GREAT CANADIAN GAMING CORPORATION

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## For the Three Month and Six Month Periods Ended June 30, 2014

*(Expressed in millions of Canadian dollars, except for per share information)*

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# INTRODUCTION

## Basis of Discussion and Analysis

This management's discussion and analysis ("MD&A") of the financial highlights, major developments, consolidated results of operations, consolidated quarterly results trend, liquidity and capital resources, and other financial information of Great Canadian Gaming Corporation ("Great Canadian", the "Company", "we", "our") is dated as of August 11, 2014.

This MD&A should be read in conjunction with our unaudited condensed interim consolidated financial statements for the three month and six month periods ended June 30, 2014 ("Condensed Interim Financial Statements"), our audited consolidated financial statements for the year ended December 31, 2013 ("Annual Financial Statements") and our MD&A for the year ended December 31, 2013. The Condensed Interim Financial Statements are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting,* ("IAS 34"). Certain information and note disclosures normally included in the Annual Financial Statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. Unless expressly stated otherwise, all financial information is expressed in Canadian dollars.

Capitalized terms are either defined when they first appear or are defined at the end of this MD&A in the section titled "Other Financial Information – Definitions of Other Terms Used in the MD&A".

## Non-IFRS Measures

The following non-IFRS definitions are used in this MD&A because management believes that they provide useful information regarding our ongoing operations. Readers are cautioned that the definitions are not recognized measures under IFRS, do not have standardized meanings prescribed by IFRS, and should not be construed to be alternatives to revenues and net earnings determined in accordance with IFRS or as indicators of performance, liquidity or cash flows. Our method of calculating these measures may differ from the method used by other entities and accordingly our measures may not be comparable to similarly titled measures used by other entities or in other jurisdictions.

EBITDA as defined by the Company means Earnings Before Interest and financing costs (net of interest income), Income Taxes, Depreciation and Amortization, share-based compensation, reversal of impairment of long-lived assets, restructuring and other, and foreign exchange loss (gain) and other. EBITDA is derived from the condensed interim consolidated statements of earnings, and can be computed as revenues less human resources expenses and property, marketing and administration expenses. We believe EBITDA is a useful measure because it provides information to management about the operating and financial performance of the Company and its ability to generate operating cash flow to fund future working capital needs, service outstanding debt and fund future capital expenditures. EBITDA is also used by the investors and analysts for the purpose of valuing the Company. A reconciliation of EBITDA to shareholders' net earnings under IFRS is shown in the "Consolidated Results of Operations" section of this MD&A.

Adjusted net earnings, as defined by the Company, means net earnings plus or minus items of note that management may reasonably quantify and that it believes will provide the reader with a better understanding of the Company's underlying business performance. Items of note may vary from time to time and in this MD&A include reversal of impairment of long-lived assets, FDC revenues previously deferred at Fraser Downs, without prejudice dispute resolution payments received from the Ontario Lottery and Gaming Corporation ("OLG"), restructuring severance costs, and income taxes on the above items of note. A reconciliation between net earnings and adjusted net earnings is presented in the "Financial Highlights" section of this MD&A. Adjusted net earnings per common share is defined as adjusted net earnings divided by the weighted average number of common shares outstanding.

The following non-IFRS measures have common definitions in the gaming industry and provide both investors and management with indications of its business' operating volumes and the volatility inherent in the Company's casino games:

- Table drop means the collective amount of money customers deposit to purchase casino chips to wager on table games, and is commonly computed as the aggregate amount of money counted in the table games' drop boxes. Generally, the table drop is an indicator of our gaming business; however over the short-term, the table drop is subject to shifts in customer behaviour around buying, retaining and cashing-in of casino chips.

- Table hold is calculated as the table drop plus or minus the net change in casino chip inventory.

- Table hold percentage is the ratio of table hold divided by table drop. Table hold percentage fluctuates with the statistical variations or volatility inherent in casino games, as well as with changes in customer behaviour around buying, retaining and cashing-in of casino chips.

- Poker rake is the commission we earn from poker games at our casinos, and is calculated as a fixed percentage of the amount wagered by customers on every hand of poker played.

- Slot coin-in is the aggregate amount of money customers have wagered on slots and other electronic gaming machines.

- Slot win is the slot coin-in less amounts cashed out and prizes won by customers.

- Slot win per machine per day ("Slot Win/Slot/Day") is the average daily slot win earned per slot machine, and is calculated as the slot win divided by the number of days in the period, divided by the average number of slot machines that operated during the period.

- Slot win percentage is the ratio of slot win divided by slot coin-in.

## Forward-Looking Information

This MD&A contains certain "forward-looking information" or statements within the meaning of applicable securities legislation. Forward-looking information is based on the Company's current expectations, estimates, projections and assumptions that were made by the Company in light of its historical trends and other factors. All information or statements, other than statements of historical fact, are forward-looking information including statements that address expectations, estimates or projections about the future, the terms and expected benefits of the normal course issuer bid, the Company's strategy for growth and its objectives, expected future expenditures, costs, operating and financial results and expected impact of future commitments, the future ability of the Company to operate the Georgian Downs and Flamboro Downs facilities beyond the terms of the signed Ontario Lease Agreements and Ontario Racing Agreements, and expectations and implications of changes in legislation and government policies. Forward-looking information may be identified by words such as "anticipate", "believe", "expect", or similar expressions. Such forward-looking information is not a guarantee of future performance and may involve a number of risks and uncertainties.

Although forward-looking information is based on information and assumptions that the Company believes are current, reasonable and complete, they are subject to unknown risks, uncertainties, and a number of factors that could cause actual results to vary materially from those expressed or implied by such forward-looking information. Such factors may include, but are not limited to: terms of operational services agreements with lottery corporations; changes to gaming laws that may impact the operational services agreements; pending, proposed or unanticipated regulatory or policy changes; the outcome of restructuring of gaming in Ontario; the Company's ability to obtain and renew required business licenses, leases, and operational services agreements; the future of horse racing in Ontario; unanticipated fines, sanctions and suspensions imposed on the Company by its regulators; impact of global liquidity and credit availability; possible reassessments of the Company's tax filings by tax authorities; adverse tourism trends and further decreases in levels of travel, leisure and consumer spending; competition from established competitors and new entrants in the gaming business; dependence on key personnel; the Company's ability to manage its capital projects and its expanding operations; the risk that systems, procedures and controls may not be adequate to meet regulatory requirements or to support current and expanding operations; potential undisclosed liabilities and capital expenditures associated with acquisitions; negative connotations linked to the gaming industry; First Nations rights with respect to some land on which we conduct our operations; future or current legal proceedings; construction disruptions; financial covenants associated with credit facilities and long-term debt; credit, liquidity and market risks associated with our financial instruments; interest and exchange rate fluctuations; non-realization of cost reductions and synergies; demand for new products and services; fluctuations in operating results; economic uncertainty and financial market volatility; technology dependence; and privacy breaches and data theft. The Company cautions that this list of factors is not exhaustive. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. These factors and other risks and uncertainties are discussed in the Company's continuous disclosure documents filed with the Canadian securities regulatory authorities from time to time, including in the "Risk Factors" section of the Company's Annual Information Form for fiscal 2013, and as identified in the Company's disclosure record on SEDAR at www.sedar.com.

The forward-looking information in documents incorporated by reference speak only as of the date of those documents. Readers are cautioned not to place undue reliance on the forward-looking information, as there can be no assurance that the plans, intentions, or expectations upon which they are based will occur. The Company undertakes no obligation to revise forward-looking information to reflect subsequent events or circumstances except as required by law. The forward-looking information contained herein is made as of the date hereof, is subject to change after such date, and is expressly qualified in its entirety by cautionary statements in this MD&A.

(Expressed in millions of Canadian dollars, except for per share information)

## FINANCIAL HIGHLIGHTS

| | Second Quarter | | | First Half | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Chg | **2014** | 2013 | % Chg |
| Revenues | **$ 114.7** | $ 102.1 | 12% | **$ 218.5** | $ 202.6 | 8% |
| EBITDA (1) | **$ 49.5** | $ 38.0 | 30% | **$ 87.6** | $ 76.3 | 15% |
| EBITDA as a % of Revenues | **43.2%** | 37.2% | | **40.1%** | 37.7% | |
| Net earnings | **$ 19.9** | $ 11.3 | 76% | **$ 36.9** | $ 42.6 | (13%) |
| Net earnings per common share | | | | | | |
| Basic | **$ 0.29** | $ 0.17 | | **$ 0.55** | $ 0.61 | (11%) |
| Diluted | **$ 0.29** | $ 0.16 | | **$ 0.53** | $ 0.60 | (12%) |
| Adjusted net earnings (1) | **$ 19.9** | $ 10.4 | 91% | **$ 33.2** | $ 21.6 | 54% |

| | **June 30, 2014** | December 31, 2013 | % Chg |
|---|---|---|---|
| Total assets | **$ 949.7** | $ 915.7 | 4% |
| Long-term debt | **$ 441.5** | $ 441.0 | 0% |

(1) EBITDA and Adjusted net earnings are non-IFRS measures and are defined in the "Introduction - Non-IFRS Measures" section of this MD&A.

*Recent Developments*

Chances Maple Ridge opened its new permanent facility on October 23, 2013. Hard Rock Casino Vancouver (formerly "Boulevard Casino") was launched on December 20, 2013. Since these dates, both properties have seen improvements in gaming volumes and food and beverage revenues. In particular, Hard Rock Casino Vancouver has delivered consecutive quarterly improvements in both its slot coin-in and food and beverage revenues, demonstrating the market's acceptance of the new brand.

*Revenues*

For the three month period ended June 30, 2014 ("second quarter of 2014"), the Company recorded revenues of $114.7, a $12.6 or 12% increase from the second quarter of 2013. This increase was primarily due to record revenues at River Rock Casino Resort ("River Rock") and improvement at Hard Rock Casino Vancouver. River Rock recorded the highest table drop and hold, slot coin-in and win, and hospitality revenues in the property's history. Operating under the new brand, Hard Rock Casino Vancouver continues to recover from the challenges it faced from the prolonged highway construction and disruption from the property renovation during 2013. These increases were partially offset by declines at the Nova Scotia Casinos and Vancouver Island Casinos, as well as $0.7 of non-recurring, previously deferred FDC revenues that were realized by the BC Racinos and $0.7 of without prejudice dispute resolution payments received from OLG, both in the second quarter of 2013. Excluding these non-recurring revenues of the prior year period, revenues in the second quarter of 2014 increased $14.0 or 14% when compared to the same period in 2013.

For the six month period ended June 30, 2014 ("first half of 2014"), the Company recorded revenues of $218.5, a $15.9 or 8% increase from the first half of 2013. This increase was primarily due to record revenues at River Rock and improvement at Great American Casinos. River Rock and Great American Casinos continued to show growth in table drop. These increases were partially offset by declines at the Ontario Racetracks and the BC Racinos, which were primarily due to the above-mentioned non-recurring FDC revenues and payments from OLG that were recorded in the second quarter of 2013. Excluding these non-recurring revenues of the prior year's second quarter, revenues in the first half of 2014 increased $17.3 or 9% when compared to the same period in 2013.

*EBITDA*

The 30% increase in EBITDA in the second quarter of 2014 was primarily due to the previously mentioned growth in revenues. Excluding the above-mentioned non-recurring FDC revenues and payments from OLG that were recorded in the second quarter of 2013, EBITDA increased 35% over the prior year period. EBITDA improvements were most noticeable at River Rock and Hard Rock Casino Vancouver. EBITDA as a percentage of revenues for the second quarter of 2014 was 43.2%, a 6.0 percentage point increase from the second quarter of 2013.

The 15% increase in EBITDA in the first half of 2014 was primarily due to the growth at River Rock, which was partially offset by EBITDA decreases at the Ontario Racetracks, Vancouver Island Casinos, BC Racinos and Corporate & Other. Excluding the above-mentioned non-recurring FDC revenues and payments from OLG that were recorded in the second quarter of 2013, EBITDA increased 17% over the prior year period. EBITDA as a percentage of revenues for the first half of 2014 was 40.1%, a 2.4 percentage point increase from the first half of 2013.

*Net earnings*

During the second quarter of 2014, Great Canadian's net earnings increased by $8.6, primarily due to the growth in EBITDA, which was partially offset by the increases in both income taxes and share-based compensation expenses during the second quarter of 2014.

During the first half of 2014, Great Canadian's net earnings decreased by $5.7, primarily due to a $5.2 non-cash impairment reversal on long-lived assets that was recognized during the first half of 2014 compared to a $28.5 non-cash impairment reversal on long-lived assets that was recognized during the first half of 2013 as described in the "Major Developments" section of this MD&A. The effect of this impairment reversal was partially offset by the reductions in both income taxes and restructuring and other expenses during the first half of 2014.

(Expressed in millions of Canadian dollars, except for per share information)

The current and prior periods' net earnings included some items of note, which are summarized in the following adjusted net earnings table:

| | Second Quarter | | | First Half | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Chg | **2014** | 2013 | % Chg |
| **Net earnings** | **$ 19.9** | $ 11.3 | 76% | **$ 36.9** | $ 42.6 | (13%) |
| **Items of note** | | | | | | |
| Reversal of impairment of long-lived assets | **-** | - | | **(5.2)** | (28.5) | |
| FDC revenues previously deferred at Fraser Downs | **-** | (0.7) | | **(0.2)** | (0.7) | |
| Without prejudice dispute resolution payments received from OLG | **-** | (0.7) | | **-** | (0.7) | |
| Restructuring severance costs | **-** | 0.2 | | **0.2** | 1.2 | |
| Income taxes on the above items of note | **-** | 0.3 | | **1.5** | 7.7 | |
| **Adjusted net earnings (1)** | **$ 19.9** | $ 10.4 | 91% | **$ 33.2** | $ 21.6 | 54% |
| **Adjusted net earnings per common share (1)** | | | | | | |
| Basic | **$ 0.29** | $ 0.15 | | **$ 0.49** | $ 0.31 | |
| Diluted | **$ 0.29** | $ 0.15 | | **$ 0.48** | $ 0.31 | |
| Weighted average shares outstanding | | | | | | |
| Basic | **67,678** | 68,329 | | **67,569** | 69,375 | |
| Diluted | **69,498** | 69,471 | | **69,324** | 70,475 | |

(1) Adjusted net earnings and Adjusted net earnings per common share are non-IFRS measures and are defined in the "Introduction - Non-IFRS Measures" section of this MD&A.

After adjusting for the above items of note, the Company's adjusted net earnings increased by $9.5 in the second quarter and $11.6 in the first half of 2014, when compared to the same periods in 2013.

*Total assets*

Total assets increased by $34.0 in the first half of 2014, when compared to the total assets as at December 31, 2013. This increase was primarily due to cash generated by operating activities, which was partially offset by the amortization of property, plant and equipment.

*Long-term debt*

Long-term debt was relatively consistent at the end of the first half of 2014 when compared with the balance as at December 31, 2013.

## MAJOR DEVELOPMENTS

### British Columbia

#### *Hard Rock Casino Vancouver (formerly "Boulevard Casino")*

On July 3, 2013, the Company announced plans to rebrand its wholly owned and operated Boulevard Casino, located in Coquitlam, British Columbia, as "Hard Rock Casino Vancouver" under a trademark license from Hard Rock Hotel & Casino HRHH IP, LLC ("HRHH"). The initial term of the license agreement is for a period of 10 years and will renew for additional two periods of five years provided Hard Rock Casino Vancouver achieves specified increased revenue targets. If such revenue targets are not achieved, the license agreement may be extended at the Company's option. The first phase of the project was substantially completed on December 20, 2013. As at June 30, 2014, the Company has spent approximately $13.1 of an estimated total of $13.2 on this first phase of the project.

The Company continues to assess its plans for the second phase of the property's redevelopment. It is contemplated that this second phase will feature a hotel, conference facilities, additional dining options, and further integration of Hard Rock Casino Vancouver's existing entertainment and dining amenities. Management believes the Hard Rock Casino Vancouver brand will improve the property's long-term performance and is optimistic that it will create momentum that will support proceeding with the second phase plans. However, the property's performance has experienced substantial erosion and the local economy has not recovered the way the Company had expected when plans were initially made for this second phase of development. Consequently, the timeline for the second phase will be announced at a later date. The related property redevelopments and modifications remain subject to approvals from the British Columbia Lottery Corporation ("BCLC") and the City of Coquitlam. As at June 30, 2014, the Company has spent approximately $2.7 of an estimated total of $50.0 on this second phase of the project.

#### *Chances Maple Ridge (formerly "Maple Ridge Community Gaming Centre")*

On October 23, 2013, the Company closed its temporary facility and relocated its Maple Ridge Community Gaming Centre operations to the newly opened "Chances Maple Ridge", a community gaming centre in Maple Ridge, BC. This permanent facility features 173 slot machines, two electronic table games, bingo, dining options with liquor service throughout the facility, a meeting facility, and improved parking capacity. In order to facilitate both the operation of slots at the Company's temporary facility in Maple Ridge and the construction of the permanent facility, the Company committed $4.3 for both property enhancements and servicing commitments to the District of Maple Ridge. As at June 30, 2014, the Company has incurred $3.5 towards fulfilling servicing commitments related to the construction of the permanent facility. The Company has also invested $4.7 for the purchase of land required for the permanent facility and incurred $13.8 in construction costs.

With the opening of the new facility, the operational services agreement with BCLC was extended for a 10-year term, expiring on October 31, 2023, with a second renewal term at the Company's option until October 31, 2033.

#### *River Rock Casino Resort*

On September 19, 2013, BCLC approved the Company's request to exercise its 10-year extension option for the River Rock Casino Resort's Casino Operational Services Agreement ("COSA"). This 10-year extension extends the COSA expiry date to June 23, 2024.

### *BC Horse Racing*

On February 14, 2014, the B.C. Horse Racing Industry Management Committee ("BCHRIMC") finalized a multi-year industry funding arrangement amongst both the province's Thoroughbred sector and the Standardbred sector and their respective track operators, Hastings Racecourse and Fraser Downs. The BCHRIMC has indicated that this funding arrangement will be in place for the next three years for the Thoroughbred sector and for the next five years for Standardbreds.

The funding model is an extension of the arrangements in place since 2012 whereby pooled income from all the industry's revenue sources is allocated to the industry stakeholders. For 2014, the total of both Hastings' and Fraser Downs' racing industry revenue share percentage is expected to be consistent with the prior year. The BCHRIMC also approved race days and season lengths for 2014, subject to ratification by the provincial Gaming Policy and Enforcement Branch. These include 51 confirmed Thoroughbred race days at Hastings over a six-month season and 71 confirmed Standardbred race days at Fraser Downs over an eight-month season. The season length at Fraser Downs will move to seven months in 2015 and to six months in 2016.

The Company looks forward to collaborating with industry stakeholders to achieve greater sustainability and certainty for the industry.

### *Renewal of Operating Lease Agreement for Hastings Racecourse and slots facility*

The operating lease agreement for Hastings Racecourse will expire in November 2014. The Company is in discussions with the City of Vancouver around a further extension of this agreement and is optimistic that an agreement will be reached. During this period, Hastings Racecourse continues to operate as usual.

## Ontario

### *Termination of Site Holder Agreements*

In March 2012, the Government of Ontario announced the cancellation of the "Slots at Racetracks" program for all Ontario racetracks. As a result of this announcement, OLG was directed to both end this program on March 31, 2013 and strategically redistribute the province's slot facilities in an effort to modernize that province's gaming model. On March 29, 2012, OLG provided notice that the site holder agreements with the Company's Ontario Racetracks would terminate on March 31, 2013. Georgian Downs' site holder agreement was otherwise scheduled to expire in November 2021 and Flamboro Downs' site holder agreement was otherwise scheduled to expire in April 2016. The termination of the "Slots at Racetracks" program has had a negative effect on the revenues and earnings of Georgian Downs and Flamboro Downs.

### *Lease Agreements and Horse Racing Agreements*

The Government of Ontario asked a panel of three former Ontario Cabinet ministers (the "Ontario Horse Racing Industry Transition Panel" or the "Panel") to consult with the horse racing industry to determine how the Government of Ontario could support the industry's transition to a self-sufficient business model, including the allocation of transition funds. In October 2012, the Panel released a report that included recommendations to materially reduce the total province-wide annual horse racing days by approximately half, with these reduced days to be provided by a minimum of six racetracks. The model proposed by the Panel assumed that the participating racetrack operators will not derive profit from racing operations. The Panel recommended that operating costs incurred by the racetracks would be publicly funded and that additional public funding be provided to the horse racing industry over three years, subject to ongoing accountability audits. The Panel also supported the development of an alliance between the participating racetracks in Ontario to manage racing operations, subject to certain conditions. While not exhaustive, these conditions include pooling all Ontario pari-mutuel wagering revenues, allocating and directing those revenues towards racing purses and reinvesting any residual industry earnings.

On March 9, 2013, the Company and OLG signed non-binding letters of intent governing the slot machine areas at the Ontario Racetracks. Under the terms of these letters, OLG would lease these areas for a five-year term commencing April 1, 2013. The Company and OLG operated as though the key provisions of these leases came into effect on April 1, 2013 as evidenced by interim lease arrangements. On April 26, 2013, Georgian Downs received from OLG a one-time settlement payment of $31.5 in connection with the Georgian Downs facility, and the Company and Georgian Downs provided OLG with a release of claims. The settlement payment was recorded as a reduction to Georgian Downs' property, plant and equipment. On November 29, 2013, the Company signed definitive lease agreements with OLG related to these letters of intent.

On March 26, 2013, the Company and the Government of Ontario signed non-binding letters of intent governing horse racing operations at the Ontario Racetracks. On May 24, 2013, the Company signed binding agreements (the "Ontario Racing Agreements") with the Government of Ontario for horse racing transition funding. The funding provided support to continue horse racing at the Ontario Racetracks for up to two years beyond March 31, 2013 and was conditional upon achievement of specific cost reduction targets.

Since April 1, 2013, the Ontario Racetracks no longer directly share in the horse racing pari-mutuel wagering revenues that these properties generate, other than any that may be attributed as a source of funding for the horse racing transition payments received from the Government of Ontario.

On October 11, 2013, the Government of Ontario released a five-year horse racing plan (the "Horse Racing Plan"), consistent with the recommendations of the Panel as contained in their final report which was also publicly released on the same day. Effective April 1, 2014, the Horse Racing Plan includes proposed annual government funding of $80.0 to support live racing, approximately 75% of which would be directed to supporting industry programs and a core group of tracks centred around the concentrated horse supply in Central and South West Ontario that would conduct Thoroughbred, Standardbred and Quarter Horse racing attractive to wagering customers.

On March 31, 2014, the Government of Ontario announced that the Horse Racing Plan would provide annual funding of up to $100.0, which increased from the proposed annual funding of $80.0 previously announced in October 2013. Effective April 1, 2014, the Company signed agreements with five other Ontario racetrack operators and the Ontario Racing Commission ("ORC") in support of the Horse Racing Partnership Plan. These agreements establish an unprecedented standardbred alliance (the "Standardbred Alliance") amongst a core group of racetracks centered around the concentrated horse supply in Central and South-Western Ontario and provide better stability and clarity for all industry stakeholders.

The Standardbred Alliance members represent a three-tier racing hierarchy, 'Grass Roots' (Clinton Raceway, Hanover Raceway), 'Signature' (Flamboro Downs, Georgian Downs, Grand River Raceway and The Raceway at Western Fair) and 'Premier' (Mohawk Racetrack and Woodbine Racetrack). The Standardbred Alliance has worked closely with government, regulators and industry participants to develop a racing plan that will see a coordinated year-round racing calendar that is attractive to both foreign and domestic customers, provides for consistent purse levels at each track, and enables enhanced operational efficiencies among the tracks.

Under a new horse racing program that is administered by the ORC, the Company's Georgian Downs and Flamboro Downs racetracks receives provincial funding for their racing purses. In addition, under the terms of the revenue sharing agreements amongst the Standardbred Alliance members, the racetracks' pari-mutuel revenues are pooled and shared amongst the tracks. These agreements are not expected to have a material financial impact on the Company's Ontario Racetrack operations and have replaced the horse racing transition funding that was previously received by the Company's Ontario racetracks from the Government of Ontario during the twelve months ended March 31, 2014.

***Long-lived assets impairments and impairment reversals***

As a result of the early termination of the site holder agreements for both Georgian Downs and Flamboro Downs, the Company recorded in the first quarter of 2012 impairments of goodwill, intangible assets, and property, plant and equipment for each property. During the first quarter of 2013, as a result of signing the non-binding letters of intent with OLG, the anticipated execution of definitive agreements, and the settlement payment received from OLG on April 26, 2013, the Company recorded reversals of impairments related to Georgian Downs' and Flamboro Downs' intangible assets and property, plant and equipment.

In April 2014, as a result of signing the Standardbred Alliance agreements with five other Ontario racetrack operators and the ORC, the Company secured racing funding for its Georgian Downs and Flamboro Downs racetracks for up to five years and will work with the Standardbred Alliance to realize racing operating cost efficiencies. As a result, Flamboro Downs recorded a $5.2 long-lived asset impairment reversal at March 31, 2014.

In addition, during the three months ended March 31, 2012 and the year ended December 31, 2012, the Company recorded impairments of $3.4 and $10.3, respectively, related to land in Ontario that was written down to its estimated recoverable amount.

(Expressed in millions of Canadian dollars, except for per share information)

The following table summarizes the impairments during 2012 and the impairment reversals during 2013 and 2014 by property and by asset class:

| | Georgian Downs | | | | Flamboro Downs | | |
|---|---|---|---|---|---|---|---|
| | Property, plant and equipment | Intangible assets | Goodwill | Total | Property, plant and equipment | Intangible assets | Total |
| Carrying amount at January 1, 2012 | $ 64.9 | $ 25.5 | $ 3.2 | $ 93.6 | $ 13.9 | $ 40.6 | $ 54.5 |
| Net additions and amortization | (1.9) | (1.7) | - | (3.6) | (1.3) | (4.6) | (5.9) |
| Impairments | (23.5) | (8.2) | (3.2) | (34.9) | (5.2) | (24.2) | (29.4) |
| Carrying amount at December 31, 2012 | $ 39.5 | $ 15.6 | $ - | $ 55.1 | $ 7.4 | $ 11.8 | $ 19.2 |
| Net additions and amortization | (0.5) | (0.3) | - | (0.8) | (0.4) | (1.3) | (1.7) |
| Impairment reversals | 11.7 | 8.0 | - | 19.7 | 1.5 | 7.3 | 8.8 |
| Carrying amount at March 31, 2013 | $ 50.7 | $ 23.3 | $ - | $ 74.0 | $ 8.5 | $ 17.8 | $ 26.3 |
| Net additions and amortization | 0.4 | (0.3) | - | 0.1 | (0.1) | (0.9) | (1.0) |
| Settlement payment | (31.5) | - | - | (31.5) | - | - | - |
| Carrying amount at June 30, 2013 | $ 19.6 | $ 23.0 | $ - | $ 42.6 | $ 8.4 | $ 16.9 | $ 25.3 |
| Net additions and amortization | (0.2) | (0.5) | - | (0.7) | (0.3) | (1.8) | (2.1) |
| Carrying amount at December 31, 2013 | $ 19.4 | $ 22.5 | $ - | $ 41.9 | $ 8.1 | $ 15.1 | $ 23.2 |
| Net additions and amortization | (0.1) | (0.3) | - | (0.4) | (0.1) | (0.9) | (1.0) |
| Impairment reversal | - | - | - | - | 1.0 | 4.2 | 5.2 |
| Carrying amount at March 31, 2014 | $ 19.3 | $ 22.2 | $ - | $ 41.5 | $ 9.0 | $ 18.4 | $ 27.4 |
| **Net additions and amortization** | **(0.1)** | **(0.3)** | **-** | **(0.4)** | **(0.2)** | **(1.0)** | **(1.2)** |
| **Carrying amount at June 30, 2014** | **$ 19.2** | **$ 21.9** | **$ -** | **$ 41.1** | **$ 8.8** | **$ 17.4** | **$ 26.2** |

The recoverable amounts for Georgian Downs' and Flamboro Downs' long-lived assets at June 30, 2014 were determined based on the value in use method, which estimates the net present value of the future cash flows expected to be generated, using an after-tax discount rate based on the Company's weighted-average cost of capital. The estimates of future cash flows require a number of key assumptions about future business performance. These assumptions and estimates are primarily based on the relevant business' historical experience and economic trends, and consider past and ongoing communications with relevant stakeholders of the Company. These key assumptions include the future revenue levels, EBITDA, and the expected useful life of the cash generating unit ("CGU"). The assumptions are subject to a number of factors and it is possible that actual results could vary materially from management's estimates. As the carrying values of Georgian Downs' and Flamboro Downs' long-lived assets as at June 30, 2014 were equal to their estimated recoverable amounts, a subsequent change in any key assumption utilized in the estimate of future cash flows may result in a further impairment loss or reversal of an impairment loss.

***Request for Gaming Service Providers***

In May 2012, OLG issued a request for information ("RFI") to obtain input from potential industry participants regarding the modernization of gaming in Ontario. OLG stated that as a result of the feedback from the RFI, and to enable OLG to more effectively manage the gaming market in Ontario, OLG has grouped many of the 25 Gaming Zones into Gaming Bundles where each bundle represents a separate bidding opportunity. In November 2012, OLG initiated the request for pre-qualifications ("RFPQ") process to pre-qualify service providers for eligibility to participate in the request for proposals process for the Gaming Bundles. The Company is seeking to participate in the future opportunities that have arisen from the intention to modernize gaming in Ontario. To that end, the Company (alone and with proposed partners) has submitted several RFPQs to OLG. While the RFPQ process is still ongoing, the Company has been notified by OLG on one of its RFPQ submissions – Game Bundle 2 (East). The Company is pre-qualified to submit a Request for Proposal ("RFP") for that Gaming Bundle which contains the following three gaming zones. The first gaming zone includes the City of Peterborough and surrounding areas, and is currently served by OLG Slots at Kawartha Downs. The second gaming zone includes the City of Belleville, the municipality of Quinte West, and an opportunity for a new greenfield build to service the local area. Lastly, the third gaming zone includes the City of Kingston and surrounding areas, including Gananoque and Leeds. This third gaming zone is currently served by OLG Casino Thousand Islands. The Company is bidding on Gaming Bundle 2 (East) with two partners, with the Company intended to be the majority partner. OLG has publicly stated that they expect to announce a successful proponent for this Gaming Bundle in the first half of 2015. The Company has not received a response on its other RFPQ submissions. OLG stated on April 25, 2014 that it will release the RFPs for the remaining Gaming Bundles in the coming months.

As a number of parties have submitted RFPQs, and there will likely be several parties pre-qualified to submit RFPs for each gaming bundle, it is not certain at this time whether the Company will be successful in being granted an opportunity to bid on more than one bundle. While it has been granted an opportunity to submit an RFP, there is no certainty that the Company will be able to secure a license to operate a gaming facility in Ontario. Accordingly, the full extent of the impact that the continued modernization of gaming in Ontario may have on the Company is not yet known.

## Casino Nova Scotia

In June 2014, the Company exercised its renewal option with the Nova Scotia Provincial Lotteries and Casino Corporation ("NSPLCC") to extend the term of the Amended and Restated Operating Contract ("AROC"), effective July 1, 2015. Under the terms of the contract option extension, the Company will have a minimum of 10 years of term certainty as the casino operator of the Nova Scotia casinos and has committed to make capital investments totalling $10.0 in the casino properties by the end of 2015.

## Normal Course Issuer Bid

In January 2013, the Company commenced a normal course issuer bid that authorized the Company to purchase up to 4,511,644 of its common shares. For the year ended December 31, 2013, the Company completed this normal course issuer bid by purchasing 4,511,644 common shares at a volume weighted-average price per share of $10.32.

All shares purchased by the Company were cancelled. The Company's share capital was reduced by an amount equal to the carrying value of the shares repurchased and the remainder was recorded as a reduction to retained earnings on the consolidated statements of changes in equity.

In January 2014, the Company received approval from the TSX to commence another normal course issuer bid for up to 4,231,075 of its common shares, representing approximately 10% of the Company's common shares in the public float. The bid commenced on January 30, 2014 and will end on January 29, 2015, or earlier if the number of shares approved for purchase in the issuer bid has been obtained. Pursuant to TSX policies, daily purchases made by the Company will not exceed 17,799 common shares or 25% of the prior six-month average trading volume of 71,194 common shares on the TSX. Purchases will be by way of open market purchases through the facilities of the TSX, and other Canadian market places, and payment for the shares will be in accordance with the TSX's by-laws and rules. Any shares purchased by the Company will be subsequently cancelled.

During the six months ended June 30, 2014, the Company purchased and cancelled 800 common shares at a volume weighted-average price per share of $14.02.

## CONSOLIDATED RESULTS OF OPERATIONS

The following table summarizes the consolidated operating results for the three month and six month periods ended June 30, 2014 with comparatives for the prior periods.

| | Second Quarter | | | First Half | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Chg | **2014** | 2013 | % Chg |
| Gaming revenues | **$ 79.9** | $ 67.7 | 18% | **$ 150.9** | $ 137.0 | 10% |
| Facility Development Commission | **9.7** | 8.9 | 9% | **18.6** | 17.6 | 6% |
| Hospitality, lease and other revenues [(1)] | **27.1** | 25.9 | 5% | **52.7** | 49.9 | 6% |
| Racetrack revenues | **3.9** | 4.0 | (3%) | **7.2** | 7.1 | 1% |
| | **120.6** | 106.5 | 13% | **229.4** | 211.6 | 8% |
| Less: Promotional allowances | **(5.9)** | (4.4) | 34% | **(10.9)** | (9.0) | 21% |
| **Revenues** | **114.7** | 102.1 | 12% | **218.5** | 202.6 | 8% |
| Human resources | **40.6** | 40.4 | 0% | **81.2** | 79.5 | 2% |
| Property, marketing and administration | **24.6** | 23.7 | 4% | **49.7** | 46.8 | 6% |
| | **65.2** | 64.1 | 2% | **130.9** | 126.3 | 4% |
| **EBITDA** | **49.5** | 38.0 | 30% | **87.6** | 76.3 | 15% |
| Human resources as a % of Revenues before Promotional allowances | **33.7%** | 37.9% | | **35.4%** | 37.6% | |
| EBITDA as a % of Revenues | **43.2%** | 37.2% | | **40.1%** | 37.7% | |
| Amortization | **12.1** | 11.7 | | **24.3** | 24.7 | |
| Share-based compensation | **1.8** | 0.6 | | **2.2** | 2.7 | |
| Reversal of impairment of long-lived assets | **-** | - | | **(5.2)** | (28.5) | |
| Interest and financing costs, net | **7.9** | 8.2 | | **16.0** | 16.4 | |
| Restructuring and other | **0.2** | 0.2 | | **0.2** | 1.3 | |
| Foreign exchange loss (gain) and other | **0.1** | (0.2) | | **(0.2)** | (0.4) | |
| Income taxes | **7.5** | 6.2 | | **13.4** | 17.5 | |
| **Net earnings** | **$ 19.9** | $ 11.3 | 76% | **$ 36.9** | $ 42.6 | (13%) |
| Net earnings per common share | | | | | | |
| Basic | **$ 0.29** | $ 0.17 | | **$ 0.55** | $ 0.61 | |
| Diluted | **$ 0.29** | $ 0.16 | | **$ 0.53** | $ 0.60 | |
| Weighted average number of common shares (in thousands) | | | | | | |
| Basic | **67,678** | 68,329 | | **67,569** | 69,375 | |
| Diluted | **69,498** | 69,471 | | **69,324** | 70,475 | |

(1) For the second quarter and first half of 2013, the Company has reclassified its Ontario gaming revenues, of $0.7 and $6.4 respectively that related to its prior Ontario Racetrack site holder agreements, as "Hospitality, lease and other revenues". Management believes this presentation improves the comparability with the current year's revenues from OLG for their lease of the slot machine areas at the Ontario Racetracks; however, included in the second quarter of 2013 were $0.7 of non-recurring without prejudice dispute resolution payments received from OLG. The prior site holder agreements were terminated by OLG effective March 31, 2013 and replaced by 5-year lease agreements effective April 1, 2013 as more completely described in the "Major Developments" section of this MD&A.

(Expressed in millions of Canadian dollars, except for per share information)

## Discussion of Results

The Company's operating results are discussed in two sections. Revenues, human resources expenses, property, marketing and administration expenses, and EBITDA are discussed on a property or, where appropriate, group of similar properties basis. Items excluded from EBITDA are discussed on a consolidated basis. The following table reconciles the property results to the consolidated results of operations on the previous page.

## REVENUES and EBITDA

| | Second Quarter | | | First Half | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Chg | **2014** | 2013 | % Chg |
| **REVENUES** | | | | | | |
| **Casinos** | | | | | | |
| River Rock Casino Resort | **$ 53.8** | $ 40.6 | 33% | **$ 99.8** | $ 83.2 | 20% |
| Hard Rock Casino Vancouver (formerly "Boulevard Casino") | **13.5** | 12.6 | 7% | **26.4** | 25.4 | 4% |
| Vancouver Island Casinos | **9.4** | 9.8 | (4%) | **18.6** | 19.3 | (4%) |
| Other BC Casinos | **5.2** | 4.9 | 6% | **10.2** | 9.5 | 7% |
| Nova Scotia Casinos | **9.7** | 10.5 | (8%) | **18.8** | 19.8 | (5%) |
| Great American Casinos | **7.0** | 6.2 | 13% | **14.1** | 12.1 | 17% |
| | **98.6** | 84.6 | 17% | **187.9** | 169.3 | 11% |
| **BC Racinos** | **9.9** | 10.9 | (9%) | **18.2** | 19.5 | (7%) |
| **Ontario Racetracks** | **6.2** | 6.6 | (6%) | **12.4** | 13.8 | (10%) |
| **Total Revenues** | **$ 114.7** | $ 102.1 | 12% | **$ 218.5** | $ 202.6 | 8% |
| **EBITDA** | | | | | | |
| **Casinos** | | | | | | |
| River Rock Casino Resort | **$ 32.7** | $ 21.2 | 54% | **$ 58.1** | $ 43.9 | 32% |
| Hard Rock Casino Vancouver (formerly "Boulevard Casino") | **4.5** | 3.5 | 29% | **7.5** | 7.6 | (1%) |
| Vancouver Island Casinos | **5.2** | 5.5 | (5%) | **10.0** | 10.8 | (7%) |
| Other BC Casinos | **2.5** | 2.4 | 4% | **4.8** | 4.7 | 2% |
| Nova Scotia Casinos | **2.6** | 2.9 | (10%) | **4.6** | 4.9 | (6%) |
| Great American Casinos | **1.4** | 1.3 | 8% | **2.7** | 2.2 | 23% |
| | **48.9** | 36.8 | 33% | **87.7** | 74.1 | 18% |
| **BC Racinos** | **2.2** | 2.8 | (21%) | **3.7** | 4.3 | (14%) |
| **Ontario Racetracks** | **3.2** | 3.3 | (3%) | **6.3** | 7.3 | (14%) |
| **Corporate & Other** | **(4.8)** | (4.9) | 2% | **(10.1)** | (9.4) | (7%) |
| **Total EBITDA** | **$ 49.5** | $ 38.0 | 30% | **$ 87.6** | $ 76.3 | 15% |

(Expressed in millions of Canadian dollars, except for per share information)

## *Casinos*

### *River Rock Casino Resort*

| | Second Quarter 2014 | Second Quarter 2013 | % Chg | First Half 2014 | First Half 2013 | % Chg |
|---|---|---|---|---|---|---|
| Gaming revenues | **$ 38.8** | $ 27.4 | 42% | **$ 71.6** | $ 57.9 | 24% |
| Facility Development Commission | **5.5** | 3.9 | 41% | **10.2** | 8.3 | 23% |
| Hospitality and other revenues | **12.1** | 11.1 | 9% | **22.9** | 20.8 | 10% |
| Revenues before Promotional allowances | **56.4** | 42.4 | 33% | **104.7** | 87.0 | 20% |
| Less: Promotional allowances | **(2.6)** | (1.8) | 44% | **(4.9)** | (3.8) | 29% |
| Revenues | **53.8** | 40.6 | 33% | **99.8** | 83.2 | 20% |
| Human resources | **13.1** | 12.6 | 4% | **25.9** | 25.1 | 3% |
| Property, marketing and administration | **8.0** | 6.8 | 18% | **15.8** | 14.2 | 11% |
| EBITDA | **$ 32.7** | $ 21.2 | 54% | **$ 58.1** | $ 43.9 | 32% |
| Human resources as a % of Revenues before Promotional allowances | **23.2%** | 29.7% | | **24.7%** | 28.9% | |
| EBITDA as a % of Revenues | **60.8%** | 52.2% | | **58.2%** | 52.8% | |

| | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 | Q4 2012 | Q3 2012 | Q2 2012 | Average |
|---|---|---|---|---|---|---|---|---|---|---|
| Table Drop | $ 338.5 | $ 266.9 | $ 241.4 | $ 283.0 | $ 221.4 | $ 227.6 | $ 233.4 | $ 205.3 | $ 189.0 | |
| Table Hold | $ 72.0 | $ 59.1 | $ 48.7 | $ 49.7 | $ 44.6 | $ 53.8 | $ 41.7 | $ 42.0 | $ 40.9 | |
| Table Hold % | 21.3% | 22.2% | 20.2% | 17.6% | 20.2% | 23.7% | 17.9% | 20.5% | 21.6% | 20.5% |
| Poker Rake | $ 1.1 | $ 1.0 | $ 1.1 | $ 1.0 | $ 0.9 | $ 1.0 | $ 1.2 | $ 1.0 | $ 1.1 | |
| Slot Coin-In | $ 578.6 | $ 498.1 | $ 525.2 | $ 536.0 | $ 511.5 | $ 545.4 | $ 521.7 | $ 518.1 | $ 519.6 | |
| Slot Win | $ 38.3 | $ 34.5 | $ 35.5 | $ 37.0 | $ 35.3 | $ 35.2 | $ 34.9 | $ 35.2 | $ 34.6 | |
| Slot Win/Slot/Day(1,2) | $ 383 | $ 350 | $ 351 | $ 364 | $ 352 | $ 355 | $ 345 | $ 349 | $ 355 | |
| Slot Win % | 6.6% | 6.9% | 6.8% | 6.9% | 6.9% | 6.5% | 6.7% | 6.8% | 6.7% | 6.7% |

(1) Slot Win/Slot/Day is an average, presented in dollars.
(2) During the second quarter of 2012, the Company added 104 slot machines at River Rock, resulting in 1,110 slot machines since June 30, 2012.

<u>Revenues</u>

Gaming revenues at River Rock increased by 42% in the second quarter of 2014 when compared to the second quarter of 2013. This growth was primarily due to the 53% increase in table drop, which was a new property record, and the 1.1 percentage point increase in table hold percentage, resulting in a 61% increase in table hold, which was also a new property record. The increase in table drop was partially attributed to the opening of a new high-limit table games room in the first quarter of 2014. The growth rates of both table drop and hold at the property have accelerated in the last couple of years. Since the fourth quarter of 2011, the property's quarterly table drop has increased at a compound annual rate of 31.9% and table hold has increased at a compound annual rate of 37.5%. Slot win increased by 8% due to a 13% increase in slot coin-in. This second quarter's slot win and slot coin-in were both new property records.

Gaming revenues at River Rock increased by 24% in the first half of 2014 when compared to the first half of 2013. This growth was primarily due to the 35% increase in table drop.

River Rock produced its highest quarterly hospitality and other revenues. Hospitality and other revenues increased by 9% and 10% in the second quarter and first half of 2014, respectively, when compared to the same periods in 2013. These increases were primarily due to growth in hotel revenues.

River Rock's hotel capacity includes the "River Rock Casino Resort Suites", which has 202 rooms, and

"The Hotel at River Rock" with 193 rooms offered at a lower price point. On a combined basis, River Rock's average daily hotel revenue per available room ("REVPAR") was $128 dollars in the second quarter of 2014, compared to $106 dollars in the second quarter of 2013. This increase was due to a six percentage point increase in the average hotel occupancy rate to 79% and a 12% increase in the average daily room rate ("ADR") to $163 dollars for the second quarter of 2014.

*Expenses*

Human resources expenses increased by 4% and 3% in the second quarter and first half of 2014, respectively, when compared to the same periods in 2013. These increases were primarily due to increased staffing costs to meet the growth in the gaming and hotel businesses. Property, marketing and administration expenses increased by 18% and 11% in the second quarter and first half of 2014, respectively, when compared to the same periods in 2013. These increases were primarily due to the growth in business volume and increases in marketing and promotions expenses.

*EBITDA*

EBITDA increased by 54% and 32% in the second quarter and first half of 2014, when compared to the same periods in 2013. These increases were attributed to record gaming and hospitality revenues which resulted in the highest quarterly EBITDA in the property's history.

(Expressed in millions of Canadian dollars, except for per share information)

### *Hard Rock Casino Vancouver (formerly "Boulevard Casino")*

| | Second Quarter | | | First Half | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Chg | **2014** | 2013 | % Chg |
| Gaming revenues | **$ 10.0** | $ 9.3 | 8% | **$ 19.2** | $ 19.0 | 1% |
| Facility Development Commission | **1.6** | 1.6 | 0% | **3.1** | 3.2 | (3%) |
| Hospitality and other revenues | **2.6** | 2.2 | 18% | **5.4** | 4.3 | 26% |
| Revenues before Promotional allowances | **14.2** | 13.1 | 8% | **27.7** | 26.5 | 5% |
| Less: Promotional allowances | **(0.7)** | (0.5) | 40% | **(1.3)** | (1.1) | 18% |
| Revenues | **13.5** | 12.6 | 7% | **26.4** | 25.4 | 4% |
| Human resources | **5.7** | 5.9 | (3%) | **12.0** | 12.0 | 0% |
| Property, marketing and administration | **3.3** | 3.2 | 3% | **6.9** | 5.8 | 19% |
| EBITDA | **$ 4.5** | $ 3.5 | 29% | **$ 7.5** | $ 7.6 | (1%) |
| Human resources as a % of Revenues before Promotional allowances | **40.1%** | 45.0% | | **43.3%** | 45.3% | |
| EBITDA as a % of Revenues | **33.3%** | 27.8% | | **28.4%** | 29.9% | |

| | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 | Q4 2012 | Q3 2012 | Q2 2012 | Average |
|---|---|---|---|---|---|---|---|---|---|---|
| Table Drop | $ 40.6 | $ 51.3 | $ 38.9 | $ 32.7 | $ 36.2 | $ 37.9 | $ 41.6 | $ 40.9 | $ 42.1 | |
| Table Hold | $ 7.5 | $ 7.1 | $ 7.6 | $ 6.6 | $ 7.3 | $ 7.8 | $ 8.2 | $ 8.4 | $ 8.4 | |
| Table Hold % | 18.6% | 13.8% | 19.4% | 20.2% | 20.2% | 20.6% | 19.7% | 20.5% | 20.0% | 19.0% |
| Poker Rake | $ 1.4 | $ 1.2 | $ 1.1 | $ 0.8 | $ 0.6 | $ 0.7 | $ 1.0 | $ 0.7 | $ 0.9 | |
| Slot Coin-In | $ 321.1 | $ 318.9 | $ 306.0 | $ 304.0 | $ 313.8 | $ 353.3 | $ 385.5 | $ 391.3 | $ 414.6 | |
| Slot Win | $ 23.4 | $ 23.2 | $ 23.0 | $ 22.6 | $ 23.9 | $ 24.8 | $ 26.7 | $ 27.2 | $ 28.5 | |
| Slot Win/Slot/Day(1,2) | $ 275 | $ 270 | $ 271 | $ 300 | $ 326 | $ 310 | $ 292 | $ 302 | $ 315 | |
| Slot Win % | 7.3% | 7.3% | 7.5% | 7.4% | 7.6% | 7.0% | 6.9% | 6.9% | 6.9% | 7.2% |

(1) Slot Win/Slot/Day is an average, presented in dollars.

(2) During the twelve months of 2013, the Company removed 41 slot machines at Hard Rock Casino Vancouver resulting in 949 slot machines as at December 31, 2013.

<u>*Recent Developments*</u>

As described in the "Major Developments" section of this MD&A, the Company completed the renovation and repositioning of Boulevard Casino with its relaunch as Hard Rock Casino Vancouver on December 20, 2013. Throughout 2013, as proximate highway construction and internal property redevelopments continued, gaming volumes declined each quarter on a year over year basis. Since the relaunch, the property has delivered consecutive quarterly improvements in both its slot coin-in and food and beverage revenues, which demonstrate the market's acceptance of the new brand.

<u>*Revenues*</u>

Gaming revenues at Hard Rock Casino Vancouver increased by 8% in the second quarter of 2014, when compared to the second quarter of 2013. A 12% increase in table drop was partially offset by a 1.6 percentage point decrease in table hold percentage, resulting in a 3% increase in table hold. The increase in table hold was partially offset by the 2% decrease in slot win, which was attributable to the 0.3 percentage point decrease in slot win percentage, partially offset by the 2% increase in slot coin-in.

Gaming revenues in the first half of 2014 increased by 1% when compared to the first half of 2013.

Hospitality and other revenues increased by 18% and 26% in the second and first half of 2014, respectively, when compared to the same periods in 2013. These improvements were primarily due to a 23% and 29% increase in food and beverage revenues in the second quarter and first half of 2014, respectively, when compared to the same periods in 2013, that were associated with improved food and beverage amenity offerings and increased visitation resulting from the property rebranding in December 2013.

*Expenses*
Human resources expenses decreased by 3% in the second quarter of 2014, when compared to the second quarter of 2013, primarily due to the decrease in human resources costs associated with operating efficiencies implemented during the first quarter of 2014.  Human resources expenses were consistent in the first half of 2014, when compared to the first half of 2013.

Property, marketing and administration expenses were relatively consistent in the second quarter of 2014, when compared to the second quarter of 2013, mainly because the impact of Hard Rock Casino Vancouver's pre-opening costs incurred in the second quarter of 2013 was offset by the impact of license and memorabilia rental fees related to the new brand in the second quarter of 2014.  Property, marketing and administration expenses increased by 19% in the first half of 2014, when compared to the same period in 2013, primarily due to $0.4 of one-time marketing costs associated with the Hard Rock Casino Vancouver launch in the first quarter of 2014 as well as license and memorabilia rental fees related to the new brand.

*EBITDA*
EBITDA in the second quarter of 2014 was $4.5, a 29% increase when compared to the same period of 2013.  This increase was due primarily to the improvement in gaming and hospitality revenues attributed to the property rebranding.

EBITDA was relatively consistent in the first half of 2014, when compared to the first half of 2013.

(Expressed in millions of Canadian dollars, except for per share information)

### *Vancouver Island Casinos (View Royal Casino and Casino Nanaimo)*

| | Second Quarter | | | First Half | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Chg | **2014** | 2013 | % Chg |
| Gaming revenues | **$ 7.5** | $ 7.8 | (4%) | **$ 14.8** | $ 15.3 | (3%) |
| Facility Development Commission | **1.2** | 1.3 | (8%) | **2.4** | 2.7 | (11%) |
| Hospitality and other revenues | **1.2** | 1.1 | 9% | **2.3** | 2.1 | 10% |
| Revenues before Promotional allowances | **9.9** | 10.2 | (3%) | **19.5** | 20.1 | (3%) |
| Less: Promotional allowances | **(0.5)** | (0.4) | 25% | **(0.9)** | (0.8) | 13% |
| Revenues | **9.4** | 9.8 | (4%) | **18.6** | 19.3 | (4%) |
| Human resources | **2.9** | 3.0 | (3%) | **5.9** | 5.9 | 0% |
| Property, marketing and administration | **1.3** | 1.3 | 0% | **2.7** | 2.6 | 4% |
| EBITDA | **$ 5.2** | $ 5.5 | (5%) | **$ 10.0** | $ 10.8 | (7%) |
| Human resources as a % of Revenues before Promotional allowances | **29.3%** | 29.4% | | **30.3%** | 29.4% | |
| EBITDA as a % of Revenues | **55.3%** | 56.1% | | **53.8%** | 56.0% | |

| | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 | Q4 2012 | Q3 2012 | Q2 2012 | Average |
|---|---|---|---|---|---|---|---|---|---|---|
| Table Drop | $ 11.9 | $ 11.4 | $ 10.8 | $ 12.2 | $ 12.6 | $ 12.4 | $ 12.5 | $ 13.0 | $ 12.4 | |
| Table Hold | $ 2.7 | $ 2.8 | $ 2.7 | $ 2.6 | $ 2.8 | $ 2.9 | $ 2.9 | $ 2.8 | $ 2.9 | |
| Table Hold % | 22.7% | 24.8% | 25.0% | 21.1% | 22.0% | 23.4% | 23.2% | 21.5% | 23.4% | 23.0% |
| Slot Coin-In | $ 364.1 | $ 365.9 | $ 359.8 | $ 382.0 | $ 392.0 | $ 372.6 | $ 379.8 | $ 390.0 | $ 397.2 | |
| Slot Win | $ 26.6 | $ 25.2 | $ 25.9 | $ 27.6 | $ 28.0 | $ 26.7 | $ 26.9 | $ 28.3 | $ 27.8 | |
| Slot Win/Slot/Day(1) | $ 313 | $ 306 | $ 287 | $ 305 | $ 314 | $ 294 | $ 289 | $ 305 | $ 303 | |
| Slot Win % | 7.3% | 6.9% | 7.2% | 7.2% | 7.2% | 7.2% | 7.1% | 7.3% | 7.0% | 7.1% |

(1) Slot Win/Slot/Day is an average, presented in dollars.

*Revenues*
Revenues at the Vancouver Island Casinos decreased by 4% in both the second quarter and first half of 2014, when compared to the same periods in 2013. These decreases were primarily due to the decrease in slot coin-in, which was partially offset by increases in hospitality and other revenues.

*Expenses*
Both human resources and property, marketing and administration expenses in both the second quarter and first half of 2014 were relatively consistent with the same periods in 2013.

*EBITDA*
EBITDA decreased by 5% and 7% in the second quarter and first half of 2014, respectively, when compared to the same periods in 2013. These decreases were primarily due to the decrease in revenues.

(Expressed in millions of Canadian dollars, except for per share information)

***Other BC Casinos (Chances Dawson Creek, Chances Maple Ridge (formerly "Maple Ridge Community Gaming Centre") and Chances Chilliwack)***

| | Second Quarter | | | First Half | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Chg | **2014** | 2013 | % Chg |
| Gaming revenues | **$ 3.8** | $ 3.7 | 3% | **$ 7.3** | $ 7.2 | 1% |
| Facility Development Commission | **0.7** | 0.7 | 0% | **1.4** | 1.4 | 0% |
| Hospitality and other revenues | **1.0** | 0.7 | 43% | **2.0** | 1.3 | 54% |
| Revenues before Promotional allowances | **5.5** | 5.1 | 8% | **10.7** | 9.9 | 8% |
| Less: Promotional allowances | **(0.3)** | (0.2) | 50% | **(0.5)** | (0.4) | 25% |
| Revenues | **5.2** | 4.9 | 6% | **10.2** | 9.5 | 7% |
| Human resources | **1.7** | 1.6 | 6% | **3.3** | 3.1 | 6% |
| Property, marketing and administration | **1.0** | 0.9 | 11% | **2.1** | 1.7 | 24% |
| EBITDA | **$ 2.5** | $ 2.4 | 4% | **$ 4.8** | $ 4.7 | 2% |
| Human resources as a % of Revenues before Promotional allowances | **30.9%** | 31.4% | | **30.8%** | 31.3% | |
| EBITDA as a % of Revenues | **48.1%** | 49.0% | | **47.1%** | 49.5% | |

| | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 | Q4 2012 | Q3 2012 | Q2 2012 | Average |
|---|---|---|---|---|---|---|---|---|---|---|
| Slot Coin-In | $ 200.1 | $ 196.3 | $ 196.5 | $ 180.6 | $ 189.6 | $ 191.2 | $ 165.3 | $ 107.3 | $ 107.9 | |
| Slot Win | $ 13.9 | $ 13.3 | $ 13.2 | $ 12.4 | $ 13.2 | $ 12.6 | $ 10.6 | $ 7.0 | $ 7.1 | |
| Slot Win/Slot/Day(1) | $ 291 | $ 281 | $ 286 | $ 308 | $ 331 | $ 321 | $ 315 | $ 296 | $ 305 | |
| Slot Win % | 7.0% | 6.8% | 6.7% | 6.9% | 7.0% | 6.6% | 6.4% | 6.5% | 6.6% | 6.7% |

(1) Slot Win/Slot/Day is an average, presented in dollars.

*Recent Developments*
As described in the "Major Developments" section of this MD&A, Chances Maple Ridge relocated from its temporary facility to its new permanent facility on October 23, 2013. Since the grand opening, the property has seen improvements in its gaming volumes and food and beverage revenues.

*Revenues*
Revenues at the Other BC Casinos increased by 6% and 7% in the second quarter and first half of 2014, respectively, when compared to the same periods in 2013. These increases were mainly attributable to the growth in food and beverage revenues at all properties, especially at Chances Maple Ridge, which moved to its permanent facility in October 2013. Increased gaming revenues at Chances Maple Ridge in the second quarter and first half of 2014, when compared with the second quarter and first half of 2013, was partially offset by decreased gaming revenues at Chances Dawson Creek.

*Expenses*
Human resources expenses were relatively consistent in both the second quarter and first half of 2014, when compared to the same periods in 2013.

Property, marketing and administration expenses were relatively consistent in the second quarter of 2014, when compared to the same period in 2013. Property, marketing and administration expenses increased by 24% in the first half of 2014, when compared to the first half of 2013. This increase was primarily due to incremental operating expenses associated with the new, larger Maple Ridge facility resulting in higher business volume.

*EBITDA*
EBITDA increased by 4% and 2% in the second quarter and first half of 2014, respectively, when compared

with the same periods in 2013. These improvements were attributable to the increase in revenues, which was partially offset by the increases in human resources and property, marketing and administration expenses.

(Expressed in millions of Canadian dollars, except for per share information)

### *Nova Scotia Casinos (Casino Nova Scotia Halifax and Casino Nova Scotia Sydney)*

| | Second Quarter | | | First Half | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Chg | **2014** | 2013 | % Chg |
| Gaming revenues | **$ 8.8** | $ 9.2 | (4%) | **$ 16.8** | $ 17.5 | (4%) |
| Hospitality and other revenues | **1.5** | 1.7 | (12%) | **3.0** | 3.1 | (3%) |
| Revenues before Promotional allowances | **10.3** | 10.9 | (6%) | **19.8** | 20.6 | (4%) |
| Less: Promotional allowances | **(0.6)** | (0.4) | 50% | **(1.0)** | (0.8) | 25% |
| Revenues | **9.7** | 10.5 | (8%) | **18.8** | 19.8 | (5%) |
| Human resources | **4.0** | 4.2 | (5%) | **7.8** | 8.1 | (4%) |
| Property, marketing and administration | **3.1** | 3.4 | (9%) | **6.4** | 6.8 | (6%) |
| EBITDA | **$ 2.6** | $ 2.9 | (10%) | **$ 4.6** | $ 4.9 | (6%) |
| Human resources as a % of Revenues before Promotional allowances | **38.8%** | 38.5% | | **39.4%** | 39.3% | |
| EBITDA as a % of Revenues | **26.8%** | 27.6% | | **24.5%** | 24.7% | |

| | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 | Q4 2012 | Q3 2012 | Q2 2012 | Average |
|---|---|---|---|---|---|---|---|---|---|---|
| Table Drop | $ 10.0 | $ 9.8 | $ 10.0 | $ 11.9 | $ 11.3 | $ 9.6 | $ 10.9 | $ 10.4 | $ 9.8 | |
| Table Hold | $ 2.0 | $ 2.2 | $ 2.4 | $ 2.2 | $ 2.0 | $ 2.4 | $ 2.5 | $ 1.9 | $ 1.9 | |
| Table Hold % | 19.7% | 21.9% | 24.0% | 18.8% | 17.7% | 25.0% | 22.9% | 18.3% | 19.4% | 20.8% |
| Poker Rake | $ 0.4 | $ 0.5 | $ 0.4 | $ 0.5 | $ 0.5 | $ 0.6 | $ 0.5 | $ 0.5 | $ 0.4 | |
| Slot Coin-In | $ 197.3 | $ 179.2 | $ 182.0 | $ 222.5 | $ 202.6 | $ 174.4 | $ 193.7 | $ 228.3 | $ 206.2 | |
| Slot Win | $ 14.9 | $ 13.5 | $ 14.0 | $ 17.6 | $ 15.8 | $ 13.6 | $ 14.8 | $ 18.3 | $ 16.1 | |
| Slot Win/Slot/Day(1) | $ 204 | $ 184 | $ 186 | $ 228 | $ 208 | $ 184 | $ 185 | $ 227 | $ 205 | |
| Slot Win % | 7.6% | 7.6% | 7.7% | 7.9% | 7.8% | 7.8% | 7.6% | 8.0% | 7.8% | 7.8% |

(1) Slot Win/Slot/Day is an average, presented in dollars.

*Recent Developments*

In June 2014, the Company exercised its renewal option with NSPLCC to extend the term of the AROC, effective July 1, 2015. Under the terms of the contract option extension, the Company will have a minimum of 10 years certainty as the casino operator of the Nova Scotia casinos and has committed to make capital investments totalling $10.0 in the casino properties by the end of 2015.

*Revenues*

Revenues at the Nova Scotia Casinos decreased by 8% and 5% in the second quarter and first half of 2014, respectively, when compared to the same periods in 2013. These decreases were primarily due to decreases in table drop and slot coin-in, attributable to lower visitation and a weakened local economy.

*Expenses*

Human resources expenses decreased by 5% and 4% in the second quarter and first half of 2014, respectively, when compared to the same periods in 2013. These decreases were mainly attributable to lower staffing levels associated with operating efficiencies implemented as a result of reduced revenues.

Property, marketing and administration expenses decreased by 9% and 6% in the second quarter and first half of 2014, respectively, when compared to the same periods in 2013. These decreases were mainly attributable to operational efficiencies implemented as a result of reduced revenues.

*EBITDA*

EBITDA decreased by 10% and 6% in the second quarter and first half of 2014, respectively, when compared to the same periods in 2013. These decreases were primarily due to the decrease in gaming revenues and partially offset by decreases in operating expenses.

### *Great American Casinos*

### *Results in U.S. Dollars (in millions)*

| | Second Quarter | | | First Half | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Chg | **2014** | 2013 | % Chg |
| Gaming revenues | **$ 5.4** | $ 5.2 | 4% | **$ 10.6** | $ 10.0 | 6% |
| Hospitality and other revenues | **1.7** | 1.6 | 6% | **3.6** | 3.1 | 16% |
| Revenues before Promotional allowances | **7.1** | 6.8 | 4% | **14.2** | 13.1 | 8% |
| Less: Promotional allowances | **(0.7)** | (0.6) | 17% | **(1.4)** | (1.3) | 8% |
| Revenues | **6.4** | 6.2 | 3% | **12.8** | 11.8 | 8% |
| Human resources | **3.4** | 3.3 | 3% | **6.8** | 6.6 | 3% |
| Property, marketing and administration | **1.8** | 1.6 | 13% | **3.6** | 3.2 | 13% |
| EBITDA | **$ 1.2** | $ 1.3 | (8%) | **$ 2.4** | $ 2.0 | 20% |
| Human resources as a % of Revenues before Promotional allowances | **47.9%** | 48.5% | | **47.9%** | 50.4% | |
| EBITDA as a % of Revenues | **18.8%** | 21.0% | | **18.8%** | 16.9% | |

| | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 | Q4 2012 | Q3 2012 | Q2 2012 | Average |
|---|---|---|---|---|---|---|---|---|---|---|
| Table Drop | $ 36.5 | $ 36.6 | $ 35.4 | $ 34.7 | $ 34.1 | $ 33.9 | $ 34.5 | $ 31.6 | $ 33.2 | |
| Table Hold | $ 6.2 | $ 5.9 | $ 5.7 | $ 5.6 | $ 5.9 | $ 5.5 | $ 5.1 | $ 4.7 | $ 5.1 | |
| Table Hold % | 16.9% | 16.1% | 16.0% | 16.1% | 17.3% | 16.2% | 14.7% | 14.9% | 15.4% | 15.9% |

### *Results in Canadian Dollars*

| | Second Quarter | | | First Half | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Chg | **2014** | 2013 | % Chg |
| Revenues | **$ 7.0** | $ 6.2 | 13% | **$ 14.1** | $ 12.1 | 17% |
| EBITDA | **$ 1.4** | $ 1.3 | 8% | **$ 2.7** | $ 2.2 | 23% |

*Discussion in U.S. Dollars*

<u>*Revenues*</u>
Revenues at Great American Casinos increased by 3% in the second quarter of 2014 when compared to the same period in 2013. This was mainly due to the improvement in table drop, which was partially offset by the 0.4 percentage point decrease in table hold percentage. Revenues at Great American Casinos increased by 8% in the first half of 2014 when compared to the same period in 2013. This was mainly due to the improvement in table drop and increased food and beverage revenues, which was partially offset by the decreases in table hold percentage.

<u>*Expenses*</u>
Human resources expenses increased by 3% both in the second quarter and first half of 2014, when compared to the same periods in 2013. Property, marketing and administration expenses increased by 13% in both the second quarter and first half of 2014, when compared to the same periods in 2013. These increases were primarily due to increased human resources costs, marketing expenses and food and beverage costs associated with the growth in gaming and hospitality revenues.

*EBITDA*
Great American Casinos' EBITDA was relatively consistent in the second quarter of 2014, when compared to the second quarter of 2013.

Great American Casinos' EBITDA increased by 20% in the first half of 2014, when compared to the same period in 2013. This increase was mainly due to the increase in revenues.

The value of the Great American Casinos' functional currency, the U.S. dollar, in comparison to the Company's reporting currency, the Canadian dollar, affects the reported results of the Great American Casinos. The average value of the U.S. dollar increased by 7% in the second quarter and increased by 8% in the first half of 2014, when compared to the same periods in 2013.

(Expressed in millions of Canadian dollars, except for per share information)

***BC Racinos (Fraser Downs Racetrack and Casino, and Hastings Racecourse and Slots Facility)***

| | Second Quarter | | | First Half | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Chg | **2014** | 2013 | % Chg |
| Gaming revenues | **$ 5.1** | $ 5.0 | 2% | **$ 9.5** | $ 9.9 | (4%) |
| Facility Development Commission | **0.7** | 1.4 | (50%) | **1.5** | 2.0 | (25%) |
| Racetrack revenues | **2.7** | 2.9 | (7%) | **4.9** | 5.1 | (4%) |
| Hospitality and other revenues | **1.8** | 2.0 | (10%) | **3.1** | 3.3 | (6%) |
| Revenues before Promotional allowances | **10.3** | 11.3 | (9%) | **19.0** | 20.3 | (6%) |
| Less: Promotional allowances | **(0.4)** | (0.4) | 0% | **(0.8)** | (0.8) | 0% |
| Revenues | **9.9** | 10.9 | (9%) | **18.2** | 19.5 | (7%) |
| Human resources | **4.6** | 4.8 | (4%) | **8.7** | 8.8 | (1%) |
| Property, marketing and administration | **3.1** | 3.3 | (6%) | **5.8** | 6.4 | (9%) |
| EBITDA | **$ 2.2** | $ 2.8 | (21%) | **$ 3.7** | $ 4.3 | (14%) |
| Human resources as a % of Revenues before Promotional allowances | **44.7%** | 42.5% | | **45.8%** | 43.3% | |
| EBITDA as a % of Revenues | **22.2%** | 25.7% | | **20.3%** | 22.1% | |

| | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 | Q4 2012 | Q3 2012 | Q2 2012 | Average |
|---|---|---|---|---|---|---|---|---|---|---|
| Table Drop | $ 6.0 | $ 5.7 | $ 5.5 | $ 5.6 | $ 6.0 | $ 7.0 | $ 7.1 | $ 7.0 | $ 7.2 | |
| Table Hold | $ 1.5 | $ 1.4 | $ 1.5 | $ 1.4 | $ 1.4 | $ 1.7 | $ 1.7 | $ 1.4 | $ 1.4 | |
| Table Hold % | 24.7% | 25.3% | 26.8% | 24.6% | 23.3% | 24.3% | 24.2% | 20.0% | 19.4% | 23.4% |
| Poker Rake | $ 0.4 | $ 0.3 | $ 0.2 | $ 0.1 | $ 0.2 | $ 0.3 | $ 0.1 | $ 0.5 | $ 0.3 | |
| Slot Coin-In | $ 225.2 | $ 209.5 | $ 196.9 | $ 207.3 | $ 225.8 | $ 218.5 | $ 227.3 | $ 239.4 | $ 246.3 | |
| Slot Win | $ 17.3 | $ 15.3 | $ 15.4 | $ 16.1 | $ 17.7 | $ 16.1 | $ 16.5 | $ 17.9 | $ 18.4 | |
| Slot Win/Slot/Day(1) | $ 180 | $ 160 | $ 161 | $ 167 | $ 184 | $ 170 | $ 169 | $ 184 | $ 191 | |
| Slot Win % | 7.7% | 7.3% | 7.8% | 7.8% | 7.8% | 7.4% | 7.3% | 7.5% | 7.5% | 7.6% |

(1) Slot Win/Slot/Day is an average, presented in dollars.

*Revenues*
Gaming revenues at the BC Racinos were relatively consistent in the second quarter of 2014, when compared to the second quarter of 2013. The 4% decrease in the first half of 2014, when compared to the same period in 2013, was primarily due to a 10% decrease in table drop and 2% decrease in slot coin-in.

FDC revenues decreased in the second quarter and first half of 2014, when compared to the same periods in 2013, due to the recognition of $0.7 previously deferred FDC revenues that were realized in the second quarter of 2013 when BCLC approved the related eligible expenditures for reimbursement.

Racetrack and hospitality revenues decreased in the second quarter and first half of 2014, when compared to the same periods in 2013, as a result of the ongoing industry-wide decline in horse race wagering and fewer live race days when compared to the prior year.

*Expenses*
Human resources and property, marketing and administration expenses decreased both in the second quarter and first half of 2014, when compared to the same periods in 2013. These decreases were primarily due to operational efficiencies implemented as a result of reduced revenues.

*EBITDA*

EBITDA at the BC Racinos decreased by 21% and 14% in the second quarter and first half of 2014, respectively, when compared with the same periods in 2013. These decreases were primarily due to the decrease in revenues, which was partially offset by the decrease in expenses.

*Labour Relations*

A collective agreement with UNITE HERE!, Local 40, with a term covering April 01, 2008 through December 31, 2010, is applicable to food and beverage workers at Hastings Racecourse. Collective bargaining for a renewed collective agreement recommenced on May 29, 2014 and concluded on July 11, 2014. The parties have reached a tentative collective agreement with a term covering January 1, 2011 through June 30, 2016, subject to ratification.

(Expressed in millions of Canadian dollars, except for per share information)

***Ontario Racetracks***

| | Second Quarter | | | First Half | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Chg | **2014** | 2013 | % Chg |
| Racetrack revenues | **$ 1.2** | $ 1.1 | 9% | **$ 2.3** | $ 2.0 | 15% |
| Hospitality, lease and other revenues [(1)] | **5.0** | 5.5 | (9%) | **10.1** | 11.8 | (14%) |
| Revenues | **6.2** | 6.6 | (6%) | **12.4** | 13.8 | (10%) |
| Human resources | **1.3** | 1.4 | (7%) | **2.6** | 3.0 | (13%) |
| Property, marketing and administration | **1.7** | 1.9 | (11%) | **3.5** | 3.5 | 0% |
| EBITDA | **$ 3.2** | $ 3.3 | (3%) | **$ 6.3** | $ 7.3 | (14%) |
| Human resources as a % of Revenues before Promotional allowances | **21.0%** | 21.2% | | **21.0%** | 21.7% | |
| EBITDA as a % of Revenues | **51.6%** | 50.0% | | **50.8%** | 52.9% | |

[(1)] For the second quarter and first half of 2013, the Company has reclassified its gaming revenues, of $0.7 and $6.4 respectively that related to its prior Ontario Racetrack site holder agreements, as "Hospitality, lease and other revenues". Management believes this presentation improves the comparability with the current year's revenues from OLG for their lease of the slot machine areas at the Ontario Racetracks; however, included in the second quarter of 2013 were $0.7 of non-recurring without prejudice dispute resolution payments received from OLG. The prior site holder agreements were terminated by OLG effective March 31, 2013 and replaced by 5-year lease agreements effective April 1, 2013 as more completely described in the "Major Developments" section of this MD&A.

*Recent Developments*

As described in the "Major Developments" section of this MD&A, the Company's site holder agreements for Georgian Downs and Flamboro Downs were terminated by OLG effective March 31, 2013. On November 29, 2013, the Company and OLG signed lease agreements, whereby OLG would lease the previously-existing slot machine areas of the properties for a period of five years commencing on April 1, 2013.

In May 2013, the Company and the Government of Ontario signed Ontario Racing Agreements outlining terms under which the Company operated a reduced level of horse racing at the properties until March 31, 2014 on a transitional basis and received transition funding from the Government of Ontario. Effective April 1, 2014, the properties receive government funding for their racing purses and share in the pari-mutuel revenues pooled by the Standardbred Alliance, as described in the "Major Developments" section of this MD&A.

*Revenues*

Revenues decreased by 6% and 10% in the second quarter and first half of 2014, when compared to the same periods in 2013. In the second quarter of 2013, the Company received $0.7 of without prejudice payments from OLG to resolve disputes regarding the calculation of compensation due under the Flamboro Downs and Georgian Downs site holder agreements that ended on March 31, 2013. Excluding this non-recurring revenue of the prior year period, revenues in the second quarter of 2014 increased by 5% and revenues in the first half of 2014 decreased by 5%, when compared to the prior year periods. As described in the "Major Developments" section of this MD&A, since April 1, 2013, the Company's Ontario Racetracks no longer receive 10% of OLG's slot machine revenues nor directly share in the horse racing pari-mutuel wagering revenues that the operations generate. Instead, these Ontario Racetracks received slot facility lease revenues from OLG and, up to March 31, 2014, fixed horse racing transition funds from the Government of Ontario. Effective April 1, 2014, the Company's Ontario Racetracks receive their share of pooled pari-mutuel racetrack revenues from the Standardbred Alliance. Consequently, there was a decline in revenues at the Ontario Racetracks in the first half of 2014 when compared to the first half of 2013.

*Expenses*
Human resources expenses were relatively consistent in the second quarter of 2014, when compared to the second quarter of 2014. Human resources expenses decreased by 13% in the first half of 2014, when compared to the same period in 2013. This decrease was primarily due to operational adjustments implemented in 2013 as a result of the reduction in the number of live race days held at the racetracks under the Ontario Racing Agreements as described in the "Major Developments" section of this MD&A.

Property, marketing and administration expenses decreased by 11% in the second quarter of 2014, when compared to the same period in 2013. This was mainly attributable to an additional $0.2 property tax adjustment recorded in the second quarter of 2013. Property, marketing and administration expenses were relatively consistent in the first half of 2014, when compared to the same period in 2013.

*EBITDA*
EBITDA was consistent in the second quarter of 2014, when compared to the same period in 2013.

EBITDA declined by 14% in the first half of 2014, when compared to the same period in 2013, mainly as a result of the decrease in revenues, which was partially offset by decreases in expenses.

(Expressed in millions of Canadian dollars, except for per share information)

### *Corporate & Other*

| | Second Quarter | | | First Half | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Chg | **2014** | 2013 | % Chg |
| Human resources | **$ 3.6** | $ 3.6 | 0% | **$ 7.5** | $ 6.8 | 10% |
| Property, marketing and administration | **1.2** | 1.3 | (8%) | **2.6** | 2.6 | 0% |
| EBITDA | **$ (4.8)** | $ (4.9) | 2% | **$ (10.1)** | $ (9.4) | (7%) |

*EBITDA*

Corporate & Other EBITDA were relatively consistent in the second quarter of 2014, when compared to the same period in 2013.

Corporate & Other EBITDA decreased by 7% in the first half of 2014, when compared to the same periods in 2013. EBITDA was lower in 2014 primarily due to a $0.3 increase in consulting fees related to implementing the Company's information technology business recovery plan incurred during the first half of 2014 and excess short term incentive accruals of $0.3 released in the first half of 2013.

## Discussion of Items Excluded from EBITDA

*Amortization*
Amortization was relatively consistent in the second quarter and first half of 2014, when compared to the same periods in 2013, as increased amortization associated with recent property, plant and equipment additions was offset by reduced amortization of long-lived assets at the Company's Nova Scotia Casinos as a result of the AROC extension (see "Major Developments" section of this MD&A).

*Share-Based Compensation*
Share-based compensation of $1.8 (2013 - $0.6) in the second quarter of 2014 comprises equity-settled share-based compensation of $0.7 (2013 - $0.4) and cash-settled share-based compensation of $1.1 (2013 - $0.2). The increase in equity-settled share-based compensation was mainly attributable to an increase in the vesting period for options granted in the first quarter of 2014 as compared to those granted in the first quarter of 2013. This resulted in a higher number of unvested options being expensed during the second quarter of 2014 than in the comparable period of 2013. The increase in cash-settled share-based compensation is a result of the effect of the increase in the Company's common share price on the fair value of DSUs during the second quarter of 2014 and the accrual of $0.4 related to a new cash-settled RSU employee incentive program for 2014.

Share-based compensation of $2.2 (2013 - $2.7) in the first half of 2014 comprises equity-settled share-based compensation of $1.1 (2013 - $1.6) and cash-settled share-based compensation of $1.1 (2013 - $1.1). This decrease was mainly due to a one-year increase in the vesting period for employee stock options granted in the first quarter of 2014, resulting in a lower number of options vesting in the first half of 2014 as compared to 2013. The cash-settled share-based compensation in the first half of 2014 was comparable to that in the first half of 2013; however, the 2014 period included the above-mentioned second quarter increases which were offset by a one-time DSU grant in the first quarter of 2013 as part of the transition to a new director compensation program.

*Reversal of Impairment of Long-Lived Assets*
During the first half of 2014, the Company recorded non-cash impairment reversal of long-lived assets of $5.2 in connection with signing the Standardbred Alliance agreements in April 2014 with respect to the Company's Ontario Racetracks as described in the "Major Developments" section of this MD&A. During the first half of 2013, the Company recorded non-cash impairment reversals of long-lived assets of $28.5 in connection with signing letters of intent for lease arrangements and horse racing transition funding for Georgian Downs and Flamboro Downs, as described in the "Major Developments" section of this MD&A.

*Interest and Financing Costs, net*
Interest and financing costs, net of interest income was relatively consistent in the second quarter and first half of 2014, when compared to the same periods in 2013.

*Restructuring and other*
Restructuring and other expenses was relatively consistent in the second quarter of 2014, when compared to the second quarter of 2013.

Restructuring and other expenses decreased by $1.1 in the first half of 2014, when compared to the first half of 2013. Restructuring expenses included $1.2 related to non-recurring staff severance costs incurred during the first half of 2013 primarily as a result of the reduction in the number of live race days held at Flamboro Downs and Georgian Downs under the Ontario Racing Agreements.

*Foreign Exchange Loss (Gain) and Other*
Foreign exchange loss (gain) and other income was relatively consistent in the second quarter and first half of 2014, when compared to the same periods in 2013.

*Income Taxes*
Income taxes increased by $1.3 in the second quarter and decreased by $4.1 in the first half of 2014, when compared to the same periods in 2013. The increase in the second quarter was due to higher earnings before income taxes in 2014. The decrease in the first half of the year was primarily due to lower earnings before income taxes in 2014 as a result of the $28.5 non-cash long-lived asset impairment reversals recorded in 2013 compared to $5.2 in 2014 and a $1.6 non-recurring tax expense associated with the difference in the current and future tax rates due to an increase in the income tax rate from 25% to 26% in 2013.

(Expressed in millions of Canadian dollars, except for per share information)

## CONSOLIDATED QUARTERLY RESULTS TREND

| | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 | Q4 2012 | Q3 2012 |
|---|---|---|---|---|---|---|---|---|
| Revenues | $ 114.7 | $ 103.8 | $ 101.6 | $ 103.1 | $ 102.1 | $ 100.5 | $ 102.8 | $ 101.8 |
| EBITDA | $ 49.5 | $ 38.1 | $ 35.2 | $ 39.1 | $ 38.0 | $ 38.3 | $ 37.5 | $ 35.8 |
| EBITDA as a % of Revenues | 43.2% | 36.7% | 34.6% | 37.9% | 37.2% | 38.1% | 36.5% | 35.2% |
| Net earnings (loss) | $ 19.9 | $ 17.0 | $ 7.2 | $ 13.3 | $ 11.3 | $ 31.3 | $ 2.5 | $ (0.9) |
| Net earnings (loss) per common share | | | | | | | | |
| Basic | $ 0.29 | $ 0.25 | $ 0.11 | $ 0.20 | $ 0.17 | $ 0.44 | $ 0.04 | $ (0.01) |
| Diluted | $ 0.29 | $ 0.25 | $ 0.10 | $ 0.19 | $ 0.16 | $ 0.44 | $ 0.03 | $ (0.01) |

For the past eight quarters, revenues have trended positively. The decline in the first quarter of 2013 from the fourth quarter of 2012 was primarily due to the intermittent weekday and multiple weekend evening road closures that affected access to the former Boulevard Casino. This continued to have a negative impact on the property's performance throughout the remainder of 2013, which was offset by positive revenue trends at River Rock and Great American Casinos. As a result of OLG's termination of the site holder agreements at Flamboro Downs and Georgian Downs on March 31, 2013, revenues for the Ontario racetracks have declined. During the fourth quarter of 2013, inclement weather conditions in Nova Scotia and Vancouver Island contributed to declines in revenues at these properties. Since the opening of the new Chances Maple Ridge and Hard Rock Casino Vancouver in October 2013 and December 2013, respectively, growth in food and beverage revenues contributed to the increases in hospitality, lease and other revenues. The significant revenue growth in the second quarter of 2014 is mainly attributable to record revenues at River Rock.

Changes in EBITDA were mainly attributable to changes in revenues, as discussed above, as well as decreased expenses as a result of the Company's continued focus on operating efficiencies. For the fourth quarter of 2013, EBITDA has been affected by the pre-opening costs totalling $1.1 for both Hard Rock Casino Vancouver and Chances Maple Ridge.

The net earnings (loss) trend reflects the items noted above, as well as certain impairment charges, reversals of impairment charges, share-based compensation expense, equity investment loss, business development expenses, litigation settlement costs, expenses associated with the debt refinancing and settlement of the related derivative liabilities, and the related income tax effects of these items.

## LIQUIDITY AND CAPITAL RESOURCES

The Company manages liquidity risks by closely monitoring its capital structure and operating costs, regularly monitoring forecast and actual cash flows, taking a conservative approach to capital investment, managing the maturity profiles of financial assets and financial liabilities and maintaining credit capacity within its Revolving Credit Facility.

As at June 30, 2014, the Company had:

- Relatively low levels of receivables of which the majority are due from: sales tax rebates from the federal government, racetrack operators, other provincial gaming corporations, and financial institutions;
- Low exposure to foreign currency exchange rate movements and low exposure to floating interest rate changes since it has relatively low levels of foreign denominated assets and liabilities and has fixed interest rates with its Canadian dollar denominated Senior Unsecured Notes;
- $321.7 of available credit on its Revolving Credit Facility, subject to compliance with the related financial covenants; and
- Counterparties to its existing debt and credit facilities that are primarily major financial institutions that have minimum grade “A” credit ratings.

(Expressed in millions of Canadian dollars, except for per share information)

## Financial Position

| | | **June 30, 2014** | | December 31, 2013 | % Chg |
|---|---|---|---|---|---|
| Cash and cash equivalents | **$** | **243.8** | $ | 192.6 | 27% |
| Other current assets | | **14.8** | | 18.9 | (22%) |
| Property, plant and equipment | | **583.3** | | 596.3 | (2%) |
| Other long-term assets | | **107.8** | | 107.9 | (0%) |
| Total Assets | **$** | **949.7** | $ | 915.7 | 4% |
| Current liabilities | **$** | **58.1** | $ | 70.5 | (18%) |
| Long-term debt | | **441.5** | | 441.0 | 0% |
| Other long-term liabilities | | **101.1** | | 96.7 | 5% |
| Total Liabilities | | **600.7** | | 608.2 | (1%) |
| Shareholders' equity | | **349.0** | | 307.5 | 13% |
| Total Liabilities and Shareholders' equity | **$** | **949.7** | $ | 915.7 | 4% |

*Total Assets*
Total assets increased by $34.0 in the first half of 2014, when compared to the total assets as at December 31, 2013. This increase was primarily due to cash generated by operating activities, which was partially offset by the effect of amortization on property, plant and equipment.

*Total Liabilities*
Total liabilities was relatively consistent as at June 30, 2014 to the total liabilities as at December 31, 2013.

*Shareholders' equity*
Shareholders' equity increased by $41.5 in the first half of 2014, when compared to shareholders' equity as at December 31, 2013. This increase was due to the net earnings of $36.9, equity-settled share-based compensation of $1.1 and share options exercised of $3.5.

(Expressed in millions of Canadian dollars, except for per share information)

## Cash Flows

| | Second Quarter | | | First Half | | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | % Chg | **2014** | 2013 | % Chg |
| Cash generated by operating activities | **$ 40.0** | $ 37.3 | 7% | **$ 71.0** | $ 72.4 | (2%) |
| Cash (used in) generated by investing activities | **(1.7)** | 26.8 | | **(7.4)** | 20.1 | |
| Cash generated by (used in) financing activities | **1.1** | (15.8) | | **(12.6)** | (37.4) | 66% |
| Effect of foreign exchange on cash and cash equivalents | **(0.3)** | 0.4 | | **0.2** | 0.7 | (71%) |
| Cash inflow | **$ 39.1** | $ 48.7 | (20%) | **$ 51.2** | $ 55.8 | (8%) |

Cash generated by operating activities was higher in the second quarter of 2014, when compared to the same period in 2013. This was primarily due to increased EBITDA, which was partially offset by changes in the timing of the settlement of accounts receivable, accounts payable and accrued liabilities.

Cash generated by investing activities in the second quarter and first half of 2013 were mainly attributable to the $31.5 settlement payment related to the Georgian Downs facility that was received from OLG in April 2013 as described in the "Major Developments" section of this MDA.

Cash used in financing activities in the second quarter and first half of 2013 were mainly attributable to the repurchase of common shares under the Company's Normal Course Issuer Bid of $16.8 and $23.5 in the second quarter and first half of 2013, respectively. There were no significant common share repurchases during the first half of 2014.

(Expressed in millions of Canadian dollars, except for per share information)

## Capital Resources

***Long-Term Debt and Equity***

| | **June 30, 2014** | December 31, 2013 |
|---|---|---|
| Senior Unsecured Notes, net of unamortized transaction costs of $8.5 (2013 - $9.0) | **$ 441.5** | $ 441.0 |

As at June 30, 2014, the Company was in compliance with its financial covenants as shown below:

| **Covenant test** | **Required ratio** | **Actual ratio** |
|---|---|---|
| Total Debt to Adjusted EBITDA ratio (1) | ≤ 5.00 | 2.82 |
| Senior Secured Debt to Adjusted EBITDA ratio (1) | ≤ 3.50 | 0.00 |
| Interest Coverage ratio (1) | ≥ 2.25 | 5.01 |
| Fixed Charge Coverage ratio (2) | ≥ 2.00 | 5.05 |

(1) Calculated on a trailing twelve month basis and defined in the Credit Agreement, as amended on July 24, 2012.
(2) Calculated on a trailing twelve month basis and tested on specified events as defined in the long-term debt agreement covering the Trust Indenture dated July 24, 2012.

The Company and its debt facilities had independent credit ratings as at June 30, 2014 as follows:

| | **Moody's** | **Standard & Poor's** |
|---|---|---|
| Corporate | Ba3 Stable | BB+ Stable |
| Revolving Credit Facility | Ba1 | BBB |
| Senior Unsecured Notes | B1 | BB+ |

***Outstanding Share Data***

As at June 30, 2014 there were 67,811,029 common shares issued and outstanding compared to 67,333,429 as at December 31, 2013. This increase was primarily due to the exercise of employee stock options during the first half of 2014.

As at June 30, 2014, there were 5,178,360 share options outstanding at a weighted-average exercise price of $9.71.

As at August 11, 2014, there were 67,825,328 common shares outstanding and 5,160,727 share options outstanding.

(Expressed in millions of Canadian dollars, except for per share information)

## Capital Spending and Development

The majority of the Company's capital expenditures on gaming operations in British Columbia and Nova Scotia are eligible for reimbursement by the provincial gaming authorities. In British Columbia, through the FDC program, BCLC reimburses Approved Amounts (a term defined in the Company's operating services agreements with BCLC) of qualified, primarily capital, gaming-related expenditures that have been incurred by the Company. The FDC amounts that BCLC reimburses for Approved Amounts are calculated as a fixed percentage of Gross Gaming Revenues generated by the B.C. properties. The FDC reimbursement percentage is currently 3% of the Gross Gaming Revenues from gaming activities. BCLC provides for an additional accelerated FDC reimbursement equal to 2% of the Gross Gaming Revenues that is intended to be a one-time reimbursement of the timely development or redevelopment of gaming facilities and additional entertainment amenities of significant value which may be completed through phases.

Reimbursement of the Approved Amounts under the terms of BCLC's FDC policy requires that the Company's operating agreements with BCLC remain in good standing and that sufficient Gross Gaming Revenues are generated. Provided these conditions are met, the Company would continue to receive FDC until the related FDC Approved Amounts are recovered. Approved Amounts have not been recorded in the condensed interim consolidated statements of financial position. For accounting purposes, FDC is recorded as part of revenues on the consolidated statements of earnings when received and subject to having sufficient BCLC Approved Amounts remaining to be reimbursed. For income tax purposes, management believes that FDC received from BCLC is appropriately characterized under the relevant income tax regulations as a reduction of the cost of either the related long-lived asset or the operating expense being reimbursed.

BCLC has permitted the Company and certain of its B.C. subsidiaries to be considered a consolidated group for the FDC purposes. That consolidated group includes Company subsidiaries that operate the River Rock Casino Resort, Hard Rock Casino Vancouver, Vancouver Island Casinos and Other BC Casinos. As a result, one gaming facility's FDC Approved Amounts may be notionally transferred to another facility within the consolidated group. For the presentation of the property's or, where appropriate, groups of similar properties' results in the "Discussion of Results" section of this MD&A, the FDC received from BCLC is reflected as a component of revenues at the property that generated the Gross Gaming Revenues on which the FDC reimbursement percentage was applied as opposed to revenues of the property that incurred the Approved Amounts being reimbursed.

The following table summarizes the changes in the Company's Approved Amounts (a term defined in the Company's operating services agreements with BCLC) to be recovered by future FDC receipts from BCLC:

| | Six months ended June 30, | |
|---|---|---|
| | **2014** | 2013 |
| Opening Approved Amounts | **$ 380.9** | $ 412.0 |
| Additional Approved Amounts | **2.2** | 1.9 |
| FDC receipts | **(18.6)** | (17.8) |
| Closing Approved Amounts | **$ 364.5** | $ 396.1 |

The difference between the additional FDC Approved Amounts indicated above and the additions to property, plant and equipment during the same periods is partly due to the Company's non-gaming related (and therefore non- FDC qualified) expenditures as well as the timing differences between when an FDC eligible expenditure is incurred, when the related invoices are received, and when they are submitted to BCLC for approval.

(Expressed in millions of Canadian dollars, except for per share information)

Approved expenditures incurred to improve or maintain the two Nova Scotia casinos are reimbursed by NSPLCC from a Capital Reserve Account ("CRA"). The Company is required to make contributions to the CRA equal to 5% of the annual gross operating revenues from the Nova Scotia Casinos with a minimum contribution of approximately $5.0 per year, adjusted for inflation since April 2010. If the CRA is in a deficit balance, the amount owed to the Company accrues interest at a rate of prime plus 2% per annum.

The following table summarizes the Company's maintenance and development capital expenditures net of accounts payable for the second quarter and first half of 2014:

| | Second Quarter | | First Half | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Maintenance capital expenditures net of related accounts payable | **$ 0.5** | $ 2.3 | **$ 1.5** | $ 3.0 |
| Development capital expenditures net of related accounts payable | **2.2** | 3.5 | **7.2** | 8.9 |
| Total capital expenditures net of related accounts payable | **$ 2.7** | $ 5.8 | **$ 8.7** | $ 11.9 |

Maintenance capital expenditures were primarily related to various property upgrades. Development capital expenditures during the second quarter and first half of 2014 were primarily related to River Rock and Hard Rock Casino Vancouver. For the remaining six months of 2014, the Company estimates that development capital expenditures and maintenance capital expenditures net of related accounts payable will total approximately $5.7 and $3.0, respectively.

## Contingencies

The Company has issued letters of credit to guarantee performance primarily under gaming cash floats, construction contracts, and provincial gaming corporation payables in the aggregate amount of $28.3 as at June 30, 2014 (December 31, 2013 - $29.8).

## Litigation

The Company is subject to legal proceedings, claims and investigations in the ordinary course of business. Liabilities related to such matters are recorded when it is both probable that a liability has been incurred and the amount of the liability can be reasonably estimated. All legal costs associated with litigation are expensed as incurred.

## Guarantees and Indemnifications

The Company may provide guarantees and indemnifications in conjunction with transactions in the normal course of operations. These are recorded as liabilities when reasonable estimates of the obligations can be made. Guarantees and indemnifications that the Company has provided include obligations to indemnify:

- directors and officers of the Company and its subsidiaries for potential liability while acting as a director or officer of the Company, together with various expenses associated with defending and settling such suits or actions due to association with the Company, the risk of which is mitigated by the Company's directors' and officers' liability insurance;
- certain vendors of acquired companies or properties for obligations that may or may not have been known at the date of the transaction;
- certain financial institutions for costs that they may incur as a result of representations made in our debt and equity offering documents; and
- lessors of leased properties for personal injury claims that may arise at the facilities we operate.

## Commitments

In June 2014, the Company exercised its renewal option with NSPLCC to extend the term of the AROC, effective July 1, 2015. Under the terms of the contract option extension with NSPLCC, the Company has committed to make capital investments totalling $10.0 in the Nova Scotia casino properties by the end of 2015.

There were no other material changes outside of the Company's ordinary course of business that affected the Company's contractual obligations for the first half of 2014.

## Future Cash Requirements

Management believes that the Company's current operational requirements and major development plans can be funded from existing cash and cash equivalents, cash generated from operations, and existing capacity on our Revolving Credit Facility. If future circumstances dictate an increased cash requirement and we elect not to delay, limit, or eliminate some of our plans, we may raise additional funds through the refinancing of existing debt, the issuance of additional debt that fits within the limitations established by the covenants on our existing credit and debt facilities, the issuance of hybrid debt-equity securities, or additional equity securities. If the Company needs to access the capital markets for additional financial resources, we believe we will be able to do so at prevailing market rates.

## OTHER FINANCIAL INFORMATION

### Accounting standards, amendments and interpretations effective and applied

Effective January 1, 2014, the Company adopted the following revised IASs and IFRSs issued by the International Accounting Standards Board ("IASB") and interpretation of the International Financial Reporting Standards Interpretations Committee ("IFRIC"). These revised standards and interpretation did not have a material impact on the Company's condensed interim consolidated financial statements.

- *IAS 32, Financial Instruments: Presentation* – amended to clarify under what circumstances financial assets and financial liabilities should be offset. It is effective for annual periods beginning on or after January 1, 2014.

- *IAS 36, Impairment of Assets* – amended to clarify the standard's disclosure requirements and require the disclosure of the discount rate used in determining an impairment value calculated using a present value technique. It is effective for annual periods beginning on or after January 1, 2014.

- *IFRS 10, Consolidated Financial Statements ("IFRS 10"), IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12") and IAS 27, Separate Financial Statements ("IAS 27")* – IFRS 10 has been amended to introduce an exception from the requirement to consolidate subsidiaries for an investment entity. The exception does not apply to subsidiaries of investment entities that provide services that relate to the investment entity's investment activities. IFRS 12 and IAS 27 have been amended to introduce new disclosure requirements for investment entities. These amendments are effective for annual periods beginning on or after January 1, 2014.

- *IFRIC 21, Levies* – provides guidance for applying IAS 37, *Provisions, contingent liability and contingent assets*, with respect to when a company should recognize a liability for a levy imposed by a government. It is effective for annual periods beginning on or after January 1, 2014.

### Accounting standards, amendments and interpretations not yet effective and not applied

The IASB issued the following new and revised accounting pronouncements. The Company does not anticipate early adoption of these standards at this time.

- *IFRS 2, Share based payments* – amended the definitions of "vesting condition" and "market conditions" and added definitions for "performance condition" and service condition". These amendments apply to share based payment transactions with a grant date on or after July 1, 2014.

- *IFRS 8, Operating Segments* – amended to require the disclosure of the judgments made by management in applying the aggregation criteria to operating segments and to clarify that the reconciliation of the segment assets is required if they are regularly provided to the chief operation decision-maker. It is effective for annual periods beginning on or after July 1, 2014.

- *IFRS 13, Fair Value Measurement ("IFRS 13")* – the Basis of Conclusions was amended to clarify that issuing IFRS 13 and amending IFRS 9, *Financial Instruments* ("IFRS 9") and IAS 39, *Financial Instruments: Recognition and measurement* ("IAS 39") did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis. IFRS 13 was also amended to clarify the scope of the portfolio exception. It is effective for annual periods beginning on or after July 1, 2014.

- *IAS 16, Property, Plant and Equipment and IAS 38, Intangible assets* – amended to clarify that, under the revaluation method, the gross amount of property, plant and equipment and intangible asset is adjusted in a manner consistent with the revaluation of the carrying amount of the asset. It is effective for annual periods beginning on or after July 1, 2014.

- *IAS 24, Related Party Disclosures* – amended to clarify how payments to entities providing management services are to be disclosed. It is effective for annual periods beginning on or after July 1, 2014.

- *IAS 16 and IAS 38* – amended to clarify that a depreciation and amortization method based on revenue generated by an activity that includes the use of an asset and intangible asset, respectively, is not appropriate. It is effective for annual periods beginning on or after January 1, 2016.

- *IFRS 15, Revenue from Contracts with Customers* – provides a single, principles based five-step model to be applied to all contracts with customers. Guidance is provided on the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various other matters. New disclosures about revenue are also introduced. It is effective for annual periods beginning on or after January 1, 2017.

- *IFRS 9* – replaces IAS 39. IFRS 9 introduces limited amendments to classification and measurement for financial assets, a new expected loss impairment model and a new hedge accounting model. It is effective for annual periods beginning on or after January 1, 2018.

## Critical Accounting Estimates and Judgments

The Company's reported financial position and results of operations are dependent on the selection of accounting policies that are based on IFRS and accounting estimates that underlie the preparation of the Company's Condensed Interim Consolidated Financial Statements. The Company's Annual Financial Statements contain a summary of the Company's significant accounting policies and accounting estimates. The Company's Condensed Interim Financial Statements highlight additional new significant accounting policies and estimates, if any, that are not already described in the Annual Financial Statements. Estimates by their nature are subject to risks, uncertainties and assumptions, which could cause the Company's financial position and operating results to differ materially from those presented in the Company's Annual Financial Statements. Future changes in accounting estimates will be applied on a prospective basis.

The critical accounting estimates and judgments that are the most judgmental or material to the Company's Annual Financial Statements are those relating to the impairment of long-lived assets and goodwill, estimated useful lives of long-lived assets, equity-settled share-based compensation, income taxes, contingencies, hedge accounting, and determination of CGUs. The Company's critical accounting estimates and judgments are further detailed in Note 3 of the Company's Annual Financial Statements.

## Financial Instruments and Other Instruments

The Company's risk management strategy is to minimize exposure to currencies other than the Canadian dollar and, with the exception of revolving lines of credit, to fix substantially all of its floating interest rate debt. The financial instrument that gives rise or may give rise to the most significant exposure to floating interest rate risk is the Revolving Credit Facility.

## Definitions of Other Terms Used in the MD&A

Gross Gaming Revenues – the amounts wagered on gaming activities, less the payout or prizes to winning customers.

Racebook – an off-racetrack betting facility for pari-mutuel wagering on live horse races displayed by television broadcasts operated by the Company or TBC.

Revenues – the sum of the following:

- Casino gaming in BC – gaming revenues are net of amounts paid to BCLC (provincial government portion is 60% of the win on most table games and 75% of the slot machine win) and are net of accruals for anticipated payouts of progressive slot machine jackpots and progressive table game payouts.
- Bingo and slots at a community gaming centre in BC – gaming revenues are net of amounts paid to BCLC (provincial government portion is 75% of the win on slots, and 40% to 75% of the weekly bingo win) and are net of prizes.
- Horse racing in BC – Racetrack revenues represent the Company's share of total wagering less amounts returned as winning wagers, provincial and federal taxes, and includes the host track share of wagering on the Company's races simulcast to other associations.
- Horse racing in Ontario – Effective April 1, 2014, racetrack revenues includes the Company's share of pari-mutuel wagering revenue as a result of signing the Standardbred Alliance agreements. From April 1, 2013 to April 1, 2014, racetrack revenues included transition funding for horse racing received from the Government of Ontario. Prior to April 1, 2013, racetrack revenues represented the Company's share of total wagering less amounts returned as winning wagers, provincial and federal taxes, and included the host track share of wagering on the Company's races simulcast to other associations.
- Casino gaming in Washington – gaming revenues are net of county gaming taxes at various rates ranging from 10% to 11% for card and progressive jackpot games, 5% on pull-tabs and 2% on amusement games.
- Casino gaming in Nova Scotia – effective October 1, 2012, gaming revenues are approximately equal to 52.24% of the gross gaming revenues, after deduction of the capital reserve contribution ("CRC"). The CRC is the greater of 5% of total revenue or $5.0 (adjusted for inflation in each year since 2009). The Company is also entitled to receive additional Operator Fees equal to the lesser of $1.3, or 10% of leased slot machine revenues.
- Facility Development Commission ("FDC") – BCLC reimburses Approved Amounts (a term defined in the Company's operating services agreements with BCLC) of qualified, primarily

capital, gaming-related expenditures that have been incurred by the Company. The FDC amounts that BCLC reimburses for Approved Amounts are calculated as a fixed percentage of Gross Gaming Revenues generated by the B.C. properties. The FDC reimbursement percentage is currently 3% of the Gross Gaming Revenues from gaming activities. BCLC provides for an additional accelerated FDC reimbursement equal to 2% of the Gross Gaming Revenues that is intended to be a one-time reimbursement of the timely development or redevelopment of gaming facilities and additional entertainment amenities of significant value which may be completed through phases. BCLC has permitted the Company and certain of its B.C. subsidiaries to be considered a consolidated group for the FDC purposes. That consolidated group includes Company subsidiaries that operate the River Rock Casino Resort, Hard Rock Casino Vancouver, Vancouver Island Casinos and Other BC Casinos. As a result, one gaming facility's FDC Approved Amounts may be notionally transferred to another facility within the consolidated group.

- Hospitality, lease and other revenues – food and beverage revenues, hotel revenues, and other revenues such as: ATM commissions, theatre revenues, advertising revenues, lease revenues and other income from ancillary services.

- Promotional allowances – the retail value of promotional allowances furnished to guests without charge, which have been included in gaming revenues or hospitality, lease and other revenues, are deducted.

## Additional Information

Additional information relating to the Company, including the Company's latest Condensed Interim Financial Statements, Annual Financial Statements and Annual Information Form, can be located on the SEDAR website at www.sedar.com or on the Company's website at www.gcgaming.com.

Shareholders of the Company may obtain a copy of the Company's TSX Form 12 Notice of Intention to Make a Normal Course Issuer Bid as filed with and as accepted by the TSX, at no charge, by contacting the Company.

(Expressed in millions of Canadian dollars, except for per share information)

## SUPPLEMENTAL FINANCIAL INFORMATION

### Consolidated Quarterly Results Trend

| | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 |
|---|---|---|---|---|---|
| **Gaming Revenues** | | | | | |
| River Rock Casino Resort | $ 38.8 | $ 32.8 | $ 29.0 | $ 29.7 | $ 27.4 |
| Hard Rock Casino Vancouver (formerly "Boulevard Casino") | 10.0 | 9.2 | 9.7 | 8.8 | 9.3 |
| Vancouver Island Casinos | 7.5 | 7.3 | 7.3 | 7.7 | 7.8 |
| Other BC Casinos | 3.8 | 3.6 | 3.5 | 3.4 | 3.7 |
| Nova Scotia Casinos | 8.8 | 8.1 | 8.4 | 10.2 | 9.2 |
| Great American Casinos | 5.9 | 5.7 | 5.3 | 5.1 | 5.3 |
| BC Racinos | 5.1 | 4.4 | 4.5 | 4.6 | 5.0 |
| | **79.9** | **71.1** | **67.7** | **69.5** | **67.7** |
| **Facility Development Commission** | | | | | |
| River Rock Casino Resort | 5.5 | 4.7 | 4.2 | 4.3 | 3.9 |
| Hard Rock Casino Vancouver (formerly "Boulevard Casino") | 1.6 | 1.5 | 1.5 | 1.5 | 1.6 |
| Vancouver Island Casinos | 1.2 | 1.1 | 1.2 | 1.2 | 1.3 |
| Other BC Casinos | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| BC Racinos | 0.7 | 0.8 | 0.6 | 0.6 | 1.4 |
| | **9.7** | **8.8** | **8.2** | **8.3** | **8.9** |
| **Hospitality, Lease and Other Revenues [1]** | | | | | |
| River Rock Casino Resort | 12.1 | 10.8 | 11.9 | 11.7 | 11.1 |
| Hard Rock Casino Vancouver (formerly "Boulevard Casino") | 2.6 | 2.7 | 2.5 | 1.9 | 2.2 |
| Vancouver Island Casinos | 1.2 | 1.2 | 1.1 | 1.1 | 1.1 |
| Other BC Casinos | 1.0 | 1.0 | 1.0 | 0.7 | 0.7 |
| Nova Scotia Casinos | 1.5 | 1.5 | 1.8 | 1.7 | 1.7 |
| Great American Casinos | 1.9 | 2.0 | 2.0 | 1.7 | 1.6 |
| BC Racinos | 1.8 | 1.3 | 1.5 | 2.5 | 2.0 |
| Ontario Racetracks | 5.0 | 5.1 | 5.3 | 5.0 | 5.5 |
| | **27.1** | **25.6** | **27.1** | **26.3** | **25.9** |
| **Racetrack Revenues** | | | | | |
| BC Racinos | 2.7 | 2.1 | 2.2 | 2.7 | 2.9 |
| Ontario Racetracks | 1.2 | 1.2 | 1.2 | 1.1 | 1.1 |
| | **3.9** | **3.3** | **3.4** | **3.8** | **4.0** |
| Promotional Allowances | (5.9) | (5.0) | (4.8) | (4.8) | (4.4) |
| **Revenues** | **$ 114.7** | **$ 103.8** | **$ 101.6** | **$ 103.1** | **$ 102.1** |

[1] For the second quarter of 2013, the Company has reclassified its Ontario gaming revenues of $0.7 that related to non-recurring without prejudice dispute resolution payments from OLG as "Hospitality, lease and other revenues".

(Expressed in millions of Canadian dollars, except for per share information)

| | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 |
|---|---|---|---|---|---|
| **EBITDA** | | | | | |
| River Rock Casino Resort | $ 32.7 | $ 25.4 | $ 22.3 | $ 23.7 | $ 21.2 |
| Hard Rock Casino Vancouver (formerly "Boulevard Casino") | 4.5 | 2.9 | 2.6 | 3.0 | 3.5 |
| Vancouver Island Casinos | 5.2 | 4.7 | 4.8 | 5.3 | 5.5 |
| Other BC Casinos | 2.5 | 2.4 | 2.0 | 2.2 | 2.4 |
| Nova Scotia Casinos | 2.6 | 2.1 | 2.3 | 3.9 | 2.9 |
| Great American Casinos | 1.4 | 1.2 | 0.9 | 0.8 | 1.3 |
| BC Racinos | 2.2 | 1.5 | 1.3 | 1.6 | 2.8 |
| Ontario Racetracks | 3.2 | 3.1 | 3.6 | 3.2 | 3.3 |
| Corporate & Other | (4.8) | (5.2) | (4.6) | (4.6) | (4.9) |
| | **$ 49.5** | **$ 38.1** | **$ 35.2** | **$ 39.1** | **$ 38.0** |