GREAT CANADIAN GAMING CORPORATION

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

## For the Year Ended December 31, 2014

*(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, 2014 and December 31, 2013, 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, 2014 and December 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
March 2, 2015
Vancouver, British Columbia

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

| | | | **2014** | | 2013 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current | | | | | |
| Cash and cash equivalents | Note 5 | **$** | **324.4** | $ | 192.6 |
| Accounts receivable | Note 6 | | **6.3** | | 7.2 |
| Income taxes receivable | | | **-** | | 3.7 |
| Prepaids, deposits and other assets | | | **7.4** | | 8.0 |
| | | | **338.1** | | 211.5 |
| Property, plant and equipment | Note 8 | | **574.0** | | 596.3 |
| Intangible assets | Note 9 | | **69.8** | | 75.8 |
| Goodwill | Note 10 | | **21.1** | | 20.6 |
| Deferred tax assets | Note 18 | | **8.9** | | 8.8 |
| Other assets | | | **2.2** | | 2.7 |
| | | **$** | **1,014.1** | $ | 915.7 |
| **Liabilities** | | | | | |
| Current | | | | | |
| Accounts payable and accrued liabilities | Note 15, 22 | **$** | **60.3** | $ | 67.9 |
| Income taxes payable | | | **7.2** | | - |
| Other liabilities | Note 11 | | **2.6** | | 2.6 |
| | | | **70.1** | | 70.5 |
| Long-term debt | Note 12 | | **442.0** | | 441.0 |
| Deferred credits, provisions and other liabilities | Note 14, 15, 22 | | **27.4** | | 26.4 |
| Deferred tax liabilities | Note 18 | | **74.3** | | 70.3 |
| | | | **613.8** | | 608.2 |
| **Shareholders' equity** | | | | | |
| Share capital and reserves | Note 15 | | **318.8** | | 305.1 |
| Accumulated other comprehensive income | | | **1.1** | | 0.4 |
| Retained earnings | | | **80.4** | | 2.0 |
| | | | **400.3** | | 307.5 |
| | | **$** | **1,014.1** | $ | 915.7 |

Commitments (Note 25), Subsequent events (Note 27)

These financial statements were approved and authorized by the Company's Board of Directors for issue on March 2, 2015.

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

| | | | **2014** | | 2013 |
|---|---|---|---|---|---|
| **Revenues** | Note 16 | **$** | **446.5** | $ | 407.3 |
| **Expenses** | | | | | |
| Human resources | Note 22 | | **164.8** | | 160.5 |
| Property, marketing and administration | | | **101.6** | | 96.2 |
| Amortization | | | **45.3** | | 48.5 |
| Share-based compensation | Note 15, 22 | | **4.8** | | 9.7 |
| Reversal of impairment of long-lived assets and impairment of goodwill, net | Note 7, 8, 9, 10 | | **(4.7)** | | (28.5) |
| Interest and financing costs, net | Note 12 | | **31.6** | | 32.8 |
| Restructuring and other | Note 17 | | **0.8** | | 2.0 |
| Foreign exchange gain and other | | | **(2.4)** | | (0.9) |
| | | | **341.8** | | 320.3 |
| **Earnings before income taxes** | | | **104.7** | | 87.0 |
| Income taxes | Note 18 | | **26.3** | | 23.9 |
| **Net earnings** | | **$** | **78.4** | $ | 63.1 |
| Net earnings per common share | Note 19 | | | | |
| Basic | | **$** | **1.16** | $ | 0.92 |
| Diluted | | **$** | **1.12** | $ | 0.90 |
| Weighted average number of common shares | | | | | |
| Basic | | | **67,863,629** | | 68,559,932 |
| Diluted | | | **69,788,529** | | 69,934,075 |

See Accompanying Notes to the Consolidated Financial Statements

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

| | | **2014** | | 2013 |
|---|---|---|---|---|
| **Net earnings** | **$** | **78.4** | $ | 63.1 |
| **Other comprehensive income** | | | | |
| Unrealized effect of foreign currency translation of foreign operations | | **0.7** | | 1.4 |
| **Total comprehensive income** | **$** | **79.1** | $ | 64.5 |

See Accompanying Notes to the Consolidated Financial Statements

## GREAT CANADIAN GAMING CORPORATION
## Consolidated Statements of Changes in Equity
### (Expressed in millions of Canadian dollars)

| | | Share Capital | | | Share Capital and Reserves | Accumulated Other Comprehensive (Loss) Income | Retained Earnings (Deficit) | |
|---|---|---|---|---|---|---|---|---|
| | | Number [(1)] | Amount | Reserves | | | | Total |
| At January 1, 2013 | | 70,436 | $ 271.3 | $ 42.2 | $ 313.5 | $ (1.0) | $ (32.2) | $ 280.3 |
| Share-based compensation | Note 15 | - | - | 2.3 | 2.3 | - | - | 2.3 |
| Exercise of incentive stock options | Note 15 | 1,409 | 9.1 | (2.1) | 7.0 | - | - | 7.0 |
| Common shares purchased | Note 15 | (4,512) | (17.7) | - | (17.7) | - | (28.9) | (46.6) |
| Net earnings | | - | - | - | - | - | 63.1 | 63.1 |
| Other comprehensive income | | - | - | - | - | 1.4 | | 1.4 |
| At December 31, 2013 | | 67,333 | $ 262.7 | $ 42.4 | $ 305.1 | $ 0.4 | $ 2.0 | $ 307.5 |
| At January 1, 2014 | | 67,333 | $ 262.7 | $ 42.4 | $ 305.1 | $ 0.4 | $ 2.0 | $ 307.5 |
| Share-based compensation | Note 15 | - | - | 2.4 | 2.4 | - | - | 2.4 |
| Exercise of incentive stock options | Note 15 | 1,482 | 14.7 | (3.4) | 11.3 | - | - | 11.3 |
| Common shares purchased | Note 15 | (1) | - | - | - | - | - | - |
| Net earnings | | - | - | - | - | - | 78.4 | 78.4 |
| Other comprehensive income | | - | - | - | - | 0.7 | | 0.7 |
| **At December 31, 2014** | | **68,814** | **$ 277.4** | **$ 41.4** | **$ 318.8** | **$ 1.1** | **$ 80.4** | **$ 400.3** |

(1) Share information is presented in thousands.

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

| | | 2014 | 2013 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Earnings before income taxes | | **$ 104.7** | $ 87.0 |
| Adjustments to reconcile earnings before income taxes to cash generated by operating activities: | | | |
| Amortization | | **45.3** | 48.5 |
| Reversal of impairment of long-lived assets and impairment of goodwill, net | Note 7, 8, 9, 10 | **(4.7)** | (28.5) |
| Share-based compensation | Note 15, 22 | **4.8** | 9.7 |
| Interest and financing cost, net | Note 12 | **31.6** | 32.8 |
| Foreign exchange gain and other | | **(2.4)** | (0.9) |
| Special share-based award | | **-** | (4.8) |
| Other | | **(1.8)** | (1.5) |
| Changes in non-cash operating working capital | Note 20 | **(2.9)** | 3.3 |
| Income taxes paid | | **(11.5)** | (10.2) |
| Cash generated by operating activities | | **163.1** | 135.4 |
| **Cash Flows from Investing Activities** | | | |
| Purchase of property, plant and equipment, net of related accounts payable of 3.7 (2013 - 3.3) | | **(14.8)** | (24.8) |
| Georgian Downs facility settlement payment | Note 7, 8 | **-** | 31.5 |
| Interest income received | | **2.5** | 1.6 |
| Other | | **0.3** | (1.2) |
| Cash (used in) generated by investing activities | | **(12.0)** | 7.1 |
| **Cash Flows from Financing Activities** | | | |
| Proceeds from exercise of incentive stock options, net of issuance costs | | **11.3** | 7.0 |
| Purchase of common shares | Note 15 | **-** | (46.6) |
| Interest paid | | **(32.2)** | (32.6) |
| Cash used in financing activities | | **(20.9)** | (72.2) |
| Effect of foreign exchange on cash and cash equivalents | | **1.6** | 1.2 |
| **Cash inflow** | | **131.8** | 71.5 |
| **Cash and cash equivalents, beginning of year** | | **192.6** | 121.1 |
| **Cash and cash equivalents, end of year** | Note 5 | **$ 324.4** | $ 192.6 |

See Accompanying Notes to the Consolidated Financial Statements

## 1. NATURE OF BUSINESS

Great Canadian Gaming Corporation (the "Company") operates gaming, entertainment, and hospitality facilities in British Columbia, Ontario, Nova Scotia, and Washington State. The Company's 17 gaming properties consist of three community gaming centres, four racetracks and ten casinos, including one with a Four Diamond resort hotel.

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 350-13775 Commerce Parkway, Richmond, British Columbia, V6V 2V4. 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 ("IFRIC").

### 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.

*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. 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.

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

- cost 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *a) Principles of consolidation (Continued)*

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 recognized as "restructuring and other" on the consolidated statements of earnings.

### *b) Principal operating entities*

| Entity | Abbreviation | Location of operations | Ownership interest at December 31, 2014 and 2013 |
|---|---|---|---|
| Chilliwack Gaming Ltd. | CGL | British Columbia | 100% |
| Flamboro Downs Limited | FDL | Ontario | 100% |
| Georgian Downs Limited | GDL | Ontario | 100% |
| Great American Gaming Corporation | GAGC | Washington | 100% |
| Great Canadian Casinos Inc. | GCCI | British Columbia | 100% |
| Great Canadian Entertainment Centres Ltd. | GCEC | British Columbia | 100% |
| Hastings Entertainment Inc. | HEI | British Columbia | 100% |
| Metropolitan Entertainment Group | MEG | Nova Scotia | 100% |
| Orangeville Raceway Limited | ORL | British Columbia | 100% |
| TBC Teletheatre B.C. (1) | TBC | British Columbia | 50% |

(1) The Company accounts for its ownership interest in TBC using the equity method.

### *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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*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 provided to the President and Chief Executive Officer, the Company's chief operating decision maker.

*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 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.

*g) Facility Development Commission*

In British Columbia, through the Facility Development Commission ("FDC") program, the British Columbia Lottery Corporation ("BCLC") reimburses Approved Amounts (a defined term in the Company's Casino Operational Services Agreements ("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. For accounting purposes, FDC is recorded as part of revenues on the consolidated statements of earnings when received and subject to having sufficient BCLC Approved Amounts remaining to be reimbursed. For income tax purposes, management believes that FDC received from BCLC is appropriately characterized under the relevant income tax regulations as a reduction of the cost of either the related long-lived asset (primarily buildings) or the operating expenses being reimbursed (see Note 18(d)).

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

*h) Marketing fees to BCLC*

The Company contributes 0.6% of the gross gaming revenues in three of its BC casinos and its two BC racing properties to BCLC as contributions toward marketing programs. BCLC uses the contributions to fund various BCLC marketing programs. The Company records its contributions when incurred as property, marketing and administration expenses on the consolidated statements of earnings.

*i) 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 is required under the AROC to make contributions to the NSPLCC's Capital Reserve Account equal to 5% of the annual gross operational revenues from the two Nova Scotia casinos, with a minimum contribution of approximately $5.0 per year adjusted for inflation since April 2010. Reimbursement of qualifying expenditures is received from the Capital Reserve Account, or if there is an insufficient balance in the Capital Reserve Account, the reimbursement is recorded as a receivable from NSPLCC and recorded as a reduction in the historical 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 plus 2% per annum.

*j) 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 are tested for impairment as described in Note 2(m).

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*k) Intangible assets*

The Company has finite-lived intangible assets which consist of COSAs and CGCOSAs in British Columbia, lease agreements in Ontario, an operational services agreement for gaming in Nova Scotia, 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(m).

*l) 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 recoverable amounts 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 each period end.

*m) 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*m) Impairment of long-lived assets (Continued)*

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.

*n) 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.

*o) 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. Provisions are not recorded for future operating losses.

*p) 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 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*q) Comprehensive income*

Comprehensive income consists of net earnings and OCI as presented on the consolidated statements of comprehensive income. OCI represents changes in shareholders' equity in a period arising from the unrealized effect of foreign currency translation of foreign operations.

*r) 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.

*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 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *r) Financial instruments (Continued)*

*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. 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.

**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 |

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*s) Share-based compensation*

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

**Equity-settled share-based compensation**
The Company applies the fair value method of accounting for 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.

Non-employee equity-settled share-based payments are measured at the fair value of the goods and services received, except where that fair value cannot be estimated reliably. If the fair value cannot be measured reliably, non-employee equity-settled share-based payments are measured at the fair value of the equity instrument granted, measured at the date the entity obtains the goods or the counterparty renders the service. Equity-settled share-based compensation expense is recognized in the "share-based compensation" line of the consolidated statements of earnings over the vesting period of the related share 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. 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.

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 "share-based compensation" on the consolidated statements of earnings and as "deferred credits, provisions and other liabilities" on the consolidated statements of financial position over the vesting terms of the RSUs, and is re-measured at each reporting period based on the value of the underlying common shares until the redemption date.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*t) Revenue recognition*

Gaming revenues, which include revenues from table games, slot machines, bingo games, Facility Development Commission from BCLC, and site holder payments from the Ontario Lottery and Gaming Corporation ("OLG") up to March 31, 2013, are recorded when earned by the Company after deduction for the portion of gaming and other revenues payable to BCLC, OLG, and NSPLCC, accruals for payouts on progressive games, and gaming taxes payable to Washington State.

Racetrack revenues are recorded when earned by the Company, net of amounts returned as winning wagers, provincial and federal taxes, and purses for wagering. Racetrack revenues also include the net amount of the on-site wagering on races simulcast from third parties as well as fees received based on off-site wagering on races simulcast to other racetracks. Transition funding for horse racing received from the Government of Ontario 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 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 since April 1, 2013.

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 revenues (see Note 16).

*u) Taxation*

Income tax expense represents the sum of current and deferred taxes. Current and deferred taxes are recognized in the consolidated statement of 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 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*u) Taxation (Continued)*

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).

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.

*v) 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.

## 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:

- *Reversal of impairment of long-lived assets and impairment of goodwill, net*

  The determination of a long-lived asset or goodwill impairment requires significant estimates and assumptions to determine the recoverable amount of an asset and/or CGU, wherein the recoverable amount is the higher of fair value less costs to sell and value in use. The value in use method involves estimating the net present value of future cash flows derived from the use of the asset and/or CGU, discounted at an appropriate rate.

  The estimates of future cash flows require a number of key assumptions about future business performance. These assumptions and estimates are primarily based on the relevant business' historical experience, economic trends, and consider past communications with relevant stakeholders of the Company. These key assumptions include the future revenue levels and human resources and property, marketing and administration expenses. The assumptions are subject to a number of factors and it is possible that actual results could vary materially from management's estimates. Significant changes in the key assumptions utilized in the estimate of future cash flows could result in an impairment loss or reversal of an impairment loss.

- *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, this could result in an increase or decrease in the annual amortization expense, and future impairment charges or recoveries.

- *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 cash-settled 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

***Standards, amendments and interpretations effective and applied***

Effective January 1, 2014, the Company adopted the following revised IASs and IFRSs issued by the IASB and interpretation of the IFRIC. These revised standards and interpretation did not have a material impact on the Company's consolidated financial statements.

- *IAS 32, Financial Instruments: Presentation* – amended to clarify under what circumstances financial assets and financial liabilities should be offset.

- *IAS 36, Impairment of Assets* – amended to clarify the standard's disclosure requirements and require the disclosure of the discount rate used in determining an impairment value calculated using a present value technique.

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

- *IFRIC 21, Levies* – provides guidance for applying IAS 37, *Provisions, contingent liability and contingent assets*, with respect to when a company should recognize a liability for a levy imposed by a government.

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

***Standards, amendments and interpretations not yet effective and not applied***

The IASB issued the following new and revised accounting pronouncements. The Company does not anticipate early adoption of these standards at this time and their impact on the Company's consolidated financial statements is not yet known.

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

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

- *IAS 16, Property, Plant and Equipment ("IAS 16") and IAS 38, Intangible assets ("IAS 38")* – amended to clarify that, under the revaluation method, the gross amount of property, plant and equipment and intangible asset is adjusted in a manner consistent with the revaluation of the carrying amount of the asset. Accumulated amortization is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses as a result of the revaluation. It is effective for annual periods beginning on or after July 1, 2014.

## 4. CHANGES IN ACCOUNTING POLICIES (Continued)

### *Standards, amendments and interpretations not yet effective and not applied (Continued)*

- *IAS 24, Related Party Disclosures ("IAS 24")* – amended to clarify how payments to entities providing management services to the Company are to be disclosed. It is effective for annual periods beginning on or after July 1, 2014.
- *IAS 16 and IAS 38* – amended to clarify that a depreciation and amortization method based on revenue generated by an activity that includes the use of an asset and intangible asset, respectively, is not appropriate. It is effective for annual periods beginning on or after January 1, 2016.
- *IAS 27* – amended to permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements. It is effective for annual periods beginning on or after January 1, 2016.
- *IFRS 10 and IAS 28, Investment in Associates and Joint Ventures ("IAS 28")* – amended to require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business and to require partial recognition of gains and losses where the assets do not constitute a business. It is effective for annual periods beginning on or after January 1, 2016.
- *IFRS 10, IFRS 12 and IAS 28* – amended to address issues that have arisen in the context of applying the consolidation exception for investment entities. It is effective for annual periods beginning on or after January 1, 2016.
- *IAS 1, Presentation of Financial Statements* – amended to clarify IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. It is effective for annual periods beginning on or after January 1, 2016.
- *IFRS 5, Non-current Assets Held for Sale and Discontinued Operations* – amended to add specific guidance for cases in which an entity reclassifies an asset from held for sale to held for distribution to its owners, or vice versa, and cases in which held-for-distribution accounting is discontinued. It is effective for annual periods beginning on or after July 1, 2016.
- *IFRS 7, Financial Instruments - Disclosure* – amended to clarify whether a servicing contract is continuing involvement in a transferred asset and to clarify offsetting disclosure requirements in condensed interim financial statements. It is effective for annual periods beginning on or after July 1, 2016.
- *IAS 9, Employee Benefits* – amended to clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. It is effective for annual periods beginning on or after July 1, 2016.
- *IAS 34, Interim Financial Reporting* – amended to clarify the meaning of "elsewhere in the interim report" and require a cross-reference. It is effective for annual periods beginning on or after July 1, 2016.
- *IFRS 15, Revenue from Contracts with Customers* – provides a single, principles based five-step model to be applied to all contracts with customers. Guidance is provided on the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various other matters. New disclosures about revenue are also introduced. It is effective for annual periods beginning on or after January 1, 2017.

## 4. CHANGES IN ACCOUNTING POLICIES (Continued)

***Standards, amendments and interpretations not yet effective and not applied (Continued)***

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

## 5. CASH AND CASH EQUIVALENTS

| | **December 31, 2014** | December 31, 2013 |
|---|---|---|
| Cash in banks | **$ 243.7** | $ 152.4 |
| Cash floats | **10.1** | 10.1 |
| Cash equivalents | **70.6** | 30.1 |
| | **$ 324.4** | $ 192.6 |

Cash equivalents include investments in term deposits and bankers' acceptances with original maturities within three months of the investment date.

Cash floats exclude amounts provided by BCLC of $16.2 (2013 - $16.2) for use in BC casino operations. Since these cash floats are owned by the Province of British Columbia, they are not included in the Company's cash floats balances. The Company has issued letters of credit in favour of BCLC as security for these amounts (Note 25(a)).

As at December 31, 2014, cash in banks included $0.2 (2013 - $4.8) and $0.5 (2013 - $0.9) of amounts related to the horsemen's purse pools and future payments for construction projects, respectively.

## 6. ACCOUNTS RECEIVABLE

| | **December 31, 2014** | December 31, 2013 |
|---|---|---|
| Trade receivables | **$ 4.9** | $ 5.0 |
| Other receivables | **1.2** | 1.2 |
| Due from NSPLCC | **0.2** | 1.0 |
| | **$ 6.3** | $ 7.2 |

The balance due from NSPLCC is the Capital Reserve Account receivable. It represents amounts spent by the Company on approved expenditures, plus accrued interest on the outstanding balance at prime plus 2% per annum, less repayments from the NSPLCC's Capital Reserve Account based on 5% of the gross operating revenues from the two Nova Scotia casinos.

## 7. REVERSAL OF IMPAIRMENT OF LONG-LIVED ASSETS AND IMPAIRMENT OF GOODWILL

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

As a result of the early termination of the Georgian Downs site holder agreement, the Company recorded impairments of goodwill, intangible assets, and property, plant and equipment of $3.2, $8.2, and $13.2, respectively. The Company also recorded impairments of intangible assets and property, plant and equipment of $24.2 and $5.2, respectively, in connection with the Flamboro Downs site holder agreement. In addition, during the year ended December 31, 2012, the Company recorded $10.3 of impairment related to land in Ontario that was written down to its estimated recoverable amount.

On March 9, 2013, the Company and OLG signed non-binding letters of intent governing the slot machine areas at the Ontario racetracks. Under the terms of these letters, OLG would lease these areas for a five-year term commencing April 1, 2013. The Company and OLG operated as though the key provisions of these leases came into effect on April 1, 2013. On November 29, 2013, the Company signed definitive agreements with OLG related to these letters of intent.

On March 26, 2013, the Company and the Government of Ontario signed non-binding letters of intent governing horse racing operations at the Ontario racetracks. On May 24, 2013, the Company signed binding agreements (the "Ontario Racing Agreements") with the Government of Ontario for horse racing transition funding. The funding provided support to continue horse racing at the Ontario racetracks for up to two years beyond March 31, 2013 and was conditional upon achievement of specific cost reduction targets. The Company continued to work with the Ontario government and the province's horse racing industry to pursue a longer-term, more sustainable business model for horse racing in Ontario.

On April 26, 2013, Georgian Downs received from OLG a one-time settlement payment of $31.5 in connection with the Georgian Downs facility, and the Company and Georgian Downs provided OLG with a release of claims. The settlement payment was recorded as a reduction of Georgian Downs' property, plant and equipment.

During the first quarter of 2013, as a result of signing the non-binding letters of intent with OLG, the anticipated future execution of definitive agreements, and the settlement payment received from OLG on April 26, 2013, the Company recorded reversals of impairments related to Georgian Downs' and Flamboro Downs' intangible assets and property, plant and equipment.

## 7. REVERSAL OF IMPAIRMENT OF LONG-LIVED ASSETS AND IMPAIRMENT OF GOODWILL (Continued)

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

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

| | Georgian Downs | | | | Flamboro Downs | | |
|---|---|---|---|---|---|---|---|
| | Property, plant and equipment | Intangible assets | Goodwill | Total | Property, plant and equipment | Intangible assets | Total |
| Carrying amount at January 1, 2012 | $ 64.9 | $ 25.5 | $ 3.2 | $ 93.6 | $ 13.9 | $ 40.6 | $ 54.5 |
| Net additions and amortization | (1.9) | (1.7) | - | (3.6) | (1.3) | (4.6) | (5.9) |
| Impairments | (23.5) | (8.2) | (3.2) | (34.9) | (5.2) | (24.2) | (29.4) |
| Carrying amount at December 31, 2012 | $ 39.5 | $ 15.6 | $ - | $ 55.1 | $ 7.4 | $ 11.8 | $ 19.2 |
| Net additions and amortization | (0.5) | (0.3) | - | (0.8) | (0.4) | (1.3) | (1.7) |
| Impairment reversals | 11.7 | 8.0 | - | 19.7 | 1.5 | 7.3 | 8.8 |
| Carrying amount at March 31, 2013 | $ 50.7 | $ 23.3 | $ - | $ 74.0 | $ 8.5 | $ 17.8 | $ 26.3 |
| Net additions and amortization | 0.4 | (0.3) | - | 0.1 | (0.1) | (0.9) | (1.0) |
| Settlement payment | (31.5) | - | - | (31.5) | - | - | - |
| Carrying amount at June 30, 2013 | $ 19.6 | $ 23.0 | $ - | $ 42.6 | $ 8.4 | $ 16.9 | $ 25.3 |
| Net additions and amortization | (0.2) | (0.5) | - | (0.7) | (0.3) | (1.8) | (2.1) |
| Carrying amount at December 31, 2013 | $ 19.4 | $ 22.5 | $ - | $ 41.9 | $ 8.1 | $ 15.1 | $ 23.2 |
| Net additions and amortization | (0.1) | (0.3) | - | (0.4) | (0.1) | (0.9) | (1.0) |
| Impairment reversal | - | - | - | - | 1.0 | 4.2 | 5.2 |
| Carrying amount at March 31, 2014 | $ 19.3 | $ 22.2 | $ - | $ 41.5 | $ 9.0 | $ 18.4 | $ 27.4 |
| **Net additions and amortization** | **(0.2)** | **(0.8)** | **-** | **(1.0)** | **(0.7)** | **(3.4)** | **(4.1)** |
| **Carrying amount at December 31, 2014** | **$ 19.1** | **$ 21.4** | **$ -** | **$ 40.5** | **$ 8.3** | **$ 15.0** | **$ 23.3** |

The recoverable amounts for long-lived assets at December 31, 2014 were determined based on the value in use method, which estimates the net present value of the future cash flows expected to be generated, using an after-tax discount rate based on the Company's weighted-average cost of capital. The estimates of future cash flows require a number of key assumptions about future business performance. These assumptions and estimates are primarily based on the relevant business' historical experience and economic trends, and consider past and ongoing communications with relevant stakeholders of the Company. These key assumptions include the future revenue levels, human resources and property, marketing and administration expenses, and the expected useful life of the CGU. The assumptions are subject to a number of factors and it is possible that actual results could vary materially from management's estimates. As the carrying values of Georgian Downs' and Flamboro Downs' long-lived assets as at December 31, 2014 were equal to their estimated recoverable amounts, a subsequent change in any key assumption utilized in the estimate of future cash flows may result in a further impairment loss or reversal of an impairment loss.

In connection with the impairments and subsequent impairment reversals recorded for Georgian Downs and Flamboro Downs, the Company revised the estimated remaining useful lives of its intangible assets and property, plant and equipment. The net effect of this change in estimate of remaining useful lives, the impairments and the impairment reversals will be a $0.4 increase in the annual non-cash amortization expense related to these assets on a prospective basis, when compared to the year ended December 31, 2013.

## 8. PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings and Building Improvements | Leasehold Improvements | Equipment | Properties Under Development | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at January 1, 2013 | $ 82.3 | $ 681.4 | $ 81.4 | $ 109.2 | $ 7.6 | $ 965.3 |
| Additions | - | 0.4 | 0.1 | 3.4 | 24.3 | 28.2 |
| Settlement payment [1] | - | (31.5) | - | - | - | (31.5) |
| Disposals | - | - | - | (0.3) | - | (0.3) |
| Reclassifications | 0.1 | 22.2 | 0.9 | 5.1 | (28.3) | - |
| Translation and other | 0.2 | 0.7 | 0.2 | 0.4 | - | 1.5 |
| Balance at December 31, 2013 | $ 82.6 | $ 673.2 | $ 82.6 | $ 117.8 | $ 3.6 | $ 963.2 |
| **Additions** | **(0.2)** | **0.1** | **0.1** | **3.0** | **8.1** | **11.1** |
| **Disposals** | **-** | **-** | **-** | **(0.4)** | **-** | **(0.4)** |
| **Reclassifications** | **-** | **1.0** | **1.0** | **1.3** | **(3.3)** | **-** |
| **Translation and other** | **0.2** | **1.0** | **0.4** | **0.5** | **-** | **2.1** |
| **Balance at December 31, 2014** | **$ 82.6** | **$ 675.3** | **$ 84.1** | **$ 122.2** | **$ 8.4** | **$ 976.0** |
| **Accumulated amortization and impairments** | | | | | | |
| Balance at January 1, 2013 | $ (11.2) | $ (182.0) | $ (54.1) | $ (93.3) | $ - | $ (344.0) |
| Amortization | - | (25.3) | (3.5) | (6.9) | - | (35.7) |
| Disposals | - | - | - | 0.3 | - | 0.3 |
| Impairment reversals [2] | - | 13.0 | - | 0.2 | - | 13.2 |
| Translation and other | - | (0.2) | (0.2) | (0.3) | - | (0.7) |
| Balance at December 31, 2013 | $ (11.2) | $ (194.5) | $ (57.8) | $ (100.0) | $ - | $ (366.9) |
| **Amortization** | **-** | **(24.4)** | **(2.8)** | **(7.9)** | **-** | **(35.1)** |
| **Disposals** | **-** | **-** | **-** | **0.4** | **-** | **0.4** |
| **Impairment reversal [3]** | **-** | **0.9** | **-** | **0.1** | **-** | **1.0** |
| **Impairment [4]** | **-** | **-** | **(0.2)** | **(0.2)** | **-** | **(0.4)** |
| **Translation and other** | **-** | **(0.3)** | **(0.2)** | **(0.5)** | **-** | **(1.0)** |
| **Balance at December 31, 2014** | **$ (11.2)** | **$ (218.3)** | **$ (61.0)** | **$ (108.1)** | **$ -** | **$ (402.0)** |
| **Carrying amount** | | | | | | |
| At December 31, 2013 | $ 71.4 | $ 478.7 | $ 24.8 | $ 17.8 | $ 3.6 | $ 596.3 |
| **At December 31, 2014** | **$ 71.4** | **$ 457.0** | **$ 23.1** | **$ 14.1** | **$ 8.4** | **$ 574.0** |

[1] The settlement payment received from OLG relates to the Georgian Downs facility (see Note 7).
[2] The impairment reversals relate to Georgian Downs and Flamboro Downs (see Note 7).
[3] The impairment reversal relates to Flamboro Downs (see Note 7).
[4] The impairment relates to the closure of Great American Casino Kent planned for Q1 2015 (see Note 27).

In June 2014, the Company exercised its renewal option with NSPLCC to extend the term of the AROC, effective July 1, 2015. Consequently, the Company revised the estimated remaining useful lives of the property, plant and equipment associated with its Nova Scotia casino properties. The net effect of this change in estimate is a $9.9 decrease in the annual non-cash amortization expense related to these assets on a prospective basis, when compared to the year ended December 31, 2013.

## 9. INTANGIBLE ASSETS

| | BC Gaming Operating Agreements | Nova Scotia Gaming Operating Agreement | Ontario Siteholder/ Lease Agreements | Other | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Balance at January 1, 2013, December 31, 2013 and December 31, 2014** | **$ 81.4** | **$ 34.6** | **$ 106.0** | **$ 2.5** | **$ 224.5** |
| **Accumulated amortization and impairment reversals** | | | | | |
| Balance at January 1, 2013 | $ (47.3) | $ (23.9) | $ (78.6) | $ (1.4) | $ (151.2) |
| Amortization | (3.2) | (4.3) | (5.1) | (0.2) | (12.8) |
| Impairment reversals [(1)] | - | - | 15.3 | - | 15.3 |
| Balance at December 31, 2013 | $ (50.5) | $ (28.2) | $ (68.4) | $ (1.6) | $ (148.7) |
| **Amortization** | **(2.6)** | **(2.0)** | **(5.4)** | **(0.2)** | **(10.2)** |
| **Impairment reversal [(2)]** | **-** | **-** | **4.2** | **-** | **4.2** |
| **Balance at December 31, 2014** | **$ (53.1)** | **$ (30.2)** | **$ (69.6)** | **$ (1.8)** | **$ (154.7)** |
| **Carrying amount** | | | | | |
| At December 31, 2013 | $ 30.9 | $ 6.4 | $ 37.6 | $ 0.9 | $ 75.8 |
| **At December 31, 2014** | **$ 28.3** | **$ 4.4** | **$ 36.4** | **$ 0.7** | **$ 69.8** |

[(1)] The impairment reversals relate to Georgian Downs and Flamboro Downs (see Note 7).
[(2)] The impairment reversal relates to Flamboro Downs (see Note 7).

As a result of the June 2014 renewal of the AROC with NSPLCC, the Company revised the estimated remaining useful lives of the intangible assets associated with its Nova Scotia casino properties. The net effect of this change in estimate is a $3.8 decrease in the annual non-cash amortization expense related to these intangible assets on a prospective basis, when compared to the year ended December 31, 2013.

## 10. GOODWILL

| | | Total |
|---|---|---|
| **Cost** | | |
| Balance at January 1, 2013 | $ | 47.4 |
| Foreign exchange movements | | 0.5 |
| Balance at December 31, 2013 | $ | 47.9 |
| **Foreign exchange movements** | | 0.6 |
| **Balance at December 31, 2014** | **$** | **48.5** |
| **Impairments** | | |
| Balance at January 1, 2013 and December 31, 2013 | $ | (27.3) |
| **Impairment (1)** | | **(0.1)** |
| **Balance at December 31, 2014** | **$** | **(27.4)** |

| Carrying amount | | GCCI[2] | | GCEC[3] | | ORL[4] | | GAGC[5] | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| At December 31, 2013 | $ | 1.6 | $ | 3.8 | $ | 8.1 | $ | 7.1 | $ | 20.6 |
| **At December 31, 2014** | **$** | **1.6** | **$** | **3.8** | **$** | **8.1** | **$** | **7.6** | **$** | **21.1** |

(1) The impairment relates to the closure of Great American Casino Kent planned for Q1 2015 (see Note 27).

(2) The goodwill primarily relates to acquistion of the food and beverage operations in View Royal and Coquitlam.

(3) The goodwill relates the acquisition of the operations at Dawson Creek and Maple Ridge.

(4) The goodwill relates the acquisition of the operations at Fraser Downs.

(5) The goodwill relates the acquisition of the operations in Washington.

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.

The expected future cash flows are based on the most recent annual forecasts prepared by management and extrapolated over five years, after which a rate of 2% 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 ranged from 0% to 2% across the CGUs and earnings as a percentage of revenues was based on each CGU's most recent annual operating levels.

## 11. OTHER LIABILITIES

| | | **December 31, 2014** | | December 31, 2013 |
|---|---|---|---|---|
| Provisions, current | **$** | **1.7** | $ | 1.8 |
| Deferred credits, current (Note 14) | | **0.7** | | 0.7 |
| Other current liabilities | | **0.2** | | 0.1 |
| | **$** | **2.6** | $ | 2.6 |

## 12. LONG-TERM DEBT

| | **December 31, 2014** | December 31, 2013 |
|---|---|---|
| Senior Unsecured Notes, net of unamortized transaction costs of $8.0 (2013 - $9.0) | **$ 442.0** | $ 441.0 |

As at December 31, 2014 and December 31, 2013, the Company's long-term debt facilities consist of $450.0 Senior Unsecured Notes ("Senior Unsecured Notes") and a $350.0 Senior Secured Revolving Credit Facility (the "Revolving Credit Facility").

*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 net proceeds were $439.5 after transaction costs of $10.5. The use of proceeds included repayment of the US$161.1 Senior Secured Term Loan B ("Term Loan B"), repurchase or redemption of the US$170.0 Senior Subordinated Notes ("Subordinated Notes"), settlement of the derivative liabilities associated with the related cross-currency interest rate and principal swaps, and the remainder was retained for general corporate purposes.

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 over the term of the Senior Unsecured Notes using the effective interest method.

*b) Revolving Credit Facility*

As at December 31, 2014, subject to compliance with the related financial covenants, the Company has $322.0 (December 31, 2013 - $320.2) of available undrawn credit on its Revolving Credit Facility after deducting outstanding letters of credit of $28.0 (December 31, 2013 - $29.8). The counterparties to this facility are major financial institutions with minimum "A" credit ratings.

On July 24, 2012, 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 one year to July 21, 2017. 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 13).

Transaction costs associated with past refinancing of the Revolving Credit Facility totalling $0.5 during the year 2012 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 over the term of the Revolving Credit Facility using the effective interest method.

## 12. LONG-TERM DEBT (Continued)

*b) Revolving Credit Facility (Continued)*

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: Total Debt to Adjusted EBITDA ratio of 5.00 or less, Senior Secured Debt to Adjusted EBITDA ratio of 3.50 or less, and Interest Coverage ratio of 2.25 or more (see Note 13).

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) Interest and financing costs, net*

| | Year ended December 31, | |
|---|---|---|
| | **2014** | 2013 |
| Interest and financing costs on long-term debt | **$ 33.6** | $ 33.7 |
| Bank charges and other | **0.5** | 0.8 |
| Interest income | **(2.5)** | (1.7) |
| | **$ 31.6** | $ 32.8 |

## 13. 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.

## 13. CAPITAL DISCLOSURES (Continued)

As at December 31, 2014, the Company was in compliance with its financial covenants as shown below:

| Covenant test | Required ratio | Actual ratio |
|---|---|---|
| Total Debt to Adjusted EBITDA ratio [1] | ≤ 5.00 | 2.45 |
| Senior Secured Debt to Adjusted EBITDA ratio [1] | ≤ 3.50 | 0.00 |
| Interest Coverage ratio [1] | ≥ 2.25 | 5.79 |
| Fixed Charge Coverage ratio [2] | ≥ 2.00 | 5.80 |

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

As part of its capital structure monitoring process, the Company's independent credit ratings as at December 31, 2014 were as follows:

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

## 14. DEFERRED CREDITS, PROVISIONS AND OTHER LIABILITIES

| | **December 31, 2014** | December 31, 2013 |
|---|---|---|
| Deferred credits, non-current | **$ 17.7** | $ 18.4 |
| Provisions, non-current | **3.6** | 3.8 |
| Other non-current liabilities | **6.1** | 4.2 |
| | **$ 27.4** | $ 26.4 |

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.

## 15. SHARE CAPITAL AND RESERVES

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

*a) Normal course issuer bid*

In January 2014, the Company commenced a normal course issuer bid that authorized the Company to purchase up to 4,231,075 of its common shares. For the year ended December 31, 2014, the Company completed this normal course issuer bid by purchasing 800 common shares at a volume weighted-average price per share of $14.02.

For the year ended December 31, 2013, the Company purchased for cancellation 4,511,644 common shares at a weighted-average price per share of $10.32 under its normal course issuer bid, which expired on January 29, 2014.

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

Subsequent to December 31, 2014, the Company received approval from the TSX to commence another normal course issuer bid for up to 5,033,078 of its common shares, representing approximately 10% of the Company's common shares in the public float. The bid commenced on February 26, 2015 and will end on February 25, 2016, or earlier if the number of shares sought in the issuer bid have been obtained. Pursuant to TSX policies, daily purchases made by the Company will not exceed 34,220 common shares or 25% of the prior six-month average daily trading volume of 136,878 common shares on the TSX. Purchases will be by way of open market purchases through the facilities of the TSX, and other Canadian market places, and payment for the shares will be in accordance with the TSX's rules. All shares purchased by the Company will be subsequently cancelled.

*b) Share option plan*

The changes in the number of share options and their weighted-average exercise price were as follows:

| | **December 31, 2014** | | December 31, 2013 | |
|---|---|---|---|---|
| | **Options [1]** | **Weighted-Average Exercise Price** | Options [1] | Weighted-Average Exercise Price |
| Outstanding, beginning of period | **4,155** | **$ 8.02** | 4,493 | $ 7.08 |
| Granted | **1,511** | **13.64** | 1,432 | 9.11 |
| Forfeited | **(61)** | **12.14** | (81) | 8.68 |
| Expired | **-** | **-** | (280) | 13.40 |
| Exercised | **(1,482)** | **7.62** | (1,409) | 5.00 |
| Outstanding, end of period | **4,123** | **$ 10.17** | 4,155 | $ 8.02 |

[1] Option information is presented in thousands.

For the year ended December 31, 2014, the weighted-average share price at the time of share option exercises was $19.14 (2013 - $11.75).

Subsequent to December 31, 2014, the Company granted 1,493,300 share options to employees with an exercise price of $20.12. The share options vest to employees over a three-year period and expire after five years.

## 15. SHARE CAPITAL AND RESERVES (Continued)

### *b) Share option plan (Continued)*

Options outstanding and exercisable at December 31, 2014 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** | |
| $7.14-$7.64 | 461 | 1.0 years | $ | 7.17 | 461 | $ | 7.17 |
| $7.65-$7.84 | 845 | 2.2 years | | 7.67 | 845 | | 7.67 |
| $7.85-$8.99 | 175 | 1.5 years | | 7.94 | 175 | | 7.94 |
| $9.00-$13.49 | 1,172 | 3.1 years | | 9.12 | 736 | | 9.12 |
| $13.50-$13.64 | 1,470 | 4.2 years | | 13.64 | - | | - |
| | 4,123 | 3.0 years | $ | 10.17 | 2,217 | $ | 8.07 |

[1] Option information is presented as options for thousands of common shares.

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

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | | **2014** | | 2013 |
| Option award fair value | **$** | **2.62** | $ | 1.54 |
| Risk-free interest rate | | **1.3%** | | 1.1% |
| Expected lives | | **3.5 years** | | 2.5 years |
| Expected volatility [1] | | **23.3%** | | 25.0% |
| Dividend yield | | **0.0%** | | 0.0% |

[1] 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 $2.4 associated with share options for the year ended December 31, 2014 (2013 - $2.3).

## 15. SHARE CAPITAL AND RESERVES (Continued)

*c) DSUs and RSUs*

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

| | **December 31, 2014** | | December 31, 2013 | |
|---|---|---|---|---|
| Number of Units [1] | **DSUs** | **RSUs** | DSUs | RSUs |
| Outstanding, beginning of period | **278** | **-** | 216 | 17 |
| Issued | **13** | **-** | 108 | 8 |
| Settled in cash | **(79)** | **-** | (46) | (25) |
| Outstanding, end of period | **212** | **-** | 278 | - |

[1] DSU and RSU information is presented in thousands.

The Company discontinued the RSUs granted to directors and settled all such RSUs in May 2013.

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. Any RSUs so granted would vest in two equal tranches, one on each of the two anniversary dates following the date of grant. At December 31, 2014, the Company expects to grant RSUs in 2015 related to eligible employees' performance in 2014. Assuming both a constant market price for the Company's common shares and no award forfeitures, these RSUs would result in cash settlement payments of $1.3 and $1.3 to employees in March 2016 and March 2017, respectively.

The Company recorded DSU and RSU liabilities totalling $5.3 in "deferred credits, provisions and other liabilities" at December 31, 2014 (2013 - $3.3), which includes $0.9 related to the employee RSU incentive program. The Company also had a DSU liability of $nil in "accounts payable and accrued liabilities" at December 31, 2014 (2013 - $0.5). The Company recorded cash-settled share-based compensation expense of $2.4 for the year ended December 31, 2014 (2013 - $2.6), which includes $0.9 related to the employee RSU incentive program.

*d) Special Share-based Award*

Included in share-based compensation expense for the year ended December 31, 2013 is $4.8 of cash-settled share-based compensation related to a special share-based award paid to a select group of Company employees. The related common shares that the employees acquired may not be sold for a minimum of three years.

*e) Employee share purchase plan*

Eligible employees of the Company 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. As at December 31, 2014, 757,795 (2013 – 844,565) common shares were held by employees under the Share Purchase Plan and 22% of employees participated in the Plan (2013 - 24%).

## 16. REVENUES

| | Year ended December 31, 2014 | 2013 |
|---|---|---|
| Gaming revenues [1] | **$ 308.4** | $ 274.2 |
| Facility Development Commission | **37.7** | 34.1 |
| Hospitality, lease and other revenues [1] | **108.4** | 103.2 |
| Racetrack revenues | **14.6** | 14.3 |
| | **469.1** | 425.8 |
| Less: Promotional allowances | **(22.6)** | (18.5) |
| | **$ 446.5** | $ 407.3 |

[1] For the year ended December 31, 2013, the Company has reclassified its Ontario gaming revenues of $6.4 that related to its prior Ontario Racetrack site holder agreements as "Hospitality, lease and other revenues". The prior site holder agreements were terminated by OLG effective March 31, 2013 and replaced by 5-year lease agreements effective April 1, 2013 as described in Note 7.

## 17. RESTRUCTURING AND OTHER

| | Year ended December 31, 2014 | 2013 |
|---|---|---|
| Severance | **$ 0.4** | $ 1.3 |
| Business development and other | **0.6** | 0.4 |
| Acquisition-related contingent future trailing payments (Note 26(d)) | **(0.2)** | 0.3 |
| | **$ 0.8** | $ 2.0 |

## 18. INCOME TAXES

### a) *Income tax recognized in net earnings*

The Company's income tax expense is as follows:

| | Year ended December 31, 2014 | 2013 |
|---|---|---|
| Current tax expense | **$ 22.4** | $ 5.8 |
| Deferred tax expense | **3.9** | 18.1 |
| Total tax expense | **$ 26.3** | $ 23.9 |

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

| | Year ended December 31, 2014 | 2013 |
|---|---|---|
| Applicable federal and provincial statutory income tax rate [1] | **26.00%** | 25.75% |
| Earnings before income taxes | **$ 104.7** | $ 87.0 |
| Expected income tax expense | **27.2** | 22.4 |
| Effect of: | | |
| Non-deductible share-based compensation | **0.6** | 0.6 |
| Impact of different jurisdictional statutory tax rates on earnings of subsidiaries | **0.5** | 0.4 |
| Adjustments to deferred tax attributable to changes in tax rates | **-** | 1.6 |
| Revaluation of income tax liabilities from prior year taxes | **(0.5)** | (0.4) |
| Other items | **(1.5)** | (0.7) |
| Total income tax expense recognized in net earnings | **$ 26.3** | $ 23.9 |

[1] The applicable federal and provincial statutory income tax rate used for the 2014 and 2013 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 increased on April 1, 2013 from 25% to 26% due to an increase in the BC income tax rate of 1%.

## 18. 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:

| 2014 | Opening balance | Recognized in net earnings | **Closing balance** |
|---|---|---|---|
| ***Temporary differences*** | | | |
| Property, plant and equipment | $ (43.6) | $ (6.8) | **$ (50.4)** |
| Intangible assets | (20.4) | 1.5 | **(18.9)** |
| Deferred partnership income | (1.5) | 0.2 | **(1.3)** |
| Debt refinancing transaction costs | (0.8) | (0.3) | **(1.1)** |
| Deferred credits, provisions and other liabilities | 2.3 | 0.2 | **2.5** |
| Former debt redemption costs | 1.3 | (1.0) | **0.3** |
| Deferred compensation costs | 0.2 | 0.5 | **0.7** |
| Other | (0.2) | 1.3 | **1.1** |
| | (62.7) | (4.4) | **(67.1)** |
| ***Unused tax losses and credits*** | | | |
| Non-capital loss carry-forwards | - | 0.2 | **0.2** |
| Capital loss carry-forwards | 1.2 | 0.3 | **1.5** |
| | 1.2 | 0.5 | **1.7** |
| | $ (61.5) | $ (3.9) | **(65.4)** |

| 2013 | Opening balance | Recognized in net earnings | Closing balance |
|---|---|---|---|
| ***Temporary differences*** | | | |
| Property, plant and equipment | $ (32.3) | $ (11.3) | $ (43.6) |
| Intangible assets | (19.2) | (1.2) | (20.4) |
| Deferred partnership income | (2.2) | 0.7 | (1.5) |
| Debt refinancing transaction costs | (0.5) | (0.3) | (0.8) |
| Deferred credits, provisions and other liabilities | 1.7 | 0.6 | 2.3 |
| Former debt redemption costs | 2.4 | (1.1) | 1.3 |
| Deferred compensation costs | 0.2 | - | 0.2 |
| Other | (0.3) | 0.1 | (0.2) |
| | (50.2) | (12.5) | (62.7) |
| ***Unused tax losses and credits*** | | | |
| Non-capital loss carry-forwards | 5.7 | (5.7) | - |
| Capital loss carry-forwards | 1.1 | 0.1 | 1.2 |
| | 6.8 | (5.6) | 1.2 |
| | $ (43.4) | $ (18.1) | $ (61.5) |

## 18. INCOME TAXES (Continued)

*b) Deferred tax balances (Continued)*

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

| | Year ended December 31, | |
|---|---|---|
| | **2014** | 2013 |
| Deferred tax assets | **$ 8.9** | $ 8.8 |
| Deferred tax liabilities | **(74.3)** | (70.3) |
| Net deferred tax liabilities | **$ (65.4)** | $ (61.5) |

The Company has recognized deferred tax assets of approximately $7.9 (2013 - $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 non-capital loss carry-forwards of approximately $0.8 (2013 - $0.1) which are available to reduce future years' income for tax purposes. Management believes the Company will generate future taxable profits in excess of the losses in the jurisdictions to which the losses relate before they expire. These losses will expire between 2029 and 2034.

The Company has recognized a deferred tax asset relating to capital loss carry-forwards of $11.8 (2013 - $9.2) 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 $4.1 (2013 - $5.8) 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$3.5 (2013 - US$3.5) of capital losses incurred by our US subsidiary, which expire in 2017.

*d) Other income tax-related matters*

Canada Revenue Agency (“CRA”) is conducting an audit of the Company’s FDC filing position for 2009. As part of their audit, CRA has taken the view that FDC should be included in taxable income when received. That position does not align with the results of CRA’s findings in their previous audits of the Company’s GCCI subsidiary in 2000 and 2001. If CRA’s more recent view prevails, it would accelerate the timing of when the Company recognizes taxable income. The Company strongly disagrees with the CRA’s current view of FDC and in the event that CRA issues one or more notices of reassessment for material amounts of taxes, interest or penalties for 2009 or subsequent years, the Company is prepared to vigorously defend its position.

## 19. NET EARNINGS PER COMMON SHARE

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, 2014 | 2013 |
|---|---|---|---|
| Net earnings | (A) | **$ 78.4** | $ 63.1 |
| Weighted-average number of common shares outstanding [1] | (B) | **67,864** | 68,560 |
| Dilutive adjustment for stock options [1] | | **1,925** | 1,374 |
| Diluted weighted-average number of common shares [1] | (C) | **69,789** | 69,934 |
| Net earnings per common share | | | |
| Basic | (A/B) | **$ 1.16** | $ 0.92 |
| Diluted | (A/C) | **$ 1.12** | $ 0.90 |

[1] Share information is presented in thousands.

For the years ended December 31, 2014 and December 31, 2013, there were no outstanding stock options that are anti-dilutive.

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

| | Year ended December 31, 2014 | 2013 |
|---|---|---|
| Accounts receivable | **$ 0.2** | $ 1.5 |
| Prepaids, deposits and other assets | **0.6** | (1.9) |
| Accounts payable and accrued liabilities | **(3.7)** | 3.7 |
| | **$ (2.9)** | $ 3.3 |

## 21. SEGMENT INFORMATION

The Company's management considers each of its gaming properties to be an operating segment since it reviews their operating results, 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 economic characteristics, types of customers, types of services and products provided, the regulatory environment in which they operate and their management and reporting structure.

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

| | **Year ended December 31, 2014** | | | Year ended December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | **Revenues** | **EBITDA** | **Additions to long-lived assets and goodwill** | Revenues | EBITDA | Additions to long-lived assets and goodwill |
| Canada | **$ 417.6** | **$ 174.5** | **$ 10.7** | $ 382.5 | $ 146.7 | $ 28.0 |
| U.S. | **28.9** | **5.6** | **0.4** | 24.8 | 3.9 | 0.2 |
| | **$ 446.5** | **$ 180.1** | **$ 11.1** | $ 407.3 | $ 150.6 | $ 28.2 |

The following table is a reconciliation of EBITDA, as presented in the above tables, to earnings before income taxes as presented in the Company's consolidated statements of earnings:

| | **Year ended December 31,** | |
|---|---|---|
| | **2014** | 2013 |
| EBITDA | **$ 180.1** | $ 150.6 |
| Less: | | |
| Amortization | **45.3** | 48.5 |
| Share-based compensation | **4.8** | 9.7 |
| Reversal of impairments of long-lived assets | **(4.7)** | (28.5) |
| Impairment of goodwill | **-** | - |
| Interest and financing costs, net | **31.6** | 32.8 |
| Restructuring and other | **0.8** | 2.0 |
| Foreign exchange gain and other | **(2.4)** | (0.9) |
| Earnings before income taxes | **$ 104.7** | $ 87.0 |

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

| | **As at December 31, 2014** | | | As at December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | **Property, plant and equipment** | **Goodwill** | **Total assets** | Property, plant and equipment | Goodwill | Total assets |
| Canada | **$ 561.3** | **$ 13.5** | **$ 984.4** | $ 583.9 | $ 13.5 | $ 890.0 |
| U.S. | **12.7** | **7.6** | **29.7** | 12.4 | 7.1 | 25.7 |
| | **$ 574.0** | **$ 21.1** | **$ 1,014.1** | $ 596.3 | $ 20.6 | $ 915.7 |

## 22. RELATED PARTY TRANSACTIONS

As defined under IAS 24, key management personnel comprise the Company's Board of Directors and executive officers. Key management compensation was as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | | **2014** | | 2013 |
| Human resources [1] | **$** | **2.3** | $ | 2.4 |
| Share-based compensation [2] | | **2.6** | | 5.6 |
| Total | **$** | **4.9** | $ | 8.0 |

[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 15.

As at December 31, 2014, the liabilities of the Company include amounts due to key management personnel of $0.9 (2013 - $1.5) in "accounts payable and accrued liabilities" and $4.7 (2013 - $3.3) in "deferred credits, provisions and other liabilities" of the consolidated statements of financial position.

## 23. 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 15% of their gross pay. The Company makes contributions representing 2% of eligible employees' base pay. Contributions made by the Company during the year ended December 31, 2014 totalled $1.8 (2013 - $1.9).

## 24. 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, | | | |
|---|---|---|---|---|
| | | **2014** | | 2013 |
| Opening Approved Amounts | **$** | **380.9** | $ | 412.0 |
| Additional Approved Amounts | | **3.3** | | 3.0 |
| FDC receipts | | **(37.7)** | | (34.1) |
| Closing Approved Amounts | **$** | **346.5** | $ | 380.9 |

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.

## 25. COMMITMENTS, CONTINGENCIES AND LITIGATION

*a) Letters of credit*

As at December 31, 2014, letters of credit in the amount of $28.0 (2013 - $29.8) 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.

*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 26(b).

## 26. 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 | x | | | x |
| Cash equivalents | x | | x | |
| Accounts receivable | x | | | x |
| Accounts payable and accrued liabilities | | x | | x |
| Long-term debt | | x | 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, 2014** | December 31, 2013 |
|---|---|---|
| Cash in banks | **$ 243.7** | $ 152.4 |
| Cash equivalents | **70.6** | 30.1 |
| Accounts receivable | **6.3** | 7.2 |
| | **$ 320.6** | $ 189.7 |

*Cash in banks and cash equivalents*: 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, 2014, the provision for doubtful accounts receivable totalled $0.8 (2013 - $0.6).

## 26. 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 13), 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 Facility (see Note 12). 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, 2014** | | | | |
|---|---|---|---|---|---|
| | Within 1 year | 2 - 3 years | 4 - 5 years | More than 5 years | Total |
| Accounts payable and accrued liabilities | $ 60.3 | $ - | $ - | $ - | $ 60.3 |
| Income taxes payable | 7.2 | - | - | - | 7.2 |
| Senior Unsecured Notes | 29.8 | 59.6 | 59.6 | 539.4 | 688.4 |
| Provisions | 1.7 | 0.9 | 2.1 | 6.0 | 10.7 |
| Operating leases (1) | 3.9 | 4.7 | 3.3 | 6.2 | 18.1 |
| Other contractual commitments (2) | 9.2 | 14.1 | 5.6 | 13.8 | 42.7 |
| Total | $ 112.1 | $ 79.3 | $ 70.6 | $ 565.4 | $ 827.4 |

(1) Operating leases include a ground lease with the City of Surrey, BC for Fraser Downs Racetrack and Casino, an operating agreement with the City of Vancouver, BC for Hastings Racecourse and Slots Facility, property leases for the Company's head office and Great American Gaming Corporation, 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 $2.0 (2013 - $0.8), various service contracts of $13.6 (2013 - $14.6), and amounts committed to NSPLCC to fund responsible gaming programs over the remaining 10.5-year term of the AROC of $17.1 (2013 - over the remaining 1.5-year term of $1.5). 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.

## 26. 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% | |
| | Carrying amount December 31, 2014 | Net earnings | OCI | Net earnings | OCI |
| **Financial Assets** | | | | | |
| Cash and cash equivalents | $ 324.4 | $ (0.6) | $ (0.6) | $ 0.6 | $ 0.6 |
| Accounts receivable | 6.3 | - | - | - | - |
| **Financial Liabilities** | | | | | |
| Accounts payable and accrued liabilities | 60.3 | - | 0.5 | - | (0.5) |
| **Total (decrease) increase** | | $ (0.6) | $ (0.1) | $ 0.6 | $ 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 (see Note 13). 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 | 3.00% | 2.00% | 0.68% |
| 4.00 to < 4.50 | 2.75% | 1.75% | 0.62% |
| 3.50 to < 4.00 | 2.50% | 1.50% | 0.56% |
| 3.00 to < 3.50 | 2.13% | 1.13% | 0.48% |
| 2.50 to < 3.00 | 1.88% | 0.88% | 0.42% |
| 2.00 to <2.50 | 1.75% | 0.75% | 0.39% |
| < 2.00 | 1.50% | 0.50% | 0.34% |

## 26. 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, 2014, the fair value and carrying value of the Company's cash equivalents was $70.6 (2013 - $30.1). As at December 31, 2014, the Company's long-term debt instruments had a fair value of $470.3 (2013 - $464.7) and a carrying value of $442.0 (2013 - $441.0).

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, 2014, the fair value and carrying value of the Company's contingent future trailing payments was $3.5 (2013 - $3.7). The following table reconciles the opening to the ending balances of the trailing payments:

| | | Trailing payments |
|---|---|---|
| Balance at January 1, 2014 | $ | 3.7 |
| Net charge to earnings[1] | | 0.2 |
| Settlement | | (0.4) |
| **Balance at December 31, 2014** | **$** | **3.5** |

[1] The net charge to earnings includes accretion of $0.4 recorded in "interest and financing costs, net" and a decrease in the estimated provision of $0.2 recorded in "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 at the end of each reporting period.

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 year.

## 27. SUBSEQUENT EVENTS

Subsequent to December 31, 2014, the Company decided to close its Great American Casino located in Kent, Washington on March 14, 2015. In connection with the closure, the Company expects to incur during the three months ending March 31, 2015 restructuring costs of approximately $0.8, which are primarily attributed to an uneconomic lease agreement and employee severance costs. During the year ended December 31, 2014, the Company recorded impairments of long-lived assets and goodwill of $0.4 and $0.1, respectively.