
| No later than 1 year | $ | 32,503 |
| Later than 1 year and not later than 5 years | | 93,836 |
| Later than 5 years | | 21,315 |
| | **$** | **147,654** |

## 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:

| | | |
|---|---|---|
| 2015 | $ | 39,519 |
| 2016 | | 32,125 |
| 2017 | | 25,268 |
| 2018 | | 20,117 |
| 2019 | | 15,450 |
| | | 132,479 |
| Thereafter | | 255,376 |
| | **$** | **387,855** |

## c. Suppliers

The Corporation has computer hardware maintenance agreements with future payments as at March 31, 2014 of approximately:

| | | |
|---|---|---|
| 2015 | $ | 8,930 |
| 2016 | | 3,234 |
| 2017 | | 2,849 |
| 2018 | | 2,781 |
| 2019 | | 669 |
| Thereafter | | 1,665 |
| | **$** | **20,128** |

## d. Caesars Windsor

In fiscal 2013–14, the Corporation transferred cash of $45,000,000 (fiscal 2012–13 – $60,500,000) to Caesars Windsor for its working capital requirements. The Corporation has committed to transfer up to $80,000,000 to Caesars Windsor in 2014–15 for working capital.

## e. Casino Rama

As part of the Corporation's fiscal 2012–13 capital budget, and in connection with the Post-2011 Contract, OLG approved six capital refresh projects (the "Refresh Project") consisting of an overall gaming floor refresh, a new consolidated west-entrance and expanded high limits room, a poker room and slot expansion, a new entertainment restaurant/pub, a new centre bar and an expanded waste management/recycling area. As at March 31, 2014, the Corporation is committed to construction contracts totalling $3,187,000 associated with the Refresh Project.

## f. OLG Slots and Casinos

Eleven of the Slots at Racetracks facilities have entered into short-term binding agreements commencing April 1, 2013 on a month-to-month basis. In addition, the Corporation entered into lease agreements with three facilities for terms of five years commencing April 1, 2013. Subsequent to March 31, 2014, the Corporation entered into a lease agreement with one of the 11 facilities mentioned above for a term of five years, also effective April 1, 2013 (Note 4.f(iii)). The Corporation is committed to make payments to occupy these premises which have been included in the obligations under operating leases disclosed above (Note 23.a).

## g. 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 ("OFNLP") 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 2013–14, $119,877,000 was expensed (fiscal 2012–13 – $119,901,000) 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, 2014.

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 as at March 31, 2011 and the residual value of certain Casino Rama property and equipment. On January 22, 2014, the arbitrator delivered his reasons dismissing the third party's claims in the Arbitration Matter entirely. The third party is now seeking to appeal the Arbitration Matter in the courts. The outcome of this proceeding is undeterminable at this time and no amounts have been accrued in the Consolidated Statements of Financial Position as at March 31, 2014.

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. Operating segments

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 includes Lotto, INSTANT and Sports products.

- 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.

| **March 31, 2014** | **Lottery** | **Charitable Gaming** | **Resort Casinos** | **OLG Slots and Casinos** | **Total** |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Gaming | $ 3,387,571 | $ 73,817 | $ 1,157,372 | $ 1,948,843 | $ 6,567,603 |
| Non-gaming | – | – | 87,574 | 15,201 | 102,775 |
| | **3,387,571** | **73,817** | **1,244,946** | **1,964,044** | **6,670,378** |
| **Expenses** | | | | | |
| 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 |
| | **2,502,832** | **105,042** | **1,369,182** | **954,332** | **4,931,388** |
| **Segment income (loss) before the undernoted** | **884,739** | **(31,225)** | **(124,236)** | **1,009,712** | **1,738,990** |
| 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) |
| **Segment income (loss)** | **$ 886,420** | **$ (60,743)** | **$ (103,033)** | **$ 1,038,306** | **$ 1,760,950** |
| Add: Win contribution (Note 17) | – | – | 231,414 | 14,047 | 245,461 |
| **Net Profit to the Province (a)** | **$ 886,420** | **$ (60,743)** | **$ 128,381** | **$ 1,052,353** | **$ 2,006,411** |

*(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 income (loss). The chief operating decision-maker, the ELT, considers NPP to be a key measure in evaluating decisions relating to the Corporation.*

| March 31, 2013 | | Lottery | | Charitable Gaming | | Resort Casinos | | OLG Slots and Casinos | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | | | |
| Gaming | $ | 3,287,469 | $ | 39,876 | $ | 1,212,639 | $ | 1,992,543 | $ | 6,532,527 |
| Non-gaming | | – | | – | | 84,506 | | 15,538 | | 100,044 |
| | | **3,287,469** | | **39,876** | | **1,297,145** | | **2,008,081** | | **6,632,571** |
| **Expenses** | | | | | | | | | | |
| Non-gaming | | – | | – | | 222,443 | | 36,860 | | 259,303 |
| Gaming and lottery operations | | 96,772 | | 13,792 | | 249,357 | | 258,466 | | 618,387 |
| Prizes | | 1,796,238 | | 9,472 | | – | | – | | 1,805,710 |
| Commissions | | 228,272 | | 20,045 | | – | | 389,475 | | 637,792 |
| Marketing and promotion | | 53,836 | | 3,452 | | 149,612 | | 90,290 | | 297,190 |
| Operators' fees | | – | | – | | 68,824 | | 4,022 | | 72,846 |
| Amortization | | 12,046 | | 1,780 | | 111,816 | | 121,807 | | 247,449 |
| General and administration | | 57,214 | | 4,898 | | 104,220 | | 89,254 | | 255,586 |
| Facilities | | 8,293 | | 627 | | 116,567 | | 78,250 | | 203,737 |
| Gaming Revenue Sharing Payment | | 55,514 | | 1,499 | | 25,922 | | 36,966 | | 119,901 |
| Win contribution (Note 17) | | – | | – | | 242,231 | | 14,825 | | 257,056 |
| Payments to the Government of Canada | | 97,395 | | 6,251 | | 82,041 | | 77,277 | | 262,964 |
| | | **2,405,580** | | **61,816** | | **1,373,033** | | **1,197,492** | | **5,037,921** |
| **Segment income (loss) before the undernoted** | | **881,889** | | **(21,940)** | | **(75,888)** | | **810,589** | | **1,594,650** |
| Other income | | 1,075 | | – | | 15,584 | | 23,325 | | 39,984 |
| Finance income | | 156 | | 16 | | 2,856 | | 505 | | 3,533 |
| Finance costs | | (67) | | (126) | | (5,221) | | (1,032) | | (6,446) |
| Foreign exchange gain (loss) | | – | | (5) | | 6,906 | | 995 | | 7,896 |
| Other charges | | – | | – | | – | | (80,682) | | (80,682) |
| **Segment income (loss)** | **$** | **883,053** | **$** | **(22,055)** | **$** | **(55,763)** | **$** | **753,700** | **$** | **1,558,935** |
| Add: Win contribution (Note 17) | | – | | – | | 242,231 | | 14,825 | | 257,056 |
| **Net Profit to the Province (a)** | **$** | **883,053** | **$** | **(22,055)** | **$** | **186,468** | **$** | **768,525** | **$** | **1,815,991** |

*(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 income (loss). The chief operating decision-maker, the ELT, considers NPP to be a key measure in evaluating decisions relating to the Corporation.*

## 26. Comparative figures

Certain comparative figures have been reclassified, where necessary, to reflect the current year's presentation.

This Annual Report is printed in English and French on Canadian-made Rolland Enviro100 paper, which is manufactured from 100 per cent post-consumer waste fibre, is Processed Chlorine Free (PCF) and uses BioGas in its production (an alternative "green energy" source produced from decomposing waste collected from landfill sites) to reduce greenhouse emissions and ozone-layer depletion.

Rolland Enviro100 saves the harvesting of mature trees, reduces solid waste that would have gone into landfill sites, uses 80 per cent less water than conventional paper manufacturing and helps reduce air and water pollution.

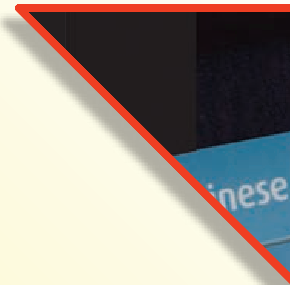
Certified

Processed
Chlorine Free

100% Post-Consumer
Waste Fibre

Recyclable Where
Facilities Exist

Green Energy
Source



www.olg.ca

www.modernolg.ca

**SAULT STE. MARIE**
70 Foster Drive, Suite 800
Sault Ste. Marie, ON P6A 6V2
705-946-6464

**TORONTO**
4120 Yonge Street, Suite 500
Toronto, ON M2P 2B8
416-224-1772

Ontario

An Operational Enterprise Agency of the Province of Ontario

**OLG Support Centre - Customer Inquiries**
1-800-387-0098
**The Ontario Problem Gambling Helpline**
1-888-230-3505

ISSN 1499 4887
*Ce rapport est également publié en français sous le nom de Rapport annuel 2013-2014 de la Société des loteries et des jeux de l'Ontario. Il est disponible en composant le 1-800-387-0098.*