GREAT CANADIAN GAMING CORPORATION

# INDEPENDENT AUDITOR'S REPORT
# AND
# CONSOLIDATED FINANCIAL STATEMENTS

## For the Year Ended December 31, 2017

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

Deloitte.

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# Independent Auditor's Report

To the Shareholders of
Great Canadian Gaming Corporation

We have audited the accompanying consolidated financial statements of Great Canadian Gaming Corporation, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

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

## Auditor's Responsibility

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

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

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Great Canadian Gaming Corporation as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

/s/ Deloitte LLP

Chartered Professional Accountants
March 4, 2018
Vancouver, British Columbia

# GREAT CANADIAN GAMING CORPORATION
## Consolidated Statements of Financial Position
### (Expressed in millions of Canadian dollars)
### As at December 31,

| | | | 2017 | | 2016 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current | | | | | |
| Cash and cash equivalents | Note 5 | **$** | **322.3** | $ | 228.7 |
| Accounts receivable | Note 6 | | **21.8** | | 22.9 |
| Land held for sale | Note 7 | | **8.1** | | 8.1 |
| Prepaids, deposits and other assets | | | **12.1** | | 11.0 |
| | | | **364.3** | | 270.7 |
| Property, plant and equipment | Note 7 | | **665.4** | | 667.7 |
| Intangible assets | Note 8 | | **70.8** | | 80.2 |
| Goodwill | Note 9 | | **21.8** | | 22.3 |
| Deferred tax assets | Note 17 | | **11.4** | | 10.7 |
| Cash on deposit with Canada Revenue Agency | Note 17 | | **29.3** | | 29.5 |
| Other assets | Note 11(d), 26(a) | | **8.4** | | 2.6 |
| | | **$** | **1,171.4** | $ | 1,083.7 |
| **Liabilities** | | | | | |
| Current | | | | | |
| Accounts payable and accrued liabilities | Note 14, 21 | **$** | **91.9** | $ | 96.4 |
| Income taxes payable | | | **4.3** | | 4.6 |
| Other liabilities | Note 10 | | **2.8** | | 2.5 |
| | | | **99.0** | | 103.5 |
| Long-term debt | Note 11 | | **482.6** | | 478.3 |
| Deferred credits, provisions and other liabilities | Note 13, 14, 21 | | **28.6** | | 28.7 |
| Deferred tax liabilities | Note 17 | | **91.0** | | 83.9 |
| | | | **701.2** | | 694.4 |
| **Equity** | | | | | |
| Share capital and reserves | Note 14 | | **318.6** | | 305.7 |
| Accumulated other comprehensive income | | | **2.0** | | 3.2 |
| Retained earnings | | | **144.3** | | 76.5 |
| Equity attributable to shareholders of the Company | | | **464.9** | | 385.4 |
| Non-controlling interests | | | **5.3** | | 3.9 |
| Total equity | | | **470.2** | | 389.3 |
| | | **$** | **1,171.4** | $ | 1,083.7 |

These consolidated financial statements were approved and authorized by the Company's Board of Directors for issuance on March 4, 2018.

## GREAT CANADIAN GAMING CORPORATION
## Consolidated Statements of Earnings and Other Comprehensive Income
**(Expressed in millions of Canadian dollars, except for per share information)**
**For the years ended December 31,**

| | | | 2017 | | 2016 |
|---|---|---|---|---|---|
| **Revenues** | Note 15 | **$** | **614.3** | $ | 566.4 |
| **Expenses** | | | | | |
| Human resources | Note 21 | | **218.3** | | 202.4 |
| Property, marketing and administration | | | **175.8** | | 157.7 |
| Share of profit of equity investments | | | **(1.0)** | | (2.6) |
| Amortization | | | **58.3** | | 54.7 |
| Share-based compensation | Note 14, 21 | | **8.1** | | 6.7 |
| Impairment reversal of long-lived assets | Note 7, 8 | | **(0.9)** | | - |
| Interest and financing costs, net | Note 11 | | **33.9** | | 34.9 |
| Business acquisition, restructuring and other | Note 16 | | **1.5** | | 7.3 |
| Foreign exchange gain and other | | | **-** | | (0.3) |
| | | | **494.0** | | 460.8 |
| **Earnings before income taxes** | | | **120.3** | | 105.6 |
| Income taxes | Note 17 | | **34.6** | | 29.0 |
| **Net earnings** | | **$** | **85.7** | $ | 76.6 |
| **Net earnings attributable to:** | | | | | |
| Shareholders of the Company | | **$** | **84.3** | $ | 75.7 |
| Non-controlling interests | | | **1.4** | | 0.9 |
| | | **$** | **85.7** | $ | 76.6 |
| **Net earnings** | | **$** | **85.7** | $ | 76.6 |
| **Other comprehensive income (loss)** | | | | | |
| Items that may be reclassified subsequently to net earnings | | | | | |
| Current period changes in fair values of derivatives designated as cash flow hedges, net of taxes | | | **0.3** | | 0.3 |
| Unrealized loss of foreign currency translation of foreign operations | | | **(1.5)** | | (0.4) |
| | | | **(1.2)** | | (0.1) |
| **Total comprehensive income** | | **$** | **84.5** | $ | 76.5 |
| **Total comprehensive income attributable to:** | | | | | |
| Shareholders of the Company | | **$** | **83.1** | $ | 75.6 |
| Non-controlling interests | | | **1.4** | | 0.9 |
| | | **$** | **84.5** | $ | 76.5 |
| Net earnings per common share attributable to shareholders of the Company | Note 18 | | | | |
| Basic | | **$** | **1.38** | $ | 1.22 |
| Diluted | | **$** | **1.35** | $ | 1.20 |
| Weighted average number of common shares (in thousands) | | | | | |
| Basic | | | **61,157** | | 61,895 |
| Diluted | | | **62,356** | | 62,963 |

See Accompanying Notes to the Consolidated Financial Statements

# GREAT CANADIAN GAMING CORPORATION
## Consolidated Statements of Changes in Equity
### (Expressed in millions of Canadian dollars, except for share information)

| | | Share Capital Number [1] | Share Capital Amount | Reserves | Share Capital and Reserves | Accumulated Other Comprehensive Income | Retained Earnings | Equity Attributable To Shareholders | Non-Controlling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| At January 1, 2016 | | 64,413 | $ 266.3 | $ 45.1 | $ 311.4 | $ 3.3 | $ 64.5 | $ 379.2 | $ 0.4 | $ 379.6 |
| Share-based compensation | Note 14 | - | - | 3.9 | 3.9 | - | - | 3.9 | - | 3.9 |
| Exercise of incentive share options | Note 14 | 1,186 | 13.1 | (2.2) | 10.9 | - | - | 10.9 | - | 10.9 |
| Repurchase of common shares | Note 14 | (4,807) | (20.5) | - | (20.5) | - | (63.7) | (84.2) | - | (84.2) |
| Net earnings | | - | - | - | - | - | 75.7 | 75.7 | 0.9 | 76.6 |
| Other comprehensive loss | | - | - | - | - | (0.1) | - | (0.1) | - | (0.1) |
| Contributions | Note 26(c) | - | - | - | - | - | - | - | 2.6 | 2.6 |
| At December 31, 2016 | | 60,792 | $ 258.9 | $ 46.8 | $ 305.7 | $ 3.2 | $ 76.5 | $ 385.4 | $ 3.9 | $ 389.3 |
| At January 1, 2017 | | 60,792 | $ 258.9 | $ 46.8 | $ 305.7 | $ 3.2 | $ 76.5 | $ 385.4 | $ 3.9 | $ 389.3 |
| Share-based compensation | Note 14 | - | - | 5.6 | 5.6 | - | - | 5.6 | - | 5.6 |
| Exercise of incentive share options | Note 14 | 961 | 13.1 | (2.0) | 11.1 | - | - | 11.1 | - | 11.1 |
| Repurchase of common shares | Note 14 | (859) | (3.8) | - | (3.8) | - | (16.5) | (20.3) | - | (20.3) |
| Net earnings | | - | - | - | - | - | 84.3 | 84.3 | 1.4 | 85.7 |
| Other comprehensive loss | | - | - | - | - | (1.2) | - | (1.2) | - | (1.2) |
| **At December 31, 2017** | | **60,894** | **$ 268.2** | **$ 50.4** | **$ 318.6** | **$ 2.0** | **$ 144.3** | **$ 464.9** | **$ 5.3** | **$ 470.2** |

[1] Number of shares presented in thousands.

## GREAT CANADIAN GAMING CORPORATION
## Consolidated Statements of Cash Flows
### (Expressed in millions of Canadian dollars)
### For the years ended December 31

| | | 2017 | 2016 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Earnings before income taxes | | **$ 120.3** | $ 105.6 |
| Adjustments to reconcile earnings before income taxes to cash generated by operating activities: | | | |
| Amortization | | **58.3** | 54.7 |
| Impairment reversal of long-lived assets | Note 7, 8 | **(0.9)** | - |
| Share-based compensation | Note 14, 21 | **8.1** | 6.7 |
| Interest and financing cost, net | | **33.9** | 34.9 |
| Foreign exchange gain and other | | **-** | (0.3) |
| Other | | **(1.2)** | 0.2 |
| Changes in non-cash operating working capital | Note 19 | **2.5** | (3.8) |
| Income taxes paid | | **(28.7)** | (21.2) |
| Cash generated by operating activities | | **192.3** | 176.8 |
| **Cash Flows from Investing Activities** | | | |
| Purchase of property, plant and equipment, net of related accounts payable of $5.8 (2016 - $15.1) | | **(52.5)** | (38.8) |
| Acquisition of Bingo Esquimalt | Note 26(d) | **-** | (0.4) |
| Acquisition of Ontario East Gaming Bundle, net of cash acquired | Note 26(c) | **-** | (37.8) |
| Investment in Ontario Gaming GTA Limited Partnership | Note 26(a) | **(7.5)** | - |
| Interest income received | | **2.9** | 1.4 |
| Amounts received/(deposited) with Canada Revenue Agency | Note 17 | **0.2** | (9.3) |
| Other | Note 19 | **(0.9)** | (0.5) |
| Cash used in investing activities | | **(57.8)** | (85.4) |
| **Cash Flows from Financing Activities** | | | |
| Increase in borrowings under credit facilities | Note 11 | **3.0** | 35.0 |
| Debt financing transaction costs | Note 11 | **-** | (1.1) |
| Proceeds from exercise of incentive share options, net of issuance costs | Note 14 | **11.1** | 10.9 |
| Repurchase of common shares | Note 14 | **(20.3)** | (84.2) |
| Contributions from non-controlling interests | | **-** | 2.6 |
| Interest paid | | **(34.3)** | (33.8) |
| Cash used in financing activities | | **(40.5)** | (70.6) |
| Effect of foreign exchange on cash and cash equivalents | | **(0.4)** | 0.4 |
| **Cash inflow** | | **93.6** | 21.2 |
| **Cash and cash equivalents, beginning of year** | | **228.7** | 207.5 |
| **Cash and cash equivalents, end of year** | Note 5 | **$ 322.3** | $ 228.7 |

## 1. NATURE OF BUSINESS

Great Canadian Gaming Corporation (the "Company") operates gaming, entertainment, and hospitality facilities in British Columbia, Ontario, New Brunswick, Nova Scotia and Washington State. As at December 31, 2017, the Company's 22 gaming properties consisted of 14 casinos, including a Four Diamond resort hotel in Richmond, British Columbia and a four star hotel in Moncton, New Brunswick, four horse racetrack casinos, three community gaming centres and one commercial bingo hall. The Company opened the new Shorelines Casino Belleville on January 11, 2017 and Great American Casino Des Moines on May 18, 2017.

The Company is expanding its operations in Ontario. On January 23, 2018, the Company acquired the assets and operations of the Ontario Lottery and Gaming Corporation's ("OLG") gaming facilities in the Greater Toronto Area ("GTA Gaming Bundle"), which consists of the OLG Slots at Woodbine, OLG Slots at Ajax Downs, and Great Blue Heron Casino. On December 19, 2017, the Company was selected as the successful proponent by the OLG to operate certain gaming facilities in the West Greater Toronto Area ("West GTA Gaming Bundle"), which consists of the OLG Slots at Mohawk Racetrack, OLG Casino Brantford, OLG Slots at Flamboro Downs, and OLG Slots at Grand River Raceway.

Great Canadian Gaming Corporation is a publicly listed company incorporated in Canada under the Company Act (British Columbia). The Company's common shares are listed on the Toronto Stock Exchange ("TSX") under TSX symbol: "GC". The principal office is located at 95 Schooner Street, Coquitlam, BC, V3K 7A8. The registered and records office is located at 1500-1055 West Georgia Street, Vancouver, BC, V6E 4N7.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Standards Interpretations Committee.

### Basis of Presentation

These consolidated financial statements were prepared on a going concern basis, under the historical cost convention, except for the revaluation of certain financial instruments. The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3. In Notes 11, 12 and 25 of these consolidated financial statements, reference is made to the non-IFRS term "Adjusted EBITDA", which is defined in the underlying credit agreements referenced therein.

*a) Principles of consolidation*

These consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies. Control is achieved when the Company has power over its subsidiaries, has exposure or rights to variable returns from the subsidiaries and has the ability to use its power to affect the amount of its returns. Generally, the Company has a shareholding of more than 50% of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable and Board of Directors presence are also considered when assessing whether control exists. Subsidiaries are fully consolidated from the date the Company acquires control of them and are deconsolidated from the date control ceases. Intercompany balances and transactions with subsidiaries are eliminated upon consolidation.

For subsidiaries that are not wholly-owned subsidiaries but are controlled by the Company, the net assets (liabilities) and net profit (loss) attributable to outside shareholders are presented as amounts attributable to non-controlling interests in the consolidated statements of financial position, consolidated statements of earnings and other comprehensive income.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*a) Principles of consolidation (Continued)*

The acquisition method of accounting is used to account for the acquisition of businesses as follows:

- consideration transferred is measured as the aggregate of the fair values of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date;
- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill; and
- if the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any remaining difference is recognized directly in the consolidated statements of earnings and other comprehensive income.

Equity method investees are entities over which the Company has significant influence, but not control. Generally, in order to have significant influence, the Company has a shareholding of between 20% and 50% of the voting rights. The equity method is used to account for investees over which the Company has significant influence, which results in the presentation of these investments within “other assets” on the consolidated statements of financial position. The investment is initially recorded at cost, and is increased by the investment’s periodic net earnings and decreased by any distributions that are received. The Company’s share of the investment’s net earnings is included in “share of profit of equity investment” on the consolidated statements of earnings and other comprehensive income.

*b) Principal operating entities*

| Entity | Abbreviation | Location of operations | Ownership interest at December 31, 2017 | Ownership interest at December 31, 2016 |
|---|---|---|---|---|
| Chilliwack Gaming Ltd. | CGL | British Columbia | 100% | 100% |
| Flamboro Downs Limited | FDL | Ontario | 100% | 100% |
| Georgian Downs Limited | GDL | Ontario | 100% | 100% |
| Great American Gaming Corporation | GAGC | Washington | 100% | 100% |
| Great Canadian Casinos Inc. | GCCI | British Columbia | 100% | 100% |
| Great Canadian Entertainment Centres Ltd. | GCEC | British Columbia | 100% | 100% |
| Great Canadian Gaming (New Brunswick) Ltd. | GCGNB | New Brunswick | 100% | 100% |
| Hastings Entertainment Inc. | HEI | British Columbia | 100% | 100% |
| Metropolitan Entertainment Group | MEG | Nova Scotia | 100% | 100% |
| Orangeville Raceway Limited | ORL | British Columbia | 100% | 100% |
| Ontario Gaming East Limited Partnership | OGELP | Ontario | 90.5% | 90.5% |
| TBC Teletheatre B.C. | TBC | British Columbia | 50% | 50% |

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*c) Translation of foreign operations and foreign currency transactions*

The Company's consolidated financial statements are presented in Canadian dollars, which is also the functional currency for all Canadian operations. The Company's non-Canadian operations are measured in the currency in which they operate and are translated into Canadian dollars at each reporting date. Assets and liabilities are translated into Canadian dollars from U.S. dollars using the exchange rates in effect on the reporting dates. Revenues and expenses are translated at average exchange rates prevailing during the period. The resulting translation gains and losses are included as a separate component of other comprehensive income ("OCI").

For Canadian operations, transactions completed in foreign currencies are translated into Canadian dollars at the rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are reflected in the consolidated financial statements at the exchange rates prevailing at the reporting dates, with the resulting gain or loss included in the consolidated statements of earnings and other comprehensive income.

*d) Operating segments*

The Company's operating segments are organized around the markets it serves and are reported in a manner consistent with the internal reporting regularly provided to the President and Chief Executive Officer, the Company's chief operating decision maker, to make resource allocation decisions and assess performance.

*e) Cash and cash equivalents*

Cash and cash equivalents include cash and liquid investments with an original maturity of three months or less.

*f) Accounts receivable*

Accounts receivable balances are primarily due from provincial gaming corporations, racetrack operators, financial institutions and the federal government for sales tax rebates. The provision for doubtful accounts receivable is estimated based on an assessment of individual accounts and the length of time balances have been outstanding.

*g) Property, plant and equipment*

Property, plant and equipment are recorded at cost less accumulated amortization, impairments, and amounts approved under the Capital Reserve Account. Amortization is expensed on a straight-line basis from the month assets are available for use over the estimated useful lives of the assets generally at the following rates, which are intended to reduce the carrying value to the estimated residual value:

| | |
|---|---|
| Land | not amortized |
| Buildings | lesser of useful life or 40 years |
| Building improvements | lesser of useful life or 5 years |
| Equipment | 1 to 5 years |
| Leasehold improvements | lesser of useful life or lease term, including renewal term, if applicable |

During the construction period of significant facilities, the Company capitalizes construction and overhead costs, including borrowing costs, directly attributable to the construction project. The costs of construction of the Company's gaming and ancillary facilities are classified as properties under development. When the property or portion thereof is substantially complete and available for use, costs cease to be capitalized, are transferred from properties under development to their respective asset component categories, and are amortized separately over the assets' estimated useful lives down to the estimated residual value, if applicable.

The amortization method, useful life and residual values are assessed annually and the carrying values are tested for impairment as described in Note 2(k).

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*g) Property, plant and equipment (Continued)*

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met when the asset is available and authorized for immediate sale and when management considers the sale of the asset to be highly probable to occur within one year from the date of classification. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

*h) Nova Scotia Capital Reserve Account*

The Amended and Restated Operating Contract ("AROC") with the Nova Scotia Provincial Lotteries & Casinos Corporation ("NSPLCC") includes a provision for the reimbursement of the Company's qualifying expenditures under the NSPLCC's Capital Reserve Account.

The Company deposits $4.5 annually (adjusted for inflation annually) to a Capital Reserve Account ("CR Account") and $1.5 annually to a Marketing Fund Contribution ("MFC"). Prior to April 1, 2015, the Company deposited to the CR Account the greater of 5% of total revenues generated by the Nova Scotia Casinos and $5.0 annually (adjusted for inflation since 2010). Reimbursement of qualifying expenditures is received from the CR Account, or if there is an insufficient balance in the CR Account, the reimbursement is recorded as a receivable from NSPLCC and recorded as a reduction in the cost of the related expenditures at the time approval is given by NSPLCC. As provided for in the AROC, to the extent a receivable balance exists, the Company earns interest on the balance at a rate of bank prime less 0.5% per annum.

*i) Intangible assets*

The Company has finite-lived intangible assets which consist of gaming operating agreements in British Columbia, Ontario, Nova Scotia and New Brunswick, lease agreements in Ontario, and other gaming-related rights. Intangible assets are primarily generated through acquisitions and are amortized over their estimated useful lives, ranging from three to twenty years. Judgment is used to estimate an intangible asset's useful life and is based on an analysis of all pertinent factors, including expected use of the intangible asset, contractual provisions that enable renewal or extension of the intangible asset's legal or contractual life without substantial cost, and renewal history. The remaining useful lives of the intangible assets are reviewed at the end of each annual reporting period, with any changes in the estimate of an intangible asset's useful life or the amortization method being treated as a change in accounting estimate and applied prospectively.

Intangible assets are assessed for impairment as described in Note 2(k).

*j) Goodwill*

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of the tangible and intangible net assets at the date acquired, and is allocated to the cash generating unit ("CGU") expected to benefit from the acquisition. A CGU is the smallest group of assets for which there are separately identifiable cash flows.

Goodwill is not amortized but is assessed for impairment at least annually and whenever events or circumstances indicate that its carrying value may not be fully recoverable. The impairment test requires comparing the carrying values of the Company's CGUs, including goodwill, to their recoverable amounts. The Company determines the value in use using estimated future cash flows discounted at an after-tax rate that reflects the risk adjusted weighted-average cost of capital. Any excess of the carrying value amount of a CGU over the recoverable amount is expensed in the period the impairment is identified. An impairment loss recorded for goodwill is not reversed in a subsequent period.

Upon disposal of a business, any related goodwill is included in the determination of gain or loss on disposal. Goodwill associated with the Company's foreign operations is translated to the Canadian dollar reporting currency at the end of each reporting period.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*k) Impairment of long-lived assets*

Property, plant and equipment and intangible assets are assessed for impairment at the end of each reporting period for events or circumstances that indicate that the carrying value may not be recoverable. Where an indicator of impairment exists, the recoverable amount of the asset is estimated to determine whether there is an impairment loss. The recoverable amount of an asset is first tested on an individual basis, if determinable, or otherwise at the CGU level. Corporate level assets are allocated to the respective CGUs where an allocation can be done on a reasonable and consistent basis.

The recoverable amount is the higher of fair value less costs to sell and value in use. The best evidence of fair value is the value obtained from an active market or binding sale agreement. Where neither exists, fair value is based on the best information available to reflect the amount the Company could receive for the asset (or CGU) in an arm's length transaction. The value in use method estimates the net present value of future cash flows expected to be generated by the asset (or CGU), discounted using an after-tax discount rate that reflects the current market rates and risks specific to the asset (or CGU).

An impairment loss is recorded when the carrying value of an asset (or CGU) exceeds its estimated recoverable amount.

In cases where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to its current recoverable amount, to the extent that the new carrying amount does not exceed the carrying amount that would have existed had the original impairment loss not been recorded. The reversal of an impairment loss is immediately recorded in the consolidated statements of earnings and other comprehensive income.

*l) Accounts payable and accrued liabilities*

Accounts payable and accrued liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business. They are classified as current liabilities if payment is due within one year or less and are recorded initially at fair value and subsequently measured at amortized cost, using the effective interest rate method.

*m) Provisions*

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recorded when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the present value of the expected expenditures required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provisions due to the passage of time is recorded in "interest and financing costs, net" on the consolidated statements of earnings and other comprehensive income. Provisions are not recorded for future operating losses.

*n) Debt transaction costs*

Debt transaction costs relate to the costs associated with securing long-term financing and credit facilities, and are recorded net of the long-term debt instrument. These costs are expensed to "interest and financing costs, net" on the consolidated statements of earnings and other comprehensive income over the term of the related debt using the effective interest method. When a credit facility is retired by the Company, any remaining balance of related debt transaction costs is expensed to "interest and financing costs, net" on the consolidated statements of earnings and other comprehensive income.

*o) Comprehensive income*

Comprehensive income consists of net earnings and OCI as presented on the consolidated statements of earnings and other comprehensive income. OCI represents changes in shareholders' equity in a period arising from changes in fair value of derivatives designated as cash flow hedges, net of taxes, and the unrealized effect of foreign currency translation of foreign operations.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*p) Financial instruments*

**Financial Assets**

Financial assets are initially recorded at fair value and are classified as: "fair value through profit or loss"; "available-for-sale"; "held-to-maturity"; or "loans and receivables". The classification is determined at initial recognition and depends on the nature and purpose of the financial asset and management's intentions.

*Fair Value Through Profit or Loss*

Financial assets at fair value through profit or loss are classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management.

Financial assets classified at fair value through profit or loss are measured at fair value, with the realized and unrealized changes in fair value recorded each reporting period through "interest and financing costs, net" on the consolidated statements of earnings and other comprehensive income.

*Available-for-Sale*

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in other non-current financial assets unless management intends to dispose of the investment within 12 months of the consolidated statement of financial position date.

Financial assets classified as available-for-sale are measured at fair value, with the unrealized changes in fair value recorded each reporting period in OCI. Investments in equity instruments classified as available-for-sale, whose fair value cannot be reliably measured, are recorded at cost. Available-for-sale assets are written down to fair value through "interest and financing costs, net" on the consolidated statements of earnings and other comprehensive income if there is objective evidence that impairment exists.

*Held-to-Maturity and Loans and Receivables*

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the intention and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the consolidated statement of financial position date, which are classified as non-current assets.

Financial instruments classified as held-to-maturity or loans and receivables are initially recorded at fair value and subsequently measured at amortized cost using the effective interest method.

*Impairment*

At the end of each reporting period, the Company assesses whether a financial asset or a group of financial assets, other than those classified as fair value through profit or loss, is impaired. If there is objective evidence that an impairment exists, the loss is recorded in the consolidated statements of earnings and other comprehensive income. The impairment loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recorded in the consolidated statements of earnings and other comprehensive income.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*p) Financial instruments (Continued)*

**Financial Liabilities**
Financial liabilities are classified as either “financial liabilities at fair value through profit or loss”, or “other financial liabilities”. Financial liabilities are initially measured at fair value and subsequently measured at amortized cost for liabilities that are not hedged, and fair value for liabilities that are hedged. Non-performance risk, including the Company's own credit risk for financial liabilities, is considered when determining the discount rates used to fair value financial assets or liabilities, including derivative liabilities.

**Classification of Financial Instruments**
The following table summarizes the Company's selected financial instrument classifications based on its intentions:

| Financial instrument | Classification |
|---|---|
| Cash | Loans and receivables |
| Cash equivalents | Held-to-maturity |
| Accounts receivable | Loans and receivables |
| Accounts payable and accrued liabilities | Other financial liabilities |
| Long-term debt | Other financial liabilities |

*q) Share-based compensation*

The Company has equity-settled and cash-settled share-based compensation plans.

**Equity-settled share-based compensation**
The Company measures the fair value of its employee share option awards using the Black-Scholes option pricing model. Under this method, the Company recognizes compensation expense for employee share option awards, based on the grant date fair value, over the vesting period of the options.

The Company adjusts the share-based compensation expense based on the number of share options expected to vest at the end of the reporting period.

**Cash-settled share-based compensation**
The Company provides cash-settled share-based compensation such as Deferred Share Units (“DSUs”) and Restricted Share Units (“RSUs”). DSUs provided to non-employee directors vest immediately and are settled with cash when the unit holder ceases to be a director. The liability, which is based on the market value of the Company’s common shares, is initially recorded on the grant date as “deferred credits, provisions and other liabilities” on the consolidated statements of financial position, and is re-measured at each reporting period and the date when the unit holder ceases to be a director. The initial liability and subsequent changes arising from increases or decreases in the market value of the underlying common shares are recorded as “share-based compensation” on the consolidated statements of earnings and other comprehensive income.

RSUs provided to employees are granted after a fiscal year if targeted operating results are achieved and then vest over a period of one to two years from the date they are granted. The liability, which is based on the number of RSUs expected to vest, is recorded as “accounts payable and accrued liabilities” for payments that will be made within one year and as “deferred credits, provisions and other liabilities” on the consolidated statements of financial position for payments that will be made after one year. The liability is re-measured each reporting period until the redemption date. The initial liability and subsequent changes in the value of the underlying common shares are recorded as “share-based compensation” on the consolidated statements of earnings and other comprehensive income.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*r) Revenue recognition*

*Gaming revenues*

Gaming revenues, which include revenues from table games, slot machines, bingo games, remuneration for Permitted Capital Expenditures from OLG, and Facility Development Commission from the British Columbia Lottery Corporation ("BCLC"), are recorded when earned by the Company after deduction for the portion of gaming and other revenues payable to BCLC, OLG, NSPLCC, and the New Brunswick Lotteries and Gaming Corporation ("NBLGC") and accruals for payouts on progressive games.

*Permitted Capital Expenditures*

In Ontario, the Company is entitled to remuneration from OLG up to a predefined annual amount per gaming property in each operating year for Permitted Capital Expenditures ("PCE"), a term defined in the Company's Casino Operational Services Agreement ("COSA") with OLG. The Company becomes entitled to payment at the beginning of each operating year, commencing on April 1, 2016, subject to expenditures being incurred. PCE approved by OLG can be carried forward for up to four years. PCE incurred in excess of the current period's annual amount have not been recorded in the consolidated statements of financial position. For accounting purposes, PCE remuneration is recorded as part of gaming revenues on the consolidated statements of earnings and other comprehensive income when the Company is entitled to payment.

*Facility Development Commission*

In British Columbia, through the Facility Development Commission ("FDC") program, BCLC reimburses Approved Amounts (a defined term in the Company's COSAs and Community Gaming Centre Operational Services Agreements ("CGCOSAs")) 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 considers accelerated FDC submissions for approval on a project-by-project basis.

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 consolidated statements of financial position (see Note 23). For accounting purposes, FDC is recorded as part of revenues on the consolidated statements of earnings and other comprehensive income 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 (primarily buildings) or the operating expenses being reimbursed (see Note 17(d)).

BCLC has permitted the Company and certain of its B.C. subsidiaries to be considered a group for FDC purposes. The 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 group.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*r) Revenue recognition (Continued)*

*Racetrack revenues*
On-site and simulcast racetrack revenues generated in B.C., net of amounts returned as winning wagers, simulcast fees, and provincial and federal pari-mutuel taxes, are pooled into a shared industry fund (the "B.C. Horseracing Industry Fund") and then distributed to the Company and the B.C. horse associations according to an agreed allocation. During 2017, the Company was allocated 43% of the shared industry funds (2016 - 43%). The remainder was allocated to the B.C. horse associations for administration and distribution of racing purses.

In Ontario, under the terms of the revenue sharing agreements among the Standardbred Alliance members, racetracks' pari-mutuel revenues and transitional funding received from the Province of Ontario are pooled and shared among the Ontario Alliance Racetracks. The Company's share of this revenue is recognized on a systematic basis over the periods in which the Company records the related eligible horse racing costs for which the funding is intended to compensate.

*Hospitality, lease and other revenues*
Hospitality, lease and other revenues are recorded as goods are delivered, or services are performed. Lease revenues includes income from OLG for leasing the slot machine areas at Georgian Downs and Flamboro Downs.

*Promotional allowances*
Promotional allowances are recorded as the retail value of food and beverage, accommodations, and other incentives furnished to guests without charge and are deducted from Gross Gaming Revenues (see Note 15).

*s) Marketing fees to BCLC*

BCLC collects marketing contributions in the amount of 0.6% of the Gross Gaming Revenues generated at three of the Company's BC casinos and at its two BC racing properties. BCLC has stated that it uses the amounts collected to fund various BCLC marketing programs. While the Company takes the position that BCLC is not entitled to collect these marketing contributions, the Company records these amounts when collected by BCLC as property, marketing and administration expenses on the consolidated statements of earnings and other comprehensive income.

*t) Taxation*

Income tax expense represents the sum of current and deferred taxes. Current and deferred taxes is recognized in net earnings, except to the extent it relates to items recognized in OCI or in equity.

*Current tax*
The tax currently payable is based on taxable income for the year. Taxable income differs from earnings as reported in the consolidated statements of earnings and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are not expected to be taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

*Deferred tax*
Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities on the consolidated statements of financial position and the corresponding tax bases used in the computation of taxable income, as well as the benefit of tax losses available to be carried forward to future years to the extent it is probable it will be realized. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit (loss) nor accounting earnings (loss).

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*t) Taxation (Continued)*

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

The Company recognizes the income tax benefit of uncertain tax positions only when it is probable that the tax position taken will be sustained upon examination by the applicable tax authority.

*u) Shareholders' net earnings per common share*

Basic net earnings per common share is calculated using the weighted-average number of common shares outstanding during the period. Diluted net earnings per common share is presented using the treasury stock method and is calculated by dividing net earnings applicable to common shares by the sum of the weighted-average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued.

*v) Non-controlling interests*

9.5% of the Company's subsidiary, OGELP, which operates gaming facilities in Ontario's East Gaming Bundle, is owned by a non-controlling interest. The profit allocated to the non-controlling interest and the accumulated non-controlling interests of the subsidiary are reflected as "non-controlling interests" on the consolidated statements of changes in equity.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

The estimates used in determining the recorded amounts in these consolidated financial statements include the following:

- *Estimated useful lives of long-lived assets*

  Judgment is used to estimate each component of an asset's useful life and is based on an analysis of all pertinent factors including, but not limited to, the expected use of the asset and in the case of an intangible asset, contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost, and renewal history. If the estimated useful lives were incorrect, it could result in an increase or decrease in the annual amortization expense, and future impairment charges or recoveries.

- *Residual values of property, plant and equipment*

  Judgement is used to estimate the residual values of property, plant and equipment, if the residual values were incorrect, it could result in an increase or decrease in the annual amortization expense and future impairment charges.

- *Fair value of net assets acquired in business combinations*

  The consideration transferred for an acquired business ("purchase price") is assigned to the identifiable tangible and intangible assets purchased and liabilities assumed on the basis of their fair values at the date of acquisition. The identification of assets purchased and liabilities assumed and the valuation thereof is specialized and judgmental. Where appropriate, the Company engages external business valuators to assist in the valuation of tangible and intangible assets acquired. Any excess of purchase price over the fair value of the identifiable tangible and intangible assets purchased and liabilities assumed is allocated to goodwill.

  When a business combination involves contingent consideration, an amount equal to the fair value of the contingent consideration is recorded as a liability at the time of acquisition. The key assumptions utilized in determining fair value may include probabilities associated with the occurrence of specified future events, financial projections of the acquired business, the timing of future cash flows, and the appropriate discount rate.

- *Equity-settled share-based compensation*

  The Company estimates the cost of equity-settled share-based compensation using the Black-Scholes option pricing model. The model takes into account an estimate of the expected life of the option, the current price of the underlying common share, the expected volatility, an estimate of future dividends on the underlying common share, the risk-free rate of return expected for an instrument with a term equal to the expected life of the option, and the expected forfeiture rate.

- *Cash-settled share-based compensation*

  The cost of cash-settled share-based compensation provided to employees incorporates an expected forfeiture rate based on historic employee retention to estimate the expected number of cash-settled securities that will vest. If the actual employee retention rate over the vesting period differs from the estimated rate, the amount of cash required to settle the liability could be higher or lower than the accrued liability and the change would be reflected in share-based compensation expense.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

- *Income taxes*

  Deferred tax assets and liabilities are due to temporary differences between the carrying amount for accounting purposes and the tax basis of certain assets and liabilities, as well as undeducted tax losses. Estimation is required for the timing of the reversal of these temporary differences and the tax rate applied. The carrying amounts of assets and liabilities are based on amounts recorded on the consolidated statements of financial position and are subject to the accounting estimates inherent in those balances. The tax basis of assets and liabilities and the amount of undeducted tax losses are based on the applicable income tax legislation, regulations and interpretations. The timing of the reversal of the temporary differences and the timing of deduction of tax losses are based on estimations of the Company's future financial results.

  Changes in the expected operating results, enacted tax rates, legislation or regulations, and the Company's interpretations of income tax legislation will result in adjustments to the expectations of future timing difference reversals and may require material deferred tax adjustments.

  The Company's operations are conducted in countries with complex tax laws and regulations that can require significant interpretation. As such, the Company and the tax authorities could disagree on tax filing positions and any reassessment of the Company's tax filings could result in material adjustments to tax expense, taxes payable and deferred income taxes.

- *Contingencies*

  Provisions are accrued for liabilities with uncertain timing or amounts, if, in the opinion of management, it is both likely that a future event will confirm that a liability had been incurred at the date of the consolidated financial statements of financial position and the amount can be reasonably estimated. In cases where it is not possible to determine whether such a liability has occurred, or to reasonably estimate the amount of loss until the performance of some future event, no accrual is made until that time. In the ordinary course of business, the Company may be party to legal proceedings which include claims for monetary damages asserted against the Company and its subsidiaries. The adequacy of provisions is regularly assessed as new information becomes available.

  The Company does not record contingent assets.

The judgments used in applying the Company's significant accounting policies and disclosures include the following:

- *Determination of CGUs*

  The Company's assets are grouped into CGUs based on their ability to generate separate identifiable cash flows. The determination of CGUs involves an assessment regarding the interdependency of cash inflows, and the Company's organizational structure.

- *Segment Reporting*

  The Company has aggregated its operating segments into one reportable segment based on an assessment that each operating segment has similar economic characteristics, types of customers, types of services and products provided, regulatory environments and management and reporting structures.

## 4. CHANGES IN ACCOUNTING POLICIES

***Accounting standards issued but not yet effective***
The IASB issued the following new accounting standards which the Company does not plan to early adopt.

*Effective January 1, 2018*

- IFRS 9*, Financial Instruments ("IFRS 9")* – replaces IAS 39, *Financial Instruments: Recognition and* Measurement. IFRS 9 introduces amendments to classification and measurement for financial assets, a new expected loss impairment model and a new hedge accounting model. IFRS 9 will become effective on January 1, 2018 and will be applied retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. Management has completed its assessment of the new standard and concluded that it would not have a material impact on the Company's financial statements.

- IFRS 15, Revenue from Contracts with Customers – provides a single, principles based five-step model to be applied to all contracts with customers. The standard provides guidance on timing of revenue recognition, including accounting for variable consideration, costs of fulfilling and obtaining a contract and various other matters. New disclosures about revenue are also introduced. The new standard is required to be applied either retrospectively to each prior reporting period presented ("full retrospective method") or retrospectively with the cumulative effect of initially applying the new standard recognized at the date of initial application ("modified retrospective method"). The Company currently anticipates adoption of the new standard under the modified retrospective method from January 1, 2018.

  The Company continues to assess the impact of the new standard on its consolidated financial statements. Management formed a working group in 2017 who have reviewed the nature of the Company's contracts with its customers in its most significant revenue arrangements in effect at December 31, 2017. The working group has identified the areas of significant impact and continues to assess their implications upon adoption. The working group will continue to evaluate other sources of revenue, as well as disclosure, transition and other implications of IFRS 15 through to the date of its adoption.

  At this time, the Company expects that a significant effect will be related to the accounting for certain the Company's customer loyalty programs and promotional allowances. The Company has customer loyalty programs that impact different locations we serve. Upon adoption of the new standard, a deferred revenue model will be used for customer loyalty programs operated by the Company to account for the classification and timing of revenue recognized when customers redeem rewards under the loyalty programs. This will result in a portion of gaming revenues received for which loyalty rights are earned by our customers being recorded as a contract liability based on the rewards' allocated amount using their relative selling price and then subsequently recognized as revenue in a future period when the rewards are redeemed. The revenue classification at that time will depend on the type of rewards redeemed. For customer loyalty programs operated by our crown partners, the Company does not anticipate any impact under the new guidance. The Company is finalizing the quantitative effects of these changes.

  The new standard will increase revenue disclosure requirements, including disaggregation of revenue and discussion of deferred revenue. The Company is currently considering the additional disclosure and presentation requirements. It is expected that revenue in the notes to the financial statements will be presented net of complimentary revenue and promotional allowances compared to its current gross presentation (this will have no impact on total revenue reported in the Consolidated Statements of Earnings and Other Comprehensive Income). Additionally, we continue to evaluate the impact the new standard will have on the Company's processes, systems, and internal controls.

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

## 4. CHANGES IN ACCOUNTING POLICIES (Continued)

***Accounting standards issued but not yet effective (Continued)***

*Effective January 1, 2019*

- IFRS 16, *Leases* ("IFRS 16") – specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with lessor accounting substantially unchanged from its predecessor, IAS 17, *Leases*. The Company currently has operating lease commitments. The presentation of the majority of these operating leases will change by increasing the "property, plant and equipment", current and long-term lease liability amounts on the Consolidated Statements of Financial Position. The current presentation of lease expenses on the Consolidated Statements of Earnings and Other Comprehensive Income as a component of "property, marketing and administration" expense will change to "amortization" and "interest and financing costs, net". As the "principal" on the lease obligations is repaid, the Consolidated Statements of Cash Flows will reflect a higher amount of "cash generated by operating activities", which will be offset by an equally higher amount of "cash used in financing activities". The Company's financial covenants on its long-term debt are based on financial measures that will change under IFRS 16. The Company is currently assessing the impact of the new standard.

- IFRIC 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23") - On June 7, 2017, the IASB published IFRIC 23 which includes requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company is currently assessing the impact of the new standard.

## 5. CASH AND CASH EQUIVALENTS

As at December 31, 2017, cash and cash equivalents of $322.3 (2016 - $228.7) included restricted amounts of $1.3 related to lien holdbacks for construction projects (2016 - $1.8) and $3.2 for settling jackpot liabilities (2016 - $2.8).

Cash and cash equivalents exclude amounts provided by BCLC of $16.2 (2016 - $16.2) for use in BC casino operations. Since these amounts are owned by the Province of British Columbia, they are not included in the Company's cash balances. The Company has issued letters of credit in favour of BCLC as security for these amounts (Note 24(a)).

## 6. ACCOUNTS RECEIVABLE

| | **December 31, 2017** | December 31, 2016 |
|---|---|---|
| Trade receivables | **$ 9.6** | $ 9.5 |
| Other receivables | **5.6** | 7.3 |
| Due from OLG [(1)] | **3.9** | 5.4 |
| Due from NSPLCC [(2)] | **2.7** | 0.7 |
| | **$ 21.8** | $ 22.9 |

(1) The balance due from OLG includes gaming revenues earned in excess of instalments received to date.

(2) The balance due from NSPLCC is the CR Account receivable. It represents amounts spent by the Company on approved expenditures, plus accrued interest on the outstanding balance at prime less 0.5% per annum, less repayments from the NSPLCC's CR Account.

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

## 7. PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings, Building Improvements and Leasehold Improvements | Equipment | Properties Under Development | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at January 1, 2016 | $ 88.7 | $ 831.9 | $ 137.2 | $ 5.4 | $ 1,063.2 |
| Additions | 3.0 | 0.3 | 5.1 | 45.5 | 53.9 |
| Acquired through business combination (1) | 0.5 | 22.1 | 5.6 | - | 28.2 |
| Disposals | - | (0.2) | (0.4) | - | (0.6) |
| Reclassed to land held for sale(2) | (8.1) | - | - | - | (8.1) |
| Transfers | - | 2.7 | 5.5 | (8.3) | (0.1) |
| Translation and other | (0.1) | (0.5) | (0.2) | - | (0.8) |
| Balance at December 31, 2016 | $ 84.0 | $ 856.3 | $ 152.8 | $ 42.6 | $ 1,135.7 |
| **Additions** | **0.1** | **0.6** | **2.0** | **44.1** | **46.7** |
| **Disposals** | **-** | **-** | **(0.3)** | **-** | **(0.3)** |
| **Transfers** | **-** | **27.2** | **26.2** | **(53.4)** | **(0.0)** |
| **Translation and other** | **(0.2)** | **(1.1)** | **(0.4)** | **-** | **(1.7)** |
| **Balance at December 31, 2017** | **$ 83.9** | **$ 882.9** | **$ 180.3** | **$ 33.3** | **$ 1,180.4** |
| **Accumulated amortization and reversal of impairment** | | | | | |
| Balance at January 1, 2016 | $ (11.2) | $ (301.0) | $ (112.8) | $ - | $ (425.0) |
| Amortization | - | (30.8) | (13.1) | - | (43.9) |
| Disposals | - | 0.1 | 0.4 | - | 0.5 |
| Translation and other | - | 0.2 | 0.2 | - | 0.4 |
| Balance at December 31, 2016 | $ (11.2) | $ (331.5) | $ (125.3) | $ - | $ (468.0) |
| **Amortization** | **-** | **(30.6)** | **(17.7)** | **-** | **(48.3)** |
| **Disposals** | **-** | **-** | **0.2** | **-** | **0.2** |
| **Impairment reversal (3)** | **-** | **0.3** | **-** | **-** | **0.3** |
| **Translation and other** | **-** | **0.5** | **0.3** | **-** | **0.8** |
| **Balance at December 31, 2017** | **$ (11.2)** | **$ (361.3)** | **$ (142.5)** | **$ -** | **$ (515.0)** |
| **Carrying amount** | | | | | |
| At December 31, 2016 | $ 72.8 | $ 524.8 | $ 27.5 | $ 42.6 | $ 667.7 |
| **At December 31, 2017** | **$ 72.7** | **$ 521.6** | **$ 37.8** | **$ 33.3** | **$ 665.4** |

(1) The assets acquired through business combinations relate to the acquisition of Ontario East Gaming Bundle (see Note 26(c)).

(2) During 2016, a parcel of vacant land within the Company's operating segment in Canada was listed for sale. The Company sold the land in January 2018. The land was reclassed at its carrying amount to land held for sale and no impairment was recorded.

(3) In 2012, the Company recorded impairment of property, plant and equipment of $5.2 in connection with the early termination of Flamboro Down's site holder agreement. In 2013, $1.5 of the impairment was reversed after the Company and OLG signed a five-year lease term for Flamboro Downs ending March 31, 2018. In 2017, a five-year lease extension agreement ending on March 31, 2023 for Flamboro Downs was signed, resulting in a reversal of impairment of property plant, and equipment of $0.3 for the year ended December 31, 2017.

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

## 8. INTANGIBLE ASSETS

| | BC Gaming Operating Agreements | Nova Scotia Gaming Operating Agreement | Ontario Lease Agreements | Ontario Gaming Operating Agreement | New Brunswick Gaming Operating Agreement | Other | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance at January 1, 2016 | $ 81.4 | $ 34.6 | $ 106.0 | $ - | $ 20.7 | $ 2.5 | $ 245.2 |
| Acquired through business combination [1] | 0.4 | - | - | 9.2 | - | - | 9.6 |
| Balance at December 31, 2016 | $ 81.8 | $ 34.6 | $ 106.0 | $ 9.2 | $ 20.7 | $ 2.5 | $ 254.8 |
| **Balance at December 31, 2017** | **$ 81.8** | **$ 34.6** | **$ 106.0** | **$ 9.2** | **$ 20.7** | **$ 2.5** | **$ 254.8** |
| **Accumulated amortization and reversal of impairment** | | | | | | | |
| Balance at January 1, 2016 | $ (55.7) | $ (30.6) | $ (75.3) | $ - | $ (0.3) | $ (1.9) | $ (163.8) |
| Amortization | (2.6) | (0.4) | (5.8) | (0.4) | (1.4) | (0.2) | (10.8) |
| Balance at December 31, 2016 | $ (58.3) | $ (31.0) | $ (81.1) | $ (0.4) | $ (1.7) | $ (2.1) | $ (174.6) |
| **Amortization** | **(2.7)** | **(0.4)** | **(4.9)** | **(0.4)** | **(1.4)** | **(0.2)** | **(10.0)** |
| **Impairment reversal[2]** | **-** | **-** | **0.6** | **-** | **-** | **-** | **0.6** |
| **Balance at December 31, 2017** | **$ (61.0)** | **$ (31.4)** | **$ (85.4)** | **$ (0.8)** | **$ (3.1)** | **$ (2.3)** | **$ (184.0)** |
| **Carrying amount** | | | | | | | |
| At December 31, 2016 | $ 23.5 | $ 3.6 | $ 24.9 | $ 8.8 | $ 19.0 | $ 0.4 | $ 80.2 |
| **At December 31, 2017** | **$ 20.8** | **$ 3.2** | **$ 20.6** | **$ 8.4** | **$ 17.6** | **$ 0.2** | **$ 70.8** |

(1) The assets acquired through business combinations relate to the acquisition of Ontario East Gaming Bundle and Bingo Esquimalt (see Note 26(c) and 26(d)).

(2) In 2012, the Company recorded impairment of intangible assets of $24.2, in connection with the early termination of Flamboro Down's site holder agreement which was scheduled to expire in April 2016. In 2013, $7.3 of the impairment was reversed after the Company and OLG signed a five-year lease term for Flamboro Downs ending March 31, 2018. In 2017, a five-year lease extension agreement ending on March 31, 2023 for Flamboro Downs was signed, resulting in a reversal of impairment of intangible assets of $0.6 for the year ended December 31, 2017.

## 9. GOODWILL

| | Total |
|---|---|
| **Cost** | |
| Balance at January 1, 2016 | $ 50.0 |
| Foreign exchange movements | $ (0.3) |
| Balance at December 31, 2016 | $ 49.7 |
| Foreign exchange movements | $ (0.5) |
| Balance at December 31, 2017 | $ 49.2 |
| **Impairments** | |
| **Balance at January 1, 2016, December 31, 2016 and 2017** | **$ (27.4)** |

| **Carrying amount** | **GCCI[1]** | **GCEC[2]** | **ORL[3]** | **GAGC[4]** | **Total** |
|---|---|---|---|---|---|
| At December 31, 2016 | $ 1.6 | $ 3.8 | $ 8.1 | $ 8.8 | $ 22.3 |
| **At December 31, 2017** | **$ 1.6** | **$ 3.8** | **$ 8.1** | **$ 8.3** | **$ 21.8** |

(1) GCCI's goodwill primarily relates to the acquistion of the food and beverage operations in View Royal and Coquitlam.

(2) GCEC's goodwill relates to the acquisition of the operations in Dawson Creek and Maple Ridge.

(3) ORL's goodwill relates to the acquisition of the operations in Surrey.

(4) GAGC's goodwill relates to the acquisition of the operations in Washington.

Goodwill was tested for impairment as at December 31, 2017 and no impairment was required. There were no changes to the methodology used to assess goodwill impairment since the last annual impairment test. The recoverable value for each CGU was based on the value in use method, which estimates the net present value of the future cash flows expected to be generated by the CGU, discounted using an after-tax discount rate that was based on the Company's weighted-average cost of capital.

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

### 9. GOODWILL (Continued)

The expected future cash flows are based on the most recent annual forecasts prepared by management and extrapolated over the term of the COSA, or 10 years for CGUs with licenses that renew on an annual basis. A rate of 2% per annum is applied for inflation. These expected future cash flows require a number of assumptions about future business performance. These assumptions and estimates were based primarily on the relevant business' historical performance and economic trends, and considered past communications with relevant stakeholders. The revenue growth rate assumptions used in the impairment assessments was 2% across the CGUs and earnings as a percentage of revenues was based on each CGU's most recent annual operating levels.

### 10. OTHER LIABILITIES

| | **December 31, 2017** | December 31, 2016 |
|---|---|---|
| Provisions, current | **$ 2.0** | $ 1.7 |
| Deferred credits, current (Note 13) | **0.7** | 0.7 |
| Other current liabilities | **0.1** | 0.1 |
| | **$ 2.8** | $ 2.5 |

### 11. LONG-TERM DEBT

| | **December 31, 2017** | December 31, 2016 |
|---|---|---|
| Senior Unsecured Notes, net of unamortized transaction costs of $4.9 (2016 - $5.9) | **$ 445.1** | $ 444.1 |
| Non-recourse Revolving Credit Facility, net of unamortized transaction costs of $0.5 (2016 - $0.8) | **37.5** | 34.2 |
| | **$ 482.6** | $ 478.3 |

*a) Senior Unsecured Notes*

On July 24, 2012, the Company completed a long-term debt refinancing and issued $450.0 of 6.625% Senior Unsecured Notes due on July 25, 2022.

The Senior Unsecured Notes are guaranteed by the Company's material restricted subsidiaries as defined in the long-term debt agreement covering the Trust Indenture. Interest on the Senior Unsecured Notes is payable semi-annually in arrears on January 25 and July 25 of each year. There are customary provisions for early redemptions of the Senior Unsecured Notes during defined periods prior to maturity with payment of defined premiums.

Transaction costs of approximately $10.5 associated with the issuance of the Senior Unsecured Notes were primarily related to underwriting fees, legal fees, and other expenses, and are amortized through the "interest and financing costs, net" line of the consolidated statements of earnings and other comprehensive income over the term of the Senior Unsecured Notes using the effective interest method.

*b) Revolving Credit Facility*

On May 25, 2015, the Company extended the maturity of its Credit and Guarantee Agreement ("Credit Agreement"), which covers the terms of its $350.0 Revolving Credit Facility by five years to May 25, 2020. The interest rate on advanced amounts and the commitment fee on the unused facility are based on the Company's Total Debt to Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio (as defined in the underlying Credit Agreement), which is calculated quarterly on a trailing twelve month basis (see Note 12). The interest rates and standby fees applicable to this revolving credit are listed in Note 25(c).

As at December 31, 2017, subject to compliance with the related financial covenants, the Company has $281.8 (2016 - $323.0) of available undrawn credit on its Senior Secured Revolving Credit Facility after deducting outstanding letters of credit of $68.2 (2016 - $27.0).

## 11. LONG-TERM DEBT (Continued)

*b) Revolving Credit Facility (Continued)*

Transaction costs associated with the past extensions of the Revolving Credit Facility totalling $1.5 are included in the "other assets" line of the consolidated statements of financial position and are amortized through the "interest and financing costs, net" line of the consolidated statements of earnings and other comprehensive income over the term of the Revolving Credit Facility using the straight-line method.

The Revolving Credit Facility is guaranteed and secured by substantially all of the assets of the Company and its subsidiaries. The Revolving Credit Facility requires the Company to comply with certain operational and financial covenants (which are defined in the underlying agreement). The financial covenants, which are calculated quarterly on a trailing twelve month basis, are listed in Note 12.

All the debt facilities have: (i) mandatory repayments in the case of proceeds from certain asset sales or receipt of insurance proceeds that are not re-invested by the Company within certain time limits; (ii) restrictions on certain asset sales, acquisitions, and distributions; (iii) limitations on the incurrence of additional debt or indebtedness or liens; and (iv) provisions for the Company to re-purchase and re-issue portions of the debt facilities should the holder be required to register with a gaming authority having jurisdiction over the Company and either refuses or is found to be unsuitable for registration.

*c) Non-recourse Revolving Credit Facility of Ontario Gaming East Limited Partnership ("OGELP") subsidiary*

On January 11, 2016, the Company's OGELP subsidiary arranged a $60.0 revolving credit facility for the acquisition of the assets and operations of certain casinos in Ontario from OLG as described in Note 26(c). The Non-recourse Revolving Credit Facility Credit Agreement ("Non-recourse Credit Agreement"), which expires on January 11, 2020, is non-recourse to Great Canadian Gaming Corporation and its other subsidiaries, other than the Company's historic investment in the OGELP subsidiary, which may not be recovered in the event of default of OGELP. OGELP's assets are pledged as collateral on the facility. The counterparties to this credit facility are major financial institutions with minimum "A" credit ratings. The interest rates and standby fees applicable to this revolving credit facility are listed in Note 25(c).

As at December 31, 2017, subject to compliance with the related financial covenants, the Company has $5.7 (2016 - $9.0) of available undrawn credit on its Non-recourse Revolving Credit Facility after deducting outstanding letters of credit of $16.3 (2016 - $16.0).

Transaction costs associated with the issuance of the Non-recourse Revolving Credit Facility totalling $1.1 are amortized through the "interest and financing costs, net" line of the consolidated statements of earnings and other comprehensive income over the term of the Non-recourse Revolving Credit Facility using the straight-line method.

*d) Interest rate swap*

On January 19, 2016, the Company's OGELP subsidiary entered into an interest rate swap that effectively converted the floating interest rate on the debt borrowed from its Non-recourse Revolving Credit Facility into fixed interest rate debt. As at December 31, 2017, the interest rate swap had a notional principal of $35.0 and matures on January 10, 2020. OGELP receives interest based on a 3-month Canadian Dealer Offered Rate and pays interest at 0.813% per annum.

OGELP designated the interest rate swap as a cash flow hedge of the interest rate exposure on the debt. OGELP has evaluated the interest rate swap and assessed it as an effective hedge of the cash flows associated with the Non-recourse Revolving Credit Facility. Accordingly, the change in fair values of the swap, net of income taxes, has been recorded in other comprehensive income. The fair value of the interest rate swap is calculated based on the market conditions at the time of reporting.

At December 31, 2017, the fair value of the interest rate swap was in a $0.9 (2016 - $0.4) asset position and the amount was recorded in "other assets" on the consolidated statements of financial position.

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

## 11. LONG-TERM DEBT (Continued)

*e) Covenants*

As at December 31, 2017, the Company was in compliance with its financial covenants under the terms of its Senior Secured Revolving Credit Facility, Senior Unsecured Notes and Non-recourse Revolving Credit Facility (See Note 12).

*f) Interest and financing costs, net*

| | Year ended December 31, 2017 | 2016 |
|---|---|---|
| Interest and financing costs on long-term debt | **$ 36.2** | $ 35.8 |
| Bank charges and other | **0.5** | 0.5 |
| Interest income | **(2.8)** | (1.4) |
| | **$ 33.9** | $ 34.9 |

## 12. CAPITAL DISCLOSURES

The Company's capital structure comprises:

- Shareholders' equity;
- Long-term debt;
- Cash and cash equivalents; and
- Outstanding letters of credit.

The Company's objectives are to maintain a flexible capital structure that optimizes the cost of capital at acceptable risk levels and to manage capital in a manner that balances the interests of equity and debt holders. The Company manages its capital structure in light of changes in economic conditions and the risk characteristics of the Company's operations. The Company's major capital allocation decisions include a comparison of the expected financial returns from those investments to its estimated weighted-average cost of capital. The Company currently plans to use its cash and cash equivalents, cash flows from operations, and established debt facilities to finance its business development plans.

The Company monitors its capital structure and must comply with certain financial covenants related to its long-term debt. The Company intends to manage its capital by operating at a level that provides a conservative margin compared to the limits of its covenants.

As at December 31, 2017, the Company was in compliance with the financial covenants related to its revolving credit facility and senior unsecured notes as shown below:

| Covenant test | Required ratio | Actual ratio |
|---|---|---|
| Total Debt to Adjusted EBITDA ratio (1) | ≤ 5.00 | 2.01 |
| Senior Secured Debt to Adjusted EBITDA ratio (1) (2) | ≤ 3.50 | 0.00 |
| Interest Coverage ratio (1) | ≥ 2.25 | 6.27 |
| Fixed Charge Coverage ratio (3) | ≥ 2.00 | 6.30 |

(1) Calculated on a trailing twelve month basis and defined in the Credit Agreement, as amended on May 25, 2015.

(2) This ratio does not include the Non-recourse Revolving Credit Facility of OGELP.

(3) 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.

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

## 12. CAPITAL DISCLOSURES (Continued)

As at December 31, 2017, OGELP was in compliance with the financial covenants related to its non-recourse revolving credit facility as shown below:

| Covenant test | Required ratio | Actual ratio |
|---|---|---|
| Total Leverage ratio (1) | ≤ 4.00 | 1.82 |
| Total Debt to Capitalization ratio (1) | ≤ 0.65 | 0.49 |
| Interest Coverage ratio (1) | ≥ 2.25 | 17.32 |

(1) Calculated on a trailing twelve month basis and defined in the Non-recourse Credit Agreement, dated January 11, 2016.

As part of its capital structure monitoring process, the Company's independent credit ratings as at December 31, 2017 were as follows:

| | Moody's | Standard & Poor's |
|---|---|---|
| Corporate | Ba3 Stable | BB+ Stable |
| Senior Secured Revolving Credit Facility | Baa3 | BBB- |
| Senior Unsecured Notes | B1 | BB+ |

## 13. DEFERRED CREDITS, PROVISIONS AND OTHER LIABILITIES

| | **December 31, 2017** | December 31, 2016 |
|---|---|---|
| Deferred credits, non-current | **$ 15.7** | $ 16.3 |
| Provisions, non-current | **6.4** | 6.8 |
| Deferred compensation | **6.4** | 5.4 |
| Other non-current liabilities | **0.1** | 0.2 |
| | **$ 28.6** | $ 28.7 |

Deferred credits, non-current relates to agreements entered into between the Company with the South Coast British Columbia Transportation Authority ("TransLink") and Canada Line Rapid Transit Inc. ("Canada Line") in 2008 to build and operate a 1,200 stall multi-level parking garage at Bridgeport Station, across from the River Rock Casino Resort ("River Rock") in Richmond, British Columbia.

The land and cash received from TransLink is being treated as assistance for the cost of providing future parking services to Canada Line's passengers. Accordingly, the fair value of the land received of $17.2 was accounted for as a non-monetary transaction and cash of $4.5 was recorded as "cash and cash equivalents", with a corresponding credit to "deferred credits". These "deferred credits" are amortized on a straight-line basis over a period of 32 years.

Translink may exercise its option to purchase the portion of the parking garage used by the 1,200 stalls if certain events defined in the agreement occur. Examples of these include the relocation of River Rock, or the Company failing to provide Canada Line's passengers access to the parking stalls as set out in the agreement.

Deferred compensation includes cash-settled share-based compensation as described in Note 14(c) and (d).

## 14. SHARE CAPITAL AND RESERVES

The Company is authorized to issue an unlimited number of common shares with no par value.

*a) Share repurchases*

In March 2017, the Company received approval from the TSX to renew a normal course issuer bid for up to 3,995,203 of its common shares, representing approximately 10% of the Company's common shares in the public float. The bid commenced on March 15, 2017 and will end on March 14, 2018, or earlier if the number of shares sought in the issuer bid has been obtained. The Company will not purchase shares during its self-imposed blackout periods and reserves the right to terminate the bid earlier. Pursuant to TSX policies, daily purchases made by the Company will not exceed 29,676 common shares or 25% of the prior six-month average trading volume of 118,705 common shares on the TSX, subject to certain prescribed exceptions. Purchases will be made 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 rules. No purchases will be made other than by means of open market transactions during the term of the normal course issuer bid and conducted at the market price at the time of acquisition. All shares purchased by the Company will be subsequently cancelled.

During the year ended December 31, 2017, the Company purchased for cancellation 859,450 common shares at a weighted-average price per share of $23.66 under the issuer bid which commenced on March 15, 2017. All shares purchased by the Company were cancelled.

During the year ended December 31, 2016, the Company purchased for cancellation 138,240 common shares at a weighted-average price per share of $15.23 under the normal course issuer bid which expired on February 25, 2016 and purchased for cancellation 4,668,925 common shares at a volume weighted-average price per share of $17.57 under the issuer bid which commenced on March 14, 2016. The purchase price for the year ended December 31, 2016 was $84.2 or $17.50 per share. All shares purchased by the Company were cancelled.

The Company records the cost of repurchasing shares as a reduction to share capital on a prorated per share basis with any residual amount recorded as a reduction of retained earnings.

*b) Share option plan*

The changes in the number of share options and their weighted-average exercise price during the years ended December 31, 2017 and 2016 were as follows:

| | **December 31, 2017** | | December 31, 2016 | |
|---|---|---|---|---|
| | **Options [1]** | **Weighted-Average Exercise Price** | Options [1] | Weighted-Average Exercise Price |
| Outstanding, beginning of period | **4,226** | **$ 15.77** | 5,713 | $ 14.38 |
| Granted[2] | **2,449** | **25.99** | 142 | 21.71 |
| Forfeited | **(367)** | **20.96** | (443) | 17.32 |
| Exercised | **(962)** | **11.53** | (1,186) | 9.20 |
| Outstanding, end of period | **5,346** | **$ 20.86** | 4,226 | $ 15.77 |

[1] Option information is presented in thousands.

[2] 2017 annual share option grant was in March 2017 and 2016 annual share option grant was in December 2015.

For the year ended December 31, 2017, the weighted-average share price at the time of share option exercises was $25.25 (2016 - $19.80).

## 14. SHARE CAPITAL AND RESERVES (Continued)

*b) Share option plan (Continued)*

Options outstanding and exercisable at December 31, 2017 were as follows:

| | Options Outstanding | | | | Options Exercisable | | |
|---|---|---|---|---|---|---|---|
| **Exercise Prices** | **Number Outstanding[(1)]** | **Weighted-Average Remaining Contractual Life** | **Weighted-Average Exercise Price** | | **Number Exercisable[(1)]** | **Weighted-Average Vested Exercise Price** | |
| $9.11-$15.99 | 792 | 1.2 years | $ | 13.63 | 792 | $ | 13.63 |
| $16.00-$19.99 | 1,234 | 2.9 years | | 16.17 | 793 | | 16.16 |
| $20.00-$23.99 | 984 | 2.1 years | | 20.14 | 633 | | 20.14 |
| $24.00-$26.99 | 1,486 | 4.2 years | | 24.07 | - | | - |
| $27.00-$29.99 | 850 | 4.9 years | | 29.61 | - | | - |
| | 5,346 | 3.2 years | $ | 20.86 | 2,218 | $ | 16.40 |

(1) Option information is presented as options for thousands of common shares.

The average fair values of share options granted to employees at the time of the grants and the weighted-average assumptions used in applying the Black-Scholes option pricing model were as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | | **2017** | | 2016 |
| Option award fair value | $ | 5.94 | $ | 4.45 |
| Risk-free interest rate | | 1.2% | | 0.6% |
| Expected lives (1) | | 3.6 years | | 3.5 years |
| Expected volatility (2) | | 28.1% | | 27.3% |

(1) Estimated based on the Company's vesting policy and historical exercise pattern.

(2) Based on the historical volatility of the Company's share price over the most recent period commensurate with the expected lives of the option.

The Company recorded equity-settled share-based compensation expense of $5.6 associated with share options for the year ended December 31, 2017 (2016 - $3.9).

*c) Deferred Share Units ("DSUs")*

The changes in DSUs provided to non-employee directors of the Company were as follows:

| | Year ended December 31, | |
|---|---|---|
| Number of Units (in thousands) | **2017** | 2016 |
| Outstanding, beginning of period | **217** | 219 |
| Issued | **8** | 13 |
| Settled in cash | **(56)** | (15) |
| Outstanding, end of period | **169** | 217 |

Related to these DSUs, the Company recorded a liability of $nil in "accounts payable and accrued liabilities" at December 31, 2017 (2016 - $0.3), $6.1 in "deferred credits, provisions and other liabilities" at December 31, 2017 (2016 - $5.0), and cash-settled share-based compensation expense of $2.0 for the year ended December 31, 2017 (2016 - $2.0).

## 14. SHARE CAPITAL AND RESERVES (Continued)

*d) Restricted Share Units ("RSUs")*

Effective January 1, 2014, the Company introduced an employee incentive program that contains the opportunity for eligible employees to be awarded cash-settled RSUs if they exceed certain business targets for a prior fiscal year. RSUs granted vest in two equal tranches, one on each of the two anniversary dates following the date of grant.

The changes in RSUs provided to employees of the Company were as follows:

| | Year ended December 31, | |
|---|---|---|
| Number of Units (in thousands) | **2017** | 2016 |
| Outstanding, beginning of period | **34** | 87 |
| Issued | **31** | 2 |
| Forfeited | **(5)** | (14) |
| Settled in cash | **(30)** | (41) |
| Outstanding, end of period | **30** | 34 |

Assuming both a constant market price for the Company's common shares and no award forfeitures, these RSUs outstanding at the end of the period would result in cash settlement payments of $0.6 to employees after they vest in 2018, $0.9 in 2019, and $0.3 in 2020. During the year ended December 31, 2017, the Company paid $0.8 on the vesting of RSUs.

Related to these RSUs, the Company recorded a liability of $0.5 in "accounts payable and accrued liabilities" at December 31, 2017 (2016 - $0.8), $0.5 in "deferred credits, provisions and other liabilities" at December 31, 2017 (2016 - $0.4), and cash-settled share-based compensation expense of $0.5 for the year ended December 31, 2017 (2016 - $0.8).

*d) Employee share purchase plan*

Eligible employees of the Company who have completed three months of continuous service may elect to participate in the Employee Share Purchase Plan (the "Share Purchase Plan") by contributing a portion of their gross pay to purchase the Company's shares in the open market. Employees whose terms and conditions of employment are established by collective bargaining are not eligible to participate in the Share Purchase Plan. In April 2016, the Company began matching 10% of the employees' contributions to the Share Purchase Plan, up to a maximum of 0.5% of each employee's earnings. As at December 31, 2017, 577,741 (2016 - 632,789) common shares were held by employees under the Share Purchase Plan and 19% of eligible employees participated in the Plan (2016 - 17%).

## 15. REVENUES

| | Year ended December 31, | |
|---|---|---|
| | **2017** | 2016 |
| Gaming revenues | **$ 446.9** | $ 403.2 |
| Facility Development Commission | **39.1** | 37.4 |
| Hospitality, lease and other revenues | **162.8** | 153.3 |
| Racetrack revenues | **12.1** | 13.0 |
| | **660.9** | 606.9 |
| Less: Promotional allowances | **(46.6)** | (40.5) |
| | **$ 614.3** | $ 566.4 |

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

## 16. BUSINESS ACQUISITION, RESTRUCTURING AND OTHER

| | Year ended December 31, 2017 | 2016 |
|---|---|---|
| Severance | **$ 1.2** | $ 2.7 |
| Business acquisition and other | **0.6** | 2.4 |
| Contingent future trailing payments related to Chances Chilliwack (Note 25(d)) | **(0.3)** | 2.2 |
| | **$ 1.5** | $ 7.3 |

## 17. INCOME TAXES

*a) Income tax recognized in net earnings*

The Company's income tax expense is as follows:

| | Year ended December 31, 2017 | 2016 |
|---|---|---|
| Current tax expense | **$ 28.3** | $ 26.4 |
| Deferred tax expense | **6.3** | 2.6 |
| Total tax expense | **$ 34.6** | $ 29.0 |

The Company's income tax expense for the year can be reconciled to earnings before income taxes as follows:

| | Year ended December 31, 2017 | 2016 |
|---|---|---|
| Applicable federal and provincial statutory income tax rate [(1)] | **26.00%** | 26.00% |
| Earnings before income taxes | **$ 120.3** | $ 105.6 |
| Expected income tax expense | **31.3** | 27.5 |
| Effect of: | | |
| Non-deductible share-based compensation | **1.5** | 1.0 |
| Impact of different jurisdictional statutory tax rates on earnings of subsidiaries | **0.8** | 0.9 |
| Non-controlling interest | **(0.4)** | (0.2) |
| Adjustments to deferred tax attributable to changes in tax rates | **2.1** | - |
| Revaluation of income tax liabilities from prior year taxes | **(0.7)** | - |
| Other items | **-** | (0.2) |
| Total income tax expense recognized in net earnings | **$ 34.6** | $ 29.0 |

(1) The applicable federal and provincial statutory income tax rate used for the 2017 and 2016 reconciliations above is the corporate tax rate payable by corporate entities in the province of British Columbia on taxable profits under tax law in that jurisdiction. The rate will increase on January 1, 2018 from 26% to 27% due to an increase in the BC income tax rate of 1%.

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

## 17. INCOME TAXES (Continued)

### *b) Deferred tax balances*

The following are the major deferred tax assets (liabilities) recognized and movements thereon during the current and prior year:

| 2017 | Opening balance | Recognized in net earnings | Recognized in other comprehensive income | **Closing balance** |
|---|---|---|---|---|
| ***Temporary differences*** | | | | |
| Property, plant and equipment | $ (63.0) | $ (8.9) | $ - | **$ (71.9)** |
| Intangible assets | (14.8) | 2.6 | - | **(12.2)** |
| Debt refinancing transaction costs | (1.8) | 0.3 | - | **(1.5)** |
| Deferred partnership income | (0.2) | 0.6 | - | **0.4** |
| Deferred compensation costs | 1.8 | 0.1 | - | **1.9** |
| Deferred credits, provisions and other liabilities | 2.6 | (0.4) | - | **2.2** |
| Other | 0.4 | (0.5) | (0.1) | **(0.2)** |
| | (75.0) | (6.2) | (0.1) | **(81.3)** |
| ***Unused tax losses and credits*** | | | | |
| Non-capital loss carry-forwards | 0.1 | (0.1) | - | **-** |
| Capital loss carry-forwards | 1.7 | - | - | **1.7** |
| | 1.8 | (0.1) | - | **1.7** |
| | $ (73.2) | $ (6.3) | $ (0.1) | **$ (79.6)** |

| 2016 | Opening balance | Recognized in net earnings | Recognized in other comprehensive income | Closing balance |
|---|---|---|---|---|
| ***Temporary differences*** | | | | |
| Property, plant and equipment | $ (57.8) | $ (5.2) | $ - | $ (63.0) |
| Intangible assets | (17.2) | 2.4 | - | (14.8) |
| Debt refinancing transaction costs | (1.5) | (0.3) | - | (1.8) |
| Deferred partnership income | (0.5) | 0.3 | - | (0.2) |
| Deferred compensation costs | 0.5 | 1.3 | - | 1.8 |
| Deferred credits, provisions and other liabilities | 2.4 | 0.2 | - | 2.6 |
| Other | 1.3 | (0.9) | (0.1) | 0.4 |
| | (72.8) | (2.2) | (0.1) | 75.0 |
| ***Unused tax losses and credits*** | | | | |
| Non-capital loss carry-forwards | 0.8 | (0.7) | - | 0.1 |
| Capital loss carry-forwards | 1.5 | 0.2 | - | 1.7 |
| | 2.3 | (0.4) | - | 1.8 |
| | $ (70.5) | $ (2.6) | $ (0.1) | $ (73.2) |

The deferred tax balances are presented on the consolidated statements of financial position as:

| | **Year ended December 31, 2017** | 2016 |
|---|---|---|
| Deferred tax assets | **$ 11.4** | $ 10.7 |
| Deferred tax liabilities | **(91.0)** | (83.9) |
| Net deferred tax liabilities | **$ (79.6)** | $ (73.2) |

## 17. INCOME TAXES (Continued)

*b) Deferred tax balances (Continued)*

The Company has recognized deferred tax assets of approximately $5.8 (2016 - $8.7) that are dependent on future taxable profits in excess of those that will arise from the reversal of existing taxable temporary differences. If necessary, the Company may also undertake a legal restructuring of its subsidiaries or other transactions in order to fully use these deferred tax assets.

The Company has recognized a deferred tax asset relating to capital loss carry-forwards of $12.6 (2016 - $12.0) which may be used to offset future years' capital gains. Management believes the Company will generate future capital gains in excess of the losses in the jurisdiction to which the losses relate. These losses may be carried forward indefinitely.

*c) Unrecognized deferred tax assets*

In addition to the capital losses noted above, the Company has $0.1 (2016 - $4.8) of capital losses carried forward, which may only be used to offset future capital gains, and in respect of which the Company has not recognized a deferred tax asset. These losses may be carried forward indefinitely, with the exception of approximately US$nil (2016 - US$3.5) of capital losses incurred by the Company's US subsidiary, which expired in 2017.

*d) Other income tax-related matters*

The Canada Revenue Agency ("CRA") has conducted audits of the Company's and its subsidiaries' FDC filing positions of its B.C. operations for the 2009 to 2014 years. CRA has taken the position that FDC was received by the Company and its subsidiaries during 2009 and subsequent years as service fee income and should be included in taxable income when received. For income tax purposes, the Company and its subsidiaries treat the reimbursement by BCLC of the approved gaming related property, plant and equipment costs as a reduction in the capital cost of the asset. CRA's current position is inconsistent with the results of CRA's findings in their previous audits of the Company's Great Canadian Casinos Inc. subsidiary for the 2000 and 2001 taxation years.

If CRA's current position prevails, it would accelerate the timing of when the Company and its subsidiaries recognize taxable income, but would also increase the tax depreciation deduction (capital cost allowance) that they could recognize in prior and future years.

Based on the FDC received from BCLC between January 1, 2009 to December 31, 2017, if CRA's current position of FDC prevails, preliminary estimates indicate the Company's consolidated current tax expense would increase $64.1, deferred tax expense would decrease $62.9, and interest and financing costs would increase $11.6, resulting in a one-time $12.8 decrease in net earnings and a corresponding decrease to basic net earnings per share of approximately $0.21 per share. The Company expects that the effect of the estimated $8.4 annual increase in current income taxes that would arise from applying the combined federal and provincial income tax rate on future FDC reimbursements, assuming they were consistent with those received in the last 12 months ended December 31, 2017, would be substantially offset by a decrease in deferred income taxes and would consequently have no material effect on net earnings or net earnings per common share going forward.

During 2015, the Company received notices of reassessment from CRA for itself and three of its subsidiaries related to the income tax treatment of FDC received from BCLC in 2009 and 2010. During 2016, the Company and five of its subsidiaries received notices of reassessment related to the income tax treatment of FDC received from BCLC in 2011, and 2012, and in some cases 2013. As a part of the notices of reassessment received during 2016, the CRA waived $1.1 of interest relating to the 2011 and 2012 taxation years. During the year ended December 31, 2017, the Company and five of its subsidiaries received notices of reassessment related to the income tax treatment of FDC received from BCLC in 2013 and 2014.

## 17. INCOME TAXES (Continued)

*d) Other income tax-related matters (Continued)*

The Company strongly disagrees with the CRA's current position of FDC and CRA's adjustments to the taxable income of it and its subsidiaries in respect of FDC. Management believes that it is probable that the Company's and its subsidiaries' tax filing positions with respect to FDC will prevail and consequently the Company and its subsidiaries have not accrued for additional income tax liabilities, income tax expenses, and interest as a result of the reassessments received from CRA.

The Company and its subsidiaries intend to vigorously defend their tax filing positions and the five subsidiaries that have received notices of reassessment from CRA for 2009 to 2012 have filed notices of objection with CRA's Appeals Division. The Company is in the process of preparing notices of objection to CRA's Appeals Division for five of its subsidiaries that received notices of reassessment in 2017 and subsequent to year-end, paid the minimum 50% of the income taxes and interest reassessed. The Company and its subsidiaries plan to file notices of objection to CRA's Appeals Division to each notice of reassessment received for any subsequent years, where appropriate. In order to file a notice of objection, the Company and its subsidiaries are required to pay at least 50% of the amounts reassessed and will record a corresponding income tax receivable from CRA until the dispute is resolved. As at December 31, 2017, the Company and its subsidiaries have deposited a net amount of $29.3 (2016 - $29.5) to CRA and is reflected in "cash on deposit with Canada Revenue Agency" on the consolidated statements of financial position.

CRA also commenced an audit over a payment Georgian Downs Ltd ("GDL") received from OLG in 2013, as a result of the termination of the Slots at Racetracks Program. During the year ended December 31, 2017, GDL received a notice of reassessment for its 2013 taxation year. GDL is in the process of preparing a notice of objection to CRA's Appeals Division and subsequent to year-end, paid the minimum 50% of the income taxes and interest reassessed in order to appeal the notices of reassessment. The CRA's position in the letter is the payment received should be treated as income. GDL treated the payment as a reimbursement of property, plant and equipment costs it incurred to expand the facility; thus reduced the capital cost of the asset. If CRA's current position prevails, it would accelerate the timing of when GDL recognize taxable income, but would also increase the tax depreciation deduction (capital cost allowance) available in the prior and future years. GDL estimates current tax expense would increase $6.2, deferred tax expense would decrease $6.2 and interest and financing costs would increase $1.6, resulting in a one-time $1.6 decrease in net earnings and a corresponding decrease to basic net earnings per share of approximately $0.03 per share. Management believes that it is probable that GDL's tax filing position will prevail and consequently has not accrued any potential liability arising from this matter. GDL intends to vigorously defend its tax filing position.

## 18. NET EARNINGS PER COMMON SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The following table sets forth the computation of basic and diluted net earnings per common share attributable to the shareholders of the Company:

| | | Year ended December 31, **2017** | 2016 |
|---|---|---|---|
| Shareholders' net earnings | (A) | **$ 84.3** | $ 75.7 |
| Weighted-average number of common shares outstanding [1] | (B) | **61,157** | 61,895 |
| Dilutive adjustment for share options [1] | | **1,199** | 1,068 |
| Diluted weighted-average number of common shares [1] | (C) | **62,356** | 62,963 |
| Shareholders' net earnings per common share | | | |
| Basic | (A/B) | **$ 1.38** | $ 1.22 |
| Diluted | (A/C) | **$ 1.35** | $ 1.20 |

[1] Share information is presented in thousands.

## 18. NET EARNINGS PER COMMON SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY (Continued)

The following table summarizes the outstanding share options that are anti-dilutive and are not included in the above calculation:

| | Year ended December 31, 2017 | 2016 |
|---|---|---|
| Share options [2] | **2,336** | 1,305 |

[2] Share option information is presented in thousands.

## 19. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

| | Year ended December 31, 2017 | 2016 |
|---|---|---|
| Accounts receivable[1] | **$ 1.1** | $ (15.6) |
| Prepaids, deposits and other assets | **(1.2)** | (2.2) |
| Accounts payable and accrued liabilities | **2.6** | 14.0 |
| | **$ 2.5** | $ (3.8) |

[1] The balance due from NSPLCC of $0.7, previously presented as "Other" under "Cash Flows From Investing Activities" for the year ended December 31, 2016, has been retrospectively reclassified to "Accounts Receivable" under "Changes in non-cash operating working capital" to conform with the presentation of the current year.

## 20. SEGMENT INFORMATION

The Company's management considers each of its gaming properties to be an operating segment since it reviews their operating results, using adjusted EBITDA[1], assesses their performance, and makes resource allocations decisions on a property-by-property basis. The Company has aggregated these operations as one reportable segment based on their similar overall economic characteristics, types of customers, types of services and products provided, the regulatory environment in which they operate and their management and reporting structure. In coming to the determination that the overall economic characteristics are similar, management considered long-term average measures such as gaming revenue as a percentage of revenues, average slot win percentage, average table hold percentage, revenue growth and certain expenses as a percentage of revenues.

The Company conducts its business in two geographic areas: Canada and the United States ("U.S."). Revenues, adjusted EBITDA[1] and additions to long-lived assets and goodwill attributable to these geographic locations are as follows:

| | **Year ended December 31, 2017** | | | Year ended December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | **Revenues** | **Adjusted EBITDA** | **Additions to long-lived assets and goodwill** | Revenues | Adjusted EBITDA | Additions to long-lived assets and goodwill |
| Canada | **$ 573.1** | **$ 215.4** | **$ 46.4** | $ 526.0 | $ 197.5 | $ 91.1 |
| U.S. | **41.2** | **7.6** | **0.3** | 40.4 | 11.4 | 0.5 |
| | **$ 614.3** | **$ 223.0** | **$ 46.7** | $ 566.4 | $ 208.9 | $ 91.6 |

[1] Adjusted 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, business acquisition, restructuring and other, and foreign exchange gain and other. Adjusted EBITDA can be computed as revenues less human resources and property, marketing and administration expenses plus share of profit of equity investments relating to principal operating entities.

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

## 20. SEGMENT INFORMATION (Continued)

Property, plant and equipment, goodwill, and total assets attributable to each geographic location are as follows:

| | **As at December 31, 2017** | | | As at December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | **Property, plant and equipment** | **Goodwill** | **Total assets** | Property, plant and equipment | Goodwill | Total assets |
| Canada | **$ 652.4** | **$ 13.6** | **$ 1,135.9** | $ 653.8 | $ 13.5 | $ 1,047.3 |
| U.S. | **13.0** | **8.2** | **35.5** | 13.9 | 8.8 | 36.4 |
| | **$ 665.4** | **$ 21.8** | **$ 1,171.4** | $ 667.7 | $ 22.3 | $ 1,083.7 |

## 21. KEY MANAGEMENT COMPENSATION

Key management personnel comprise the Company's Board of Directors and executive officers. Key management compensation was as follows:

| | **Year ended December 31,** | |
|---|---|---|
| | **2017** | 2016 |
| Human resources [1] | **$ 2.8** | $ 3.2 |
| Share-based compensation [2] | **5.2** | 4.4 |
| Total | **$ 8.0** | $ 7.6 |

[1] Human resources includes salaries and other short-term employee benefits.

[2] Share-based compensation includes equity and cash-settled share-based compensation described in Note 14.

As at December 31, 2017, the liabilities of the Company include amounts due to key management personnel of $1.2 (2016 - $2.0) in "accounts payable and accrued liabilities" and $6.3 (2016 - $5.1) in "deferred credits, provisions and other liabilities" of the consolidated statements of financial position.

## 22. EMPLOYEE FUTURE BENEFITS

The Company maintains a defined contribution pension plan for its Canadian employees. Under this plan, eligible employees contribute a minimum of 2% to a maximum of 16% of their gross pay. The Company makes contributions representing 2% to 4% of eligible employees' base pay. Contributions made by the Company during the year ended December 31, 2017 totalled $2.5 (2016 - $2.3).

## 23. FACILITY DEVELOPMENT COMMISSION APPROVED AMOUNTS

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:

| | **Year ended December 31,** | |
|---|---|---|
| | **2017** | 2016 |
| Opening Approved Amounts | **$ 309.7** | $ 342.1 |
| Additional Approved Amounts | **7.3** | 5.0 |
| FDC receipts | **(38.6)** | (37.4) |
| Closing Approved Amounts | **$ 278.4** | $ 309.7 |

FDC is a reimbursement by BCLC of Approved Amounts of qualified, primarily capital, expenditures that have been incurred by the Company and is calculated as a fixed percentage of Gross Gaming Revenues generated by the properties. 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 win is generated. As a result, Approved Amounts have not been recorded in the consolidated statements of financial position.

## 24. COMMITMENTS, CONTINGENCIES AND LITIGATION

*a) Letters of credit*

As at December 31, 2017, letters of credit in the amount of $68.2 (2016 - $27.0) were outstanding as security in connection with gaming cash floats, bonds with local municipality to secure commitments under construction permits and provincial gaming corporation payables.

*b) 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.

On March 26, 2015, the Company commenced a legal action against BCLC in relation to a dispute over the collection of marketing contributions by BCLC from the Company since 2009. The Company takes the position that BCLC is not entitled to collect the marketing contributions and alleges the total of such amounts collected from it to December 31, 2017 is in excess of $32.3 (2016 - $28.3). The Company is seeking an order that BCLC cease collecting such marketing contributions as well as damages from BCLC in an amount equal to the total of such marketing contributions collected by BCLC up to the date of judgment. BCLC has filed a statement of defense denying the claims by the Company. A trial has been set to commence in the first quarter of 2018. On September 15, 2016, the Company filed and served an application, and related applications, for certification of the claim as a class proceeding under the Class Proceedings Act ("CPA"). The application for leave to amend the notice of civil claim to plead the CPA was dismissed on April 6 2017, but the Company was given leave to add Orangeville Raceway Ltd. and Hastings Entertainment Inc. as plaintiffs and to amend its claim in other respects. The Company will continue with its legal action as planned toward the trial date in mid-2018.

*c) 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:

i. 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;
ii. certain vendors of acquired companies or property for obligations that may or may not have been known at the date of the transaction;
iii. certain financial institutions for costs that they may incur as a result of representations made in debt and equity offering documents; and
iv. lessors of leased properties for personal injury claims that may arise at the facilities the Company operates.

*d) Other contractual commitments*

The Company's operating leases and other contractual commitments are described in Note 25(b).

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

## 25. FINANCIAL INSTRUMENTS

The Company's financial instruments and the types of risks to which their carrying values are exposed are as follows:

| | Risks | | | |
|---|---|---|---|---|
| | | | Market risks | |
| **Financial instrument** | Credit | Liquidity | Interest rate | Currency |
| Measured at amortized cost: | | | | |
| Cash in banks and cash held for deposit | x | | x | x |
| Cash equivalents | x | | x | |
| Cash floats | | | | x |
| Accounts receivable | x | | | x |
| Accounts payable and accrued liabilities | | x | | x |
| Long-term debt | | x | x | |
| Other liabilities | | x | x | x |

*a) Credit risk*

Credit risk is the risk that a party to one of the Company's financial instruments will cause a financial loss to the Company by failing to discharge an obligation. The carrying values of the Company's financial assets, which represent the maximum exposure to credit risk, are as follows:

| | **December 31, 2017** | December 31, 2016 |
|---|---|---|
| Cash in banks and cash held for deposit | **$ 287.8** | $ 200.9 |
| Accounts receivable | **21.8** | 22.9 |
| | **$ 309.6** | $ 223.8 |

*Cash in banks*: Credit risk associated with these assets is minimized substantially by ensuring that these financial assets are placed primarily with major financial institutions that have minimum grade "A" credit ratings.

*Accounts receivable*: Credit risk associated with most of these assets is minimized due to their nature. The majority of these receivable balances are due from the federal government for sales tax rebates, provincial gaming corporations, racetrack operators, and financial institutions. The provision for doubtful accounts receivable is estimated based on an assessment of individual accounts and the length of time balances have been outstanding. As at December 31, 2017, the provision for doubtful accounts receivable is $nil (2016 - $0.9).

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

### 25. FINANCIAL INSTRUMENTS (Continued)

*b) Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company manages liquidity risk by monitoring its capital structure (see Note 12), regularly monitoring forecast and actual cash flows, managing the maturity profiles of financial assets and financial liabilities and maintaining credit capacity within the revolving credit facilities (see Note 11). The Company expects the following maturities of its financial liabilities (including interest), operating leases and other contractual commitments:

| | **Expected payments by period as at December 31, 2017** | | | | |
|---|---|---|---|---|---|
| | Within 1 year | 2 - 3 years | 4 - 5 years | More than 5 years | Total |
| Accounts payable and accrued liabilities | $ 91.9 | $ - | $ - | $ - | $ 91.9 |
| Income taxes payable | 4.3 | - | - | - | $ 4.3 |
| Senior Unsecured Notes | 29.8 | 59.6 | 509.6 | - | $ 599.0 |
| Revolving Credit Facility | 2.3 | 3.2 | - | - | $ 5.5 |
| Non-recourse Revolving Credit Facility | 2.1 | 36.7 | - | - | $ 38.8 |
| Provisions | 2.0 | 0.8 | 0.8 | 5.3 | $ 8.9 |
| Operating leases | 10.6 | 7.7 | 6.1 | 4.4 | $ 28.8 |
| Other contractual commitments | 46.3 | 12.4 | 5.7 | 3.4 | $ 67.8 |
| Total | $ 189.3 | $ 120.4 | $ 522.2 | $ 13.1 | $ 845.0 |

(1) Operating leases include a ground lease with the City of Surrey, BC for Elements Casino, an operating agreement with the City of Vancouver, BC for Hastings Racecourse and Slots Facility, a property lease with Kawartha Downs for OLG for Shorelines Slots at Kawartha Downs, and a ground lease with the City of Sydney, NS for Casino Nova Scotia Sydney.

(2) Other contractual commitments include the acquisition of property, plant and equipment of $28.0 (2016 - $15.5), various service contracts of $21.4 (2016 - $15.5), and amounts committed to NSPLCC to fund responsible gaming programs over the remaining 7.5-year term of the AROC of $9.4 (2016 - $14.2). 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, subject to a renovation plan and schedule approved by NSPLCC. This capital commitment is not eligible for reimbursement from the CR Account. As at December 31, 2017, the Company has spent $0.9 on the properties.

(3) OGELP has covenanted to OLG that OLG shall realize gaming revenue in each year that is equal to or greater than an agreed upon threshold in respect of each operating year, or to otherwise pay to OLG the amount by which the gaming revenue realized in year is less than the applicable threshold in respect of such year (each such payment, a “Threshold Top-Up Amount”). Based on OGELP’s operating results, the likelihood that OGELP will fail to generate sufficient gaming revenue for OLG for any year is expected to be remote, and as such, no provision has been made for Threshold Top-Up Amounts.

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

**25. FINANCIAL INSTRUMENTS (Continued)**

*c) Market risk*

Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates and/or foreign currency exchange rates. The following table sets out a sensitivity analysis of the effect on the carrying amount of the Company's financial instruments that are subject to foreign currency risk by applying reasonably possible changes in foreign currency rates relative to the Company's functional currency, the Canadian dollar:

| | Foreign Currency Risk [1] | | | |
|---|---|---|---|---|
| | -10% | | +10% | |
| | Net earnings | OCI | Net earnings | OCI |
| **Financial Assets** | | | | |
| Cash and cash equivalents | $ (0.1) | $ - | $ 0.1 | $ - |
| Accounts receivable | - | - | - | - |
| **Financial Liabilities** | | | | |
| Accounts payable and accrued liabilities | - | - | - | - |
| **Total increase (decrease)** | $ (0.1) | $ - | $ 0.1 | $ - |

(1) Displayed is the effect on the Company's U.S. dollar denominated financial assets and liabilities if the value of the U.S. dollar were to decrease or increase relative to the Canadian dollar by 10% from the actual period end rate.

*Revolving Credit Facility*

The Revolving Credit Facility has interest rates on advanced amounts and a standby fee on the unused facility that are based on the Total Debt to Adjusted EBITDA ratio (defined in the underlying debt agreement) which is calculated quarterly. The following table summarizes the interest rate and standby fee on the Revolving Credit Facility that apply, depending on the Company's quarterly Total Debt to Adjusted EBITDA ratio calculated for the most recent trailing twelve months:

| Total Debt / Adjusted EBITDA | Margin on Bankers' Acceptances or Eurodollar Rate Advances & Letters of Credit | Margin on Canadian Prime Rate or U.S. Base Rate Advances | Standby Fee |
|---|---|---|---|
| >= 4.50 | 2.75% | 1.75% | 0.62% |
| 4.00 to < 4.50 | 2.50% | 1.50% | 0.56% |
| 3.50 to < 4.00 | 2.25% | 1.25% | 0.51% |
| 3.00 to < 3.50 | 2.00% | 1.00% | 0.45% |
| 2.50 to < 3.00 | 1.88% | 0.88% | 0.38% |
| 2.00 to <2.50 | 1.70% | 0.70% | 0.34% |
| < 2.00 | 1.45% | 0.45% | 0.29% |

*Non-recourse Revolving Credit Facility*

The Non-recourse Revolving Credit Facility has interest rates on advanced amounts and a standby fee on the unused facility that are based on the Total Leverage ratio (defined in the underlying debt agreement) which is calculated quarterly. The following table summarizes the interest rate and standby fee on the Non-recourse Revolving Credit Facility that apply, depending on OGELP's quarterly Total Leverage ratio calculated for the most recent trailing twelve months:

| Total Leverage Ratio | Margin on Bankers' Acceptances & Letters of Credit | Margin on Canadian Prime Rate | Standby Fee |
|---|---|---|---|
| >= 3.50 | 3.50% | 2.50% | 0.88% |
| 3.00 to < 3.50 | 3.00% | 2.00% | 0.75% |
| 2.50 to < 3.00 | 2.50% | 1.50% | 0.63% |
| 2.00 to <2.50 | 2.25% | 1.25% | 0.56% |
| < 2.00 | 2.00% | 1.00% | 0.50% |

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

## 25. FINANCIAL INSTRUMENTS (Continued)

*d) Fair values*

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to their short term nature.

The Company does not hold any Level 1 financial assets or liabilities that are based on unadjusted quoted prices trading in active markets.

The Company's long-term debt instruments are Level 2 financial instruments as they are estimated based on quoted prices that are observable for similar instruments or on the current rates offered to the Company for debt of the same maturity. As at December 31, 2017, the Company's long-term debt instruments had a fair value of $504.3 (2016 - $505.8) and a carrying value of $482.6 (2016 - $478.3). As at December 31, 2017, the Company's interest rate swap had a carrying value equal to its fair value of $0.9 (2016 - $0.4) as described in Note 11.

The Company's contingent future trailing payments are recurring Level 3 financial instruments as they require management to make assumptions regarding the measurement of fair value using significant inputs that are not based on observable market data. As at December 31, 2017, the fair value and carrying value of the Company's contingent future trailing payments was $6.2 (2016 - $6.5). The following table reconciles the opening to the ending balances of the trailing payments:

| | | **Trailing payments** |
|---|---|---|
| Balance at January 1, 2017 | $ | 6.5 |
| Net charge to earnings[(1)] | | 0.3 |
| Settlement | | (0.6) |
| **Balance at December 31, 2017** | **$** | **6.2** |

(1) The net charge to earnings includes accretion of $0.6 recorded in "interest and financing costs, net" and a decrease in the estimated provision of $0.3 recorded in "business acquisition, restructuring and other" on the consolidated statements of earnings.

The valuation technique used in the determination of the fair value measurement of contingent future trailing payments is the discounted cash flow approach. The valuation model considers the present value of the cash flows expected to be paid as trailing payments. The key unobservable inputs are the estimated future slot revenues at Chances Chilliwack and the discount rate. The estimated fair value of this liability increases with higher estimated future slot revenues and lower discount rates. The calculation of the fair value of the contingent future trailing payments is performed by the Company annually and reviewed quarterly.

The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 2 and Level 3 financial instruments during the period.

## 26. ACQUISITIONS

*a) GTA Gaming Bundle*

On August 8, 2017, the Company announced that Ontario Gaming GTA Limited Partnership ("OGGTA"), a partnership in which the Company now owns a 49% interest, was selected as the successful proponent by OLG to operate gaming facilities in OLG's Greater Toronto Area. OGGTA signed a business transition and asset purchase agreement with OLG on August 7, 2017 and signed a casino operating and services agreement on January 23, 2018, with a minimum 22-year term. Under the business transition and asset purchase agreement, OGGTA acquired certain of OLG's gaming assets in the GTA Gaming Bundle, including OLG Slots at Woodbine, OLG Slots at Ajax Downs and Great Blue Heron Casino located in the Mississaugas of Scugog Island First Nation. The purchase price for such assets was $169.2 of cash consideration, including working capital of approximately $63.5 (subject to customary post-close adjustments) and applicable taxes arising from the transaction.

As at December 31, 2017, OGGTA had arranged for a letter of credit in the amount of $10.0 in favour of OLG to assure OGGTA's performance of transition activities relating to the business and the closing of the transaction. Subsequent to year end, OGGLP replaced the $10.0 letter of credit to OLG with a $50.0 letter of credit to satisfy the partnership's performance obligations under the COSA.

The Company is in the process of determining the fair values of each major class of assets acquired and liabilities assumed on January 23, 2018, and is consequently not yet able to disclose these values or the pro-forma revenues and net earnings of the assets and operations acquired.

For the year ended December 31, 2017, the Company had significant influence in OGGTA and accounted for it as an equity method investee. The initial investment of $7.5 was recorded at cost and included in "other assets" on the consolidated statements of financial position. The Company's attributable share of the OGGTA's net loss for the year ended December 31, 2017 of $1.8 was included in "share of profit of equity investment" on the consolidated statements of earnings and other comprehensive income. Upon closing on January 23, 2018, the Company entered into a management and development services agreement to operate the GTA Gaming Bundle, and accordingly is currently assessing the accounting treatment of OGGTA.

*b) West GTA Gaming Bundle*

On December 19, 2017, the Company announced that Ontario Gaming West GTA Limited Partnership ("OGWGLP") was selected as the successful proponent by OLG to operate certain gaming facilities in the West Greater Toronto Area. OGWGLP signed a business transition and asset purchase agreement with OLG on December 18, 2017 to acquire certain gaming assets in the West GTA Gaming Bundle, and will have the exclusive right to operate these assets for a minimum period of 20 years, in accordance with the requirements of a COSA. The closing date for the acquisition of the assets and assumption of certain liabilities from OLG, including the signing of a COSA with OLG, is expected to occur in the second quarter of 2018. Closing is subject to regulatory approvals and other customary conditions. In conjunction with the closing, the Company will enter into a management services agreement and a casino development services agreement with OGWGLP under which the Company will earn associated fees for the provision of such services. As at December 31, 2017, OGWGLP has arranged for a letter of credit in the amount of $10.0 in favour of OLG to assure OGWGLP's performance of transition activities relating to the business and the eventual closing of the transaction.

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

## 26. ACQUISITIONS (Continued)

*c) Ontario East Gaming Bundle*

On January 11, 2016, OGELP, a partnership in which the Company owns a 90.5% interest, signed a 20-year casino operating and services agreement with OLG. Under the business transition and asset purchase agreement, OGELP acquired certain of OLG's gaming assets in the East Gaming Bundle, including OLG Casino Thousand Islands, the slot operations within leased space at Kawartha Downs near the City of Peterborough and a new build opportunity to service the City of Belleville and the municipality of Quinte West. The purchase price for such assets was $46.9 of cash consideration, including net working capital of $9.5.

The final fair value of the identifiable assets acquired and liabilities assumed as at January 11, 2016 were as follows:

| | | |
|---|---|---|
| Assets acquired | | |
| Cash | $ | 9.1 |
| Prepaids, deposits and other assets | | 0.7 |
| Property, plant and equipment (1) | | 28.2 |
| Intangible assets (2) | | 9.2 |
| **Total assets acquired** | $ | 47.2 |
| | | |
| Liabilities assumed | | |
| Accounts payable and accrued liabilities | $ | 0.3 |
| **Total liabilities assumed** | | 0.3 |
| **Net assets acquired** | $ | 46.9 |

(1) Of the $28.2 of property, plant and equipment acquired, $0.5 was assigned to land, $22.1 was assigned to buildings, building improvements and leasehold improvements with useful lives between 5 to 40 years and $5.6 was assigned to equipment with useful lives between 1 to 5 years.

(2) Intangible assets of $9.2 relates to the casino operating and services agreement with OLG which expires on March 31, 2036 and will be amortized on a straight-line basis over that period.

The revenues and earnings before income taxes of the East Gaming Bundle for the period from January 11, 2016 to December 31, 2016 were $69.4 and $9.4, respectively.

*d) Bingo Esquimalt*

On July 21, 2016, the Company completed the acquisition of 100% of the assets and operations of Bingo Esquimalt, a commercial bingo hall located on Vancouver Island, British Columbia, which operates under a Bingo Operational Services Agreement ("BOSA") with BCLC. The $0.4 purchase price represented the fair value of the intangible asset related to the BOSA, which will be amortized on a straight-line basis until it expires on May 31, 2021.