Ontario Lottery & Gaming Corporation
OLG Accounting Policy Manual
Policy Owners: Finance - Controllership

PURPOSE

These accounting policies and guides provide summaries and guidance related to various IFRS that are most relevant and significant to OLG. These policies are not meant to replace adherence to each IFRS, and therefore the relevant IFRS should be referred to as necessary.

APPLICATION AND SCOPE

This policy applies to all departments and divisions of OLG which include Caesars Windsor and OLG's wholly owned subsidiary, Ontario Gaming Assets Corporation (OGAC).

ANNUAL APPROVAL

VP Controller – March 31, 2024

ACCOUTING POLICIES

DEFINITIONS

Asset: is a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity (Conceptual Framework (CF) 4.4).

Borrowing Costs: are interest and other costs that an entity incurs in connection with the borrowing of funds

Capital Items: are expenditures that are recognized as assets if and only if (a) it is probable that future economic benefits associated with the item(s) will flow to OLG and (b) the cost of the item(s) can be measured reliably.

Carrying Amount: is the amount at which an asset is recognized after deducting any accumulated depreciation (amortization) and accumulated impairment losses (IAS 16.6).

Cost: is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction (IAS 16.6).

Depreciation (Amortization): is the systematic allocation of the depreciable (amortizable) amount of an asset over its useful life (IAS 16.6).

Derecognition: the carrying amount of an item of PP&E shall be derecognized on disposal or when no future economic benefits are expected from its use or disposal (IAS 16.67).

Intended Use: refers to the ability of an asset to operate in a manner intended by management (IAS 16.16).

Property, Plant and Equipment (PP&E): are tangible items that are:

a) held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
b) expected to be used during more than one period (IAS 16.6).

Qualifying Asset: is an asset that takes a substantial period of time to get ready for its intended use or sale.

Residual Value of an Asset: is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life

(IAS 16.6).

Recognition of an Asset: An asset is recognized in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably (CF 4.44).

Useful Life: is the period over which an asset is expected to be available for use by an entity (IAS 16.6).

REQUIREMENTS

1. Overview

1.1 The objective of this policy is to prescribe the accounting treatment for PP&E. The principal issues in accounting for PP&E are the recognition of assets, the measurement of their carrying amounts, depreciation charges and impairment losses to be recognized in relation to them. (IAS 16.1)

1.2 Refer to PP&E Impairment Policy for impairment related considerations.

2. Initial Recognition and Measurement

2.1 OLG capitalizes any major capital purchase that has a useful life beyond one year.

2.2 PP&E are measured at cost less accumulated amortization and accumulated impairment losses. Cost includes:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period (IAS 16.16).

2.3 Directly attributable costs are expenditures incurred to bring the asset to the location and condition necessary for its intended use (IAS 16.16). Examples of directly attributable costs include:

- costs of employee benefits (as defined in IAS 19 Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment;
- costs of site preparation;
- initial delivery and handling costs;
- installation and assembly costs;
- costs of testing whether the asset is functioning properly, after deducting the net

- proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment);
- professional fees (IAS 16.17)

2.4 Examples of costs that are not costs of an item of PP&E are:
- costs of opening a new facility;
- costs of introducing a new product or service (including costs of advertising and promotional activities);
- costs of conducting business in a new location or with a new class of customer (including costs of staff training);
- administration and other general overhead costs (IAS 16.19)

2.5 Recognition of costs in the carrying amount of an item of PP&E ceases when the item is in the location and condition necessary for it to be capable of operating in a manner intended by management (IAS 16.20).

2.6 When parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components) of PP&E. Land and buildings are separable assets and are accounted for separately, even when they are acquired together (IAS 16.58).

3. Subsequent costs

3.1 The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to OLG and its cost can be measured reliably. The carrying amount of the replaced part is derecognized upon replacement.

3.2 The cost of the day-to-day servicing of PP&E is recognized as incurred in the Consolidated Statements of Comprehensive Income.

4. Amortization & Impairment

4.1 Amortization is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value (IAS 16.6).

4.2 Amortization is recognized in the Consolidated Statements of Comprehensive Income on a straight-line basis over the estimated useful life of each component of an item of PP&E, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

4.3 OLG utilizes the following estimated useful lives:

Asset	Rate
Buildings	10 to 50 years
Furniture, fixtures and equipment	3 to 10 years
Leasehold improvements	Lesser of useful life or term of lease
Lottery gaming assets	5 to 7 years
Land-based Gaming assets	5 to 10 years

4.4 PP&E are amortized when they are available or ready for their intended use (for example, when an asset is in the location and condition necessary for it to be capable of operating in the manner intended by management, even if the asset remain unused after acquisition). Construction in progress and assets not yet in use are stated at cost, less any recognized impairment loss. Amortization of these assets is determined on the same basis as other property assets and commences when the assets are ready for their intended use.

4.5 Amortization of an asset ceases at the earlier of the date that the asset is classified as held for sale in accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations (IFRS 5), and the date that the asset is derecognized. Therefore, amortization does not cease when an asset becomes idle or is retired from active use unless it is fully depreciated (IAS 16.55).

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

4.7 The carrying amount of assets must be reviewed for impairment in accordance with IAS 36 – Impairment of Assets.

5. Derecognition

5.1 The carrying amount of an item of PP&E is derecognized upon disposal (i.e., when sold) or when no future economic benefits are expected from its use or disposal (IAS 16.67). The gain or loss from the derecognition is calculated as the 'net disposal proceeds' (usually income from sale of item less the incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense) less the carrying amount of the item (IAS 16.71). Gains shall not be classified as revenue (IAS 16.68).

6. Disclosure

6.1 For each class of PP&E:

- the measurement bases used for determining the gross carrying amount;
- the depreciation methods used;
- the useful lives or the depreciation rates used;
- the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- a reconciliation of the carrying amount at the beginning and end of the period showing:
  - additions;
  - assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals;
  - impairment losses recognized or reversed in profit or loss in accordance with IAS 36;
  - depreciation; and
  - other changes (IAS 16.73).

6.2 In addition, discloses include:
- depreciation method and rates;
- estimated useful lives;
- the existence and amounts of restrictions on title, and PP&E pledged as security for liabilities;
- the amount of expenditures recognized in the carrying amount of an item of PP&E in the course of its construction; and
- the amount of contractual commitments for the acquisition of PP&E (IAS 16.74).

6.3 In accordance with IAS 8, OLG discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For PP&E, such disclosure may arise from changes in estimates with respect to:
- residual values;
- the estimated costs of dismantling, removing or restoring items of PP&E;
- useful lives; and
- depreciation methods (IAS 16.76).

6.4 Refer to PP&E Impairment Policy for impairment disclosures.

PRACTICAL EXPEDIENT

As a practical expedient, in accordance with IFRS 16 – Leases, OLG has elected to apply IAS 38 to intangible asset rights held as leases.

DEFINITIONS

Asset: is a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity (Conceptual Framework (CF) 4.4).

Capital Items: are expenditures that are recognized as assets if and only if (a) it is probable that future economic benefits associated with the item will flow to OLG and (b) the cost of the item can be measured reliably.

Carrying Amount: is the amount at which an asset is recognized after deducting any accumulated depreciation (amortization) and accumulated impairment losses.

Cloud computing arrangement: a contract where a software service is received that is being hosted on third party servers in exchange for a fee, also commonly referred to as software as a service. There are other types of cloud computing arrangements which are not discussed in the policy (refer to IAS 38 guidance) i.e., purchasing access to computing infrastructure and running a separately licensed software on that infrastructure.

Cost: is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

Configuration: involves changing the default settings of the vendor's software to function in a particular way, not changing the existing software code and not writing new code (see customization below).

Control: an entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits (see below for further guidance on determining control over software licenses).

Customization: involves modifying the vendor's existing software code or writing new code to change or create additional functionalities.

Depreciable amount: is the cost of an asset less its residual value

Depreciation (Amortization): is the systematic allocation of the depreciable (amortizable) amount of an intangible asset over its useful life.

Derecognition: the carrying amount of an intangible asset shall be derecognized on disposal or when no future economic benefits are expected from its use or disposal.

Development: is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

Distinct service: is a service that is not integral to the ability to obtain benefit from the software to which the service relates and can be performed by the cloud vendor or a third party that is not the cloud vendor or internal staff. A service is distinct based on the nature of the service and not based upon whether the contract prohibits another vendor providing the service. For example, customization services can be distinct if a third party could perform the customization work if provided access to the software. Alternatively, customization services would not be distinct if only the cloud vendor has the ability and know-how to provide the service and in which involves writing new code to enhance functionality of the software.

Future economic benefits: the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity.

Identifiable asset (Identifiability): An asset is identifiable if it either:

- is separable (i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability) regardless of whether the entity intends to do so; or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Impairment loss: is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Implementation costs: are set-up costs associated to bringing software to be ready for use. Common examples include testing, training, data conversion and migration, interfacing, configuration and customization.

Intangible Asset: is an identifiable non-monetary asset without physical substance (monetary assets are money held and assets to be received in fixed or determinable amounts of money).

Interfacing: is the creation of a new interface between an entity's existing software and the new software.

Intended Use: refers to the ability of an asset to operate in a manner intended by management

On-premise Software License: is a license of, or purchase of, a copy of the software from the vendor that runs on the entities own computer servers (ie. accounting software license).

Research: is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding

Residual Value of an Intangible Asset: is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful Life: is the period over which an asset is expected to be available for use by an entity.

REQUIREMENTS

1. Overview

1.1 The objective of this policy is to prescribe the accounting treatment for intangible assets, including recognition, measurement, derecognition and disclosure, that are not dealt with specifically in another standard.

1.2 This policy also provides guidance on accounting for software arrangements, specifically on-premise software and cloud-computing arrangements.

- On-premise software is commonly capitalized as an intangible asset (see guidance below).
- Typical cloud computing arrangements, where the software service is hosted on a third-party server and OLG does not control (or own) the software, are commonly expensed as incurred. Only under certain circumstances would the upfront costs be recognized as a prepaid or intangible asset (see guidance below).

1.3 OLG typically includes insignificant intangible assets within plant, property and equipment (PP&E) in their financial statements. If deemed significant, OLG presents and discloses intangible assets separately.

1.4 OLG intangible assets typically include software or internally/externally developed software configurations and interfaces.

1.5 In certain instances, software and hardware are combined to comprise one item of property, plant and equipment. For example, computer software for a computer-controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as property, plant and equipment. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset. (IAS 38.4)

2. Initial Recognition and Measurement

2.1 An intangible asset is recognized when it meets the definition of an intangible asset and the recognition criteria (IAS 38.18).

2.2 An intangible asset is an identifiable non-monetary asset without physical substance. In order to meet this definition an asset must have the following characteristics (see definitions): Identifiability, Control and embody Future Economic Benefits.

2.3 An intangible asset shall be recognized if, and only if:
- It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- The cost of the asset can be measured reliably (IAS 38.21).

2.4 OLG capitalizes intangible assets that have a useful life beyond one year.

2.5 Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. Cost includes:
- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- any directly attributable cost of preparing the asset for its intended use (IAS 38.27)
- For internally generated intangible assets, OLG does not recognize an intangible asset arising from research activities, however, qualifying development costs are recognized as an intangible asset. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management.

2.6 Directly attributable costs are expenditures incurred to bring the asset to the condition necessary for its intended use. Examples of directly attributable costs include:
- costs of employee benefits (as defined in IAS 19 Employee Benefits) arising directly from bringing the asset to its working condition;
- professional fees arising from bringing the asset to its working condition; and
- costs of testing whether the asset is functioning properly.

2.7 Examples of costs that are not part of the cost of an intangible asset are:
- costs of introducing a new product or service (including costs of advertising and promotional activities);

- costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
- administration and other general overhead costs.

2.8 Recognition of costs in the carrying amount of an intangible asset ceases when the item is in the condition necessary for it to be capable of operating in a manner intended by management (IAS 38.30).

2.9 On-premise software licenses

2.9.1 If the software runs/operates on the reporting entity's own computer infrastructure/servers, then it is considered an on-premise software license.

2.9.2 If the entity controls this software during the period of use (this includes an ability to choose where, when and how the software operates), generally for a period greater than one year, then all costs directly attributable of preparing for its intended use, including implementation costs if any, will be capitalized as an intangible asset.

2.9.3 Control over software licenses is determined, applying judgement, when it is akin to a purchase of software:

- There is valid contract between OLG and the vendor,
- OLG has a copy or the ability to obtain a copy of the software (intellectual property),
- OLG can use and benefit from the software license (decides where and when to use it), and
- OLG doesn't need major vendor updates or upgrades to use and benefit from the software.

2.9.4 If the entity cannot clearly demonstrate they control the software during the license period, then all costs will be expensed.

2.9.5 An example of on-premise software licenses could include licenses for Microsoft Office or Adobe products.

2.10 Cloud Computing arrangements (i.e., Workday, ERP, Player Platform, Web n Apps, Salesforce) – see Appendix A.

2.10.1 Determine if an entity controls the software by reviewing the contractual terms of the arrangement (such as ownership and other clauses)/purchase order/statement of work and discussing with subject matter expert(s).

2.10.2 Examples of indicators of control could include:

- All (or some) of the customized software/intellectual property (IP) developed is owned by OLG,

- The right to take possession of the software and run it on the entity's own or a third party server / infrastructure (applying judgement around restrictions / operational barriers preventing this), and/or
- Exclusive rights to use the software (or ownership of the intellectual property for customized software) such that the cloud vendor cannot sell/license the software to another entity.

In rare instances where the reporting entity controls some or all of the software in the cloud computing contract, the reporting entity will recognize the costs, including implementation costs, as an intangible asset.

2.10.3 If the cloud computing software is not controlled, which is more common, then the contract is considered a service contract and will follow guidance below:

- License fees: Fees related to the use of the software will be expensed as incurred. A prepaid may arise if multiple years are paid up front.

- Upfront implementation costs: The majority of implementation costs should be expensed however there could be situations where these upfront costs are recognized on balance sheet (see Appendix B for Cloud Computing Service Contract Implementation Costs Framework):

  i. Implementation costs give rise to a separate intangible asset that the entity controls (i.e., costs incurred to write new software code to create a new interface between an entity's existing software and the cloud software that an entity controls – see Appendix B).

  ii. Implementation services recognized as prepaid and expensed over the contract (i.e., implementation services are provided by the cloud vendor, not a third party, and are not distinct from the service of receiving access to the software. Indicators could include:
      1. The implementation service is an integral part of the software service, is transformative to the software service and not just additive (where it is considered nice to have however the software service could be used without), or
      2. The software is considered complicated and proprietary and without this implementation service, the entity wouldn't obtain the intended benefit of the software.

3. Subsequent costs

3.1 The nature of intangible assets is such that, in many cases, there are no additions to such an asset or replacements of part of it. Accordingly, most subsequent expenditures are likely to maintain the expected future economic benefits embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria in IAS 38.

4. Amortization & Impairment

4.1 OLG assesses whether the useful life of an intangible asset is finite or indefinite:

- **if finite** - The useful life of an intangible asset is determined by a number of factors including expected usage, potential for obsolescence, legal limits on asset usage and dependence on the useful life of other assets. Amortization is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.
- **if indefinite** - An intangible asset shall be regarded by OLG as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. The indefinite life intangible assets are not depreciated.

4.2 The depreciable amount of an intangible asset with a finite useful life is allocated on a systematic basis over its useful life.

4.3 Amortization begins when the asset is available for use (i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management).

4.4 Amortization ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 – Assets Held for Sale and Discontinued Operations, and the date that the asset is derecognized. Therefore, amortization does not cease when the asset becomes idle or is retired from active use unless it is fully depreciated.

4.5 The amortization method used reflects the pattern in which the asset's future economic benefits are expected to be consumed by OLG. The amortization charge for each period is recognized in profit or loss unless IAS 38 or another IFRS Standard permits or requires it to be included in the carrying amount of another asset.

4.6 Intangible assets that are ‘in progress’ or ‘not yet in use’ are stated at cost, less any recognized impairment loss. Amortization of these assets is determined on the same basis as other intangible assets and commences when the assets are ready for their intended use.

4.7 OLG typically utilizes 3 – 7 years as an estimate of the useful life of intangible assets.

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

4.9 The carrying amount of assets must be reviewed for impairment in accordance with IAS 36 – Impairment of Assets.

5. Derecognition

5.1 The carrying amount of an intangible asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss from the derecognition is calculated as the 'net disposal proceeds' less the carrying amount of the item. Gains are not classified as revenue.

6. Disclosure

6.1 Intangibles disclosure below may be included within property, plant and equipment if the balances, applying judgement, are not significant.

6.2 For each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

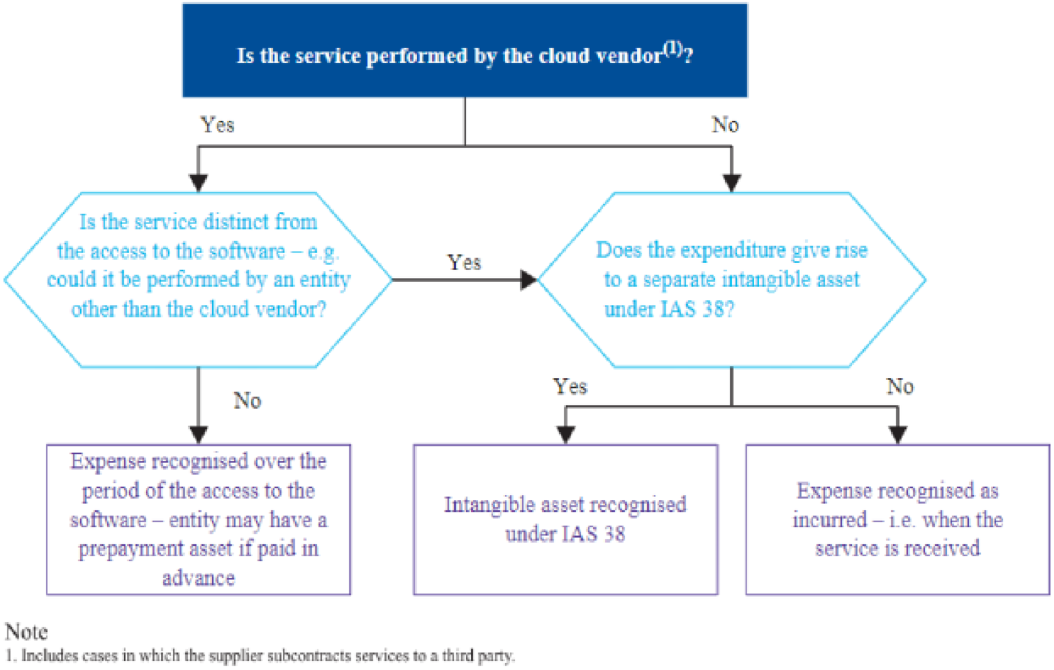
- whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortization rates used
- the depreciation methods used;
- the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;
- the line item(s) of the income statement in which any depreciation of intangible assets is included; and
- a reconciliation of the carrying amount at the beginning and end of the period

6.3 In addition, disclosure includes:

- depreciation method and rates;
- estimated useful lives;
- material changes in accounting estimates (i.e. changes to useful lives, depreciation methods, or residual values) in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors;
- reasons supporting an assessment of an indefinite useful life;
- a description, the carrying amount and remaining depreciation period of any individual intangible asset that is material;
- the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities; and
- the amount of contractual commitments for acquisition of intangible assets.

6.4 Refer to PP&E Impairment Policy for impairment disclosures.

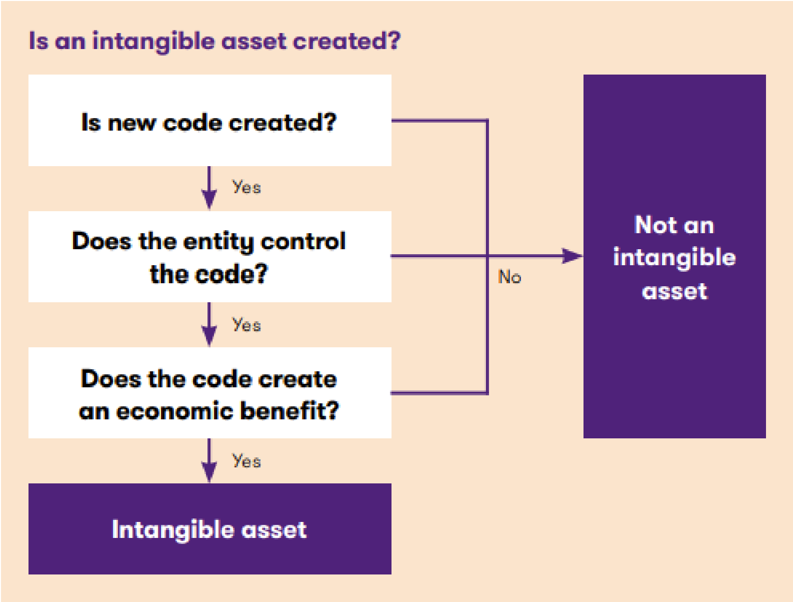
Appendix A
Cloud Computing Service Contract Implementation Costs Framework[1]



[1] Source: KPMG Insights into IFRS 20th Edition 2023/24

Appendix B

Implementation Costs in Cloud Computing Arrangement [2]



[2] Source: Grant Thornton IFRS Viewpoint – Configuration or customization costs in a cloud computing arrangement

Capital Assets Guide

Last Review: July 2023

This Capital Assets Guide provides users with practical guidance for purposes of complying with the Property, Plant and Equipment Accounting Policy; specifically as it relates to:

- assist in determining if an expenditure/transaction is a capital asset or an operating expense; and
- determine which costs should be capitalized (versus those that should not).

Capital assets, also known as property, plant and equipment (PP&E) or intangible assets (non-physical assets), are items controlled by OLG from which future economic benefits are expected to flow and that are expected to be used more than one year.

This guide does not address certain intangible assets such as cloud computing arrangements or software.

1. Overview – Capital Assets

1.1. Capital assets may include land, buildings, leasehold improvements, machinery and equipment, automobiles, mobile equipment, furniture and fixtures, information systems including desktop hardware and software, and signage (see Appendix A for common OLG assets and their amortization rates). Capital assets may be tangible (physical) or intangible (non-physical) and may be purchased, internally developed or a combination of both.

1.2. Costs that are capitalized are recognized as non-current assets on the balance sheet with a portion of the asset cost recognized as an expense (depreciation) over a period of time, based on the nature of the asset. Costs that are not capitalized are typically recognized as an expense immediately in the income statement. Therefore, the classification of costs as capital vs. expense will have a direct impact on the amount and timing of expenses/profit and assets recognized by OLG.

2. Determining Capital versus Expense

2.1. The expenditure must satisfy all of the following characteristics to be recognized as capital:

- The expenditure is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management (IAS16.16),
- The asset provides economic benefit to OLG that extends at least one year beyond the end of the fiscal year of acquisition/completion,
- The asset is not intended for resale and is held in use in production/supply of goods or services, for rental to others, or for administrative purposes; and

- The cost of the asset can be reliably measured.

2.2. In addition to the above characteristics, OLG has established the following guidelines/thresholds for capitalization that must be met or exceeded:

MATERIALITY THRESHOLD for recognizing a Capital Asset		
Description	**Threshold Value - Cost**	
Individual asset	Individual item cost	$ 5,000
Building/Leasehold improvements	Total value of improvements	$ 25,000
Capital Project > $300,000	Project total value to acquire, construct or develop PP&E	$ 300,000
Bulk Purchase > $300,000/per fiscal year (bulk purchases made by year end)	Individual like-item cost	$ 500

- Capital Projects are an initiative of a series of non-like expenditures with defined start and end dates established to achieve a specific purpose that results in the acquisition, construction or development of property, plant or equipment. Capital projects require specific budgetary approval.

- Bulk Purchases may include a purchases of like capital-items (i.e., signage, computers) or other PP&E that individually possess the characteristics of a capital asset, but do not exceed the individual asset capitalization threshold of $5,000.

2.3. If the expenditure does not meet the characteristics and threshold values above, the cost(s) should be expensed.

3. Borrowing Cost (Capital versus Expense)

3.1. Capitalization of borrowing costs, per IAS 23, is analyzed for any major capital expenditure that requires financing from the Ontario Financing Authority (OFA).

3.1.1. OLG is required to obtain OFA financing for any "major capital expenditure" in accordance with the OLG act. Major capital expenditures are identified as:

- Expenditures in respect to the development of a new gaming site, or
- Expenditures in respect of a capital project if the budget or actual amount of the total expenditure of the project exceeds $10,000,000.

3.2. Major capital expenditures would be purchased as part of a project and included in work in process (WIP) until the asset(s) is ready for its intended use and/or put into service. Interest is incurred on the OFA loan used to purchase the asset(s).

3.3. An entity shall capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognize other borrowing costs as an expense in the period in which it incurs them (IAS 23.8).

3.3.1. IAS 23 defines a qualifying asset as one that takes a substantial period of time to get ready for its intended use or sale. There is no specific guidance on how long a “substantial period of time” is. However OLG policy is that it takes at least greater than 6 months.

- For purchased assets, the “substantial period of time” test commences once control of the asset(s) is transferred to OLG, which is usually when the asset is received.

- For assets constructed by an entity, the “substantial period of time” test commences once technical and administrative work begins even if prior to the physical construction.

3.3.2. Further guidance from regarding qualifying assets is noted below*:*

- Qualifying assets are generally those that are subject to major development or construction projects (KPMG Insights Into IFRS 4.6.20.10).

- An asset that is ready for its intended use or sale when acquired is not a qualifying asset, even if expenditure is subsequently incurred on the asset (KPMG Insights Into IFRS 4.20.20.30).

- Under IAS 23, a qualifying asset **does not** include assets purchased that remain in storage until they are put into service (even if minimal work is required to put the asset into service).

3.3.3. The activities necessary to prepare the asset(s) for its intended use or sale encompass more than the physical construction of the asset. They include technical and administrative work prior to the commencement of physical construction, such as the activities associated with obtaining permits prior to the commencement of the physical construction. However, such activities **exclude** the holding of an asset when no production or development that changes the asset's condition is taking place (IAS 23.19).

3.4. Capitalization shall commence for all qualifying assets on the commencement date. The commencement date is the date when the entity first meets all of the following conditions:

- It incurs expenditures for the asset,
- It incurs borrowing costs; and
- It undertakes activities that are necessary to prepare the asset(s) for its intended use or sale (IAS 23.17)

3.5. An entity shall **cease** capitalization of borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete (IAS 23.22).

4. Nature of Expenditure - Classification of Costs (Capital vs. Expense)

4.1. While the assessment of the nature of the expenditure may be complex and require judgment, generally this can be completed by reviewing the facts and conditions under which the expenditure will be made (i.e., reviewing agreements, determining if OLG controls the assets and discussing details of project with OLG personnel/experts). Using judgment, the nature of the cost must be understood in order to assess if the cost should be capitalized as an asset according to the conditions listed in the section above 'Determining if a Cost is Capital or Expense'. Asset costs may be internal or external and need not be incremental to be directly attributable.

4.2. Typically, project codes are created during the budget process – one code for project expenses and one code for project capital items. The request for the project codes is made to the IT department. As costs are incurred, they are assigned to the appropriate capital or expense project code. If capital expenditures occur but the asset is not immediately capable of operating in a manner intended by management (i.e., there is a construction period), the capital costs are accumulated in work in progress (not depreciated). When the project is completed and the assets are deemed capable of operating in the manner intended by management (i.e., the project launch date), the capital costs are transferred to the proper PP&E category (i.e., buildings) and depreciation commences.

4.3. Regardless of which department charges costs to the capital project, the total capital project costs are accumulated on the balance sheet and future depreciation is tied back to the Line of Business/Corporate Service Division that ultimately reaps the benefit of the capital project.

5. Determining the Cost of Capital Assets

5.1. OLG records capital assets at a value (capital cost) equal to the total of the directly attributable costs.

5.2. Directly attributable costs are expenditures incurred to bring the asset(s) to the location and condition necessary for it to be capable of operating in the manner intended by management (IAS 16.16).

5.3. Examples of cost classifications are provided in:

- Appendix B – Eligible PP&E Costs (including Capital Projects), and
- Appendix C – Ineligible PP&E Costs (including Capital Projects).

5.4. Individual Assets – cost includes the following:

- the purchase price, including foreign currency exchange, duties, in-transit insurance, non-recoverable taxes on the purchase price, after deducting any discounts or rebates; and
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management.

5.5. Building and Leasehold Improvements - The costs associated with making an enhancement to owned and leased premises should be capitalized when the total value exceeds the $25,000 threshold value for building/leasehold improvements. If costs do not meet the threshold, they are expensed as incurred. Costs that are eligible to be included in the capitalized cost of building or leasehold improvements include:

- Materials
- Labour (both third-party contractors and eligible internal labour)
- Professional fees for eligible activities
- Permits; and
- Any other directly attributable cost.

6. Subsequent Expenditures

6.1. Subsequent expenditures are costs that are incurred after the capital asset(s) is initially recognized and put into service.

6.1.1. OLG recognizes costs of day-to-day servicing (i.e., repairs and maintenance) of PP&E as an expense as incurred.

6.1.2. OLG capitalizes subsequent expenditures if and only if, it is probable that future economic benefits associated with the item will flow to OLG and the costs of the item can be measured reliably. As well, only if the expenditure relates to a major repair and replacement and/or betterment. Otherwise, these costs are expensed.

6.1.3. Major Repair and Replacement Parts - Cost of major repairs or the purchase of major replacement parts for any depreciable asset are capitalized if the cost is material in relation to the value of the entire asset, the value of the repair exceeds $5,000, and the remaining life expectancy of the repair and the repaired capital asset are both greater than one year beyond the end of the current fiscal year. When a repair or replacement part is capitalized, OLG de-recognizes the net book value of the predecessor part or, if there is no specific predecessor part, establishes a component for the asset valued at an amount equal to the new repair cost.

6.1.4. Betterments versus Repairs and Maintenance **-** Costs incurred to enhance the service potential of an asset are considered a betterment (capital). Betterment factors include whether the service potential is enhanced or if there is an increase in the previously assessed physical output; operating costs are lowered; original useful life is extended; and/or the quality of output is improved. Ordinary repairs are expenditures made to maintain assets in operating condition; they are charged to an expense account in the period incurred. It should be noted that the application of professional judgment may be required in determining if the cost is capital or expense.

7. Disposals

7.1. OLG disposes of assets from the fixed asset subledger (and resulting cost and accumulated depreciation) applying one of two approaches:

7.1.1. Asset is individually identified to be disposed of because the asset was sold or removed from use. For example, this could apply to buildings or certain lottery gaming assets.

7.1.2. Applies a policy choice for assets that have zero-net book value and are still in the asset subledger, not previously identified to be removed, whereby the asset is removed from the subledger if the acquisition date is in excess of two times its useful life. For example, this could apply to furniture, fixture, equipment, software and hardware assets.

Appendix A
Common OLG Assets and Amortization Rates

Typical Components	Examples	OLG – Range of Estimated Useful Life (Years)
Buildings and Leasehold Improvements		
Building	Foundations, structural components, wall cladding, interior partitions and doors, interior fittings, permanent "built-in" fixtures and equipment	10 - 50
Exterior Finishes	Exterior doors and windows, canopies	10 - 30
Roofing	Roof finish	10 - 30
Interior Finishes	Finishes and theming to public areas and to staff and non-public areas	3 - 10 or remaining life of lease whichever is less
Mechanical	Plumbing, fire protection and ductwork	10 - 50
Mechanical	HVAC equipment and controls, air handling units, chillers, boilers, heat pumps, terminal units, building control system	10 - 20
Electrical (Main service)	Incoming service, main switchgear, generators	10 -30
Electrical (Interior)	Distribution, panels, transformer, feeders, lighting, receptacles, switches, unit heaters, fire alarm system, PA system, communications	10 - 15
Site Development	Grading, site services, hard surfaces, soft landscaping, site features	10 - 50
Facility upgrades	Upgrades to the base building (i.e. leasehold improvements)	Lesser of useful life and remaining lease term
Soft costs	Consultant fees, legal fees, permits, payroll costs	Allocated to related asset
Lottery Gaming Assets		
Wagering Terminals		7
Merchandising Equipment		5
Soft costs	Consultant fees, legal fees, permits, payroll costs	Allocated to related asset
Other Gaming Assets		
Slot Machines		5
Gaming Tables		5
Cage and Coin Equipment		5
Table Chips		5
Soft costs	Consultant fees, legal fees, permits, payroll costs	Allocated to related asset
Furniture and Equipment		
Furniture and Fixtures		2 - 10
Food and Beverage Equipment		3 - 10
Small wares		3
Seasonal Decorations		3
Carpeting		3
Shuttle Buses		3 - 5
Limousines		2
Security/Surveillance Equipment		3 - 5
Computer Printers/P-Servers		3 - 5
Computer Hardware		3 - 5
Data Centre Hardware		3 - 5
Computer Software (see Intangible policy above)		3 - 5
System Software		3 - 5
Cabling-Communications		3 - 5
Gaming Management System		3 - 7
Signage Rebranding		3
Signage - Site		5
Signage - Gaming		3 - 5
Imaging		3 - 5
Soft costs	Consultant fees, legal fees, permits, payroll costs	Allocated to related asset

Appendix B
PP&E (including Capital Projects) – Eligible Costs

Expenditure	Reason for Treatment
Acquisition costs of a capital asset related to the project: • purchase price (invoiced cost) • brokers' commissions • installation costs (including special platforms and foundations) • costs incurred for modifications required for installation • consultant fees such as architectural, design and engineering fees • professional fees such as legal fees • freight charges (delivery and handling costs) • transportation insurance costs • duties and other taxes • testing and other asset preparation costs • assurance type or product warranty (a warranty that provides a customer with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications - typically does not require separate payment by the buyer)	Costs incurred are eligible for capitalization if they are related to purchasing a capital asset or to bringing the asset to the condition or the location ready for use in a manner intended by management
Direct construction/development costs (capped at fair market value of constructed asset, if available): • Consultant fees (architectural, design, planning, engineering, other) • Professional fees (legal, accounting, other) • Contractor payments • Direct construction fees • Permits, survey costs, excavation costs • Site preparation, construction, development costs • Facility costs to house employees during construction/development • Legal fees, closing costs	Costs incurred are eligible for capitalization if they are related to the construction or development of a capital asset and to prepare it for its intended use.
Payroll and employee benefit costs for the applicable period for employees specifically assigned to a capital construction or development project that • Employees are specifically assigned to the project, spend 80% or greater of their work time on the capital project and work on the capital project for at least six (6) months, and • excludes executive, 'indirect' supervisory (i.e., administration and other 'not directly attributable' supervisory costs) or administrative payroll. **For example -** OLG analyst tested the new ERP system prior to implementation and was full-time on the project for more than 6 months. This testing was necessary to have the new ERP working in a manner intended by management.	OLG has developed these policy choices for the capitalization of OLG payroll and employee benefit costs. These policy choices are in compliance with IAS 16 - Property, Plant and Equipment

Subsequent Costs recognized as part of its cost only if it meets the recognition criteria below: • it is probable that future economic benefits associated with the item will flow to the entity, • The cost of the item can be measured reliably, and • The costs incurred relate to a major repair or replacement or betterment* * enhance the service potential** of the related capital asset (includes replacements, renewals, etc.). ** Service potential is enhanced when there is an increase in the previously assessed physical output or service capacity, associated operating costs are lowered, the useful life is extended, or the quality of output is improved.	Subsequent expenditures must meet capitalization requirements, in that they provide future economic benefits and exceed capitalization thresholds
Decommissioning or site restoration costs (Asset Retirement Obligation (ARO)): • Estimated costs to dismantle, remove or restore an asset when that obligation exists (according to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets). • Costs include legal or constructive obligations associated with the retirement of a tangible long-lived asset that result from its acquisition, construction, development or normal operation	Capitalized to the capital asset to which the future obligation relates.

Appendix C
PP&E (including Capital Projects) – Ineligible Costs

Consultant fees: • design, planning, control, other • feasibility studies/research **Professional fees:** • legal, accounting, other	If deemed not directly attributable to getting the capital asset completed and put into service (ie. marketing firm hired to plan opening gala) or the site was never completed and not put into service. If deemed not directly attributable to getting the site completed and put into service (ie., accounting firm providing direction as to what is capital item and what has to be expensed) or the site was never completed and not put into service.
OLG payroll and employee benefits costs • executive, management/supervisory (unless direct involvement) and administrative personnel costs *OLG payroll and payroll related costs are not capitalizable unless:* • employees are specifically assigned to a capital construction or development project provided that employees are specifically assigned to the project, spend 80% or greater of their work time to the capital project; and • the employees work on the capital project for at least six (6) months and • the payroll and payroll related costs are directly attributable to placing capital asset into service	These types of costs do not meet the OLG capitalization criteria or have been deemed not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management.
Travel and accommodation costs: • for OLG employees in relation to a capital project	
Recruitment and advertising costs: • for OLG employees of the newly constructed facility	
Relocation costs for newly hired site staff	
Employee training costs including: • travel costs (for trainers and trainees) • meeting costs • other related training costs	
Advertising, marketing and public relations costs incurred specific to new site, prior to opening	Although advertising/marketing expenses have a future economic benefit, they do not extend the life of the asset or increase the value of the asset.
Opening gala costs (netted against any gaming revenues generated at the gala event)	
Maintenance costs • cleaning, adjustments, painting, repairs	On-going costs associated with servicing the property, plant and equipment (repairs and maintenance) *Costs of the day to day servicing of PP&E are recognized in profit or loss as incurred (IAS 16.12)*
Costs incurred in relation to a capital project beyond six (6) months post project completion (or in service date)	Unless significant and meet capitalization criteria as per CP-02-02-701 IAS 16: Property, Plant and Equipment – Recognition, Measurement and Disclosure.
Extended (service-type) warranties • provides customer with a service in addition to the assurance that the product complies with agreed-upon specifications. • typically cover the working condition of an asset beyond the original manufacturer warranty • often requiring separate payment by the buyer	Represents an additional service purchased by OLG, they do not extend the life of the asset or increase its value.
Other Costs (generally not capitalizable) • licensing fees • the acquisition cost of a new asset is not reduced by any trade-in allowance received on another asset • the cost of removing or relocating a predecessor asset does not for part of the capital cost of a replacement asset • all activities associated with the current state assessment, scoping needs assessment, conceptual design, proposals for alternatives, and costs associated with an RFP or business case development process (including feasibility studies and research) • consumables (parts that must be replaced regularly due to wear and tear) • spare parts (except for those defined in section 'Major Repair and Replacement Parts')	Unless significant and meet capitalization criteria as per OLG IAS 16 – Property, Plant and Equipment
General administrative and overhead costs incurred during construction/development: • labour costs (not directly attributable) • office supplies, consumables etc.	Expensed when the costs are deemed to be *not* directly attributable to bringing the asset to a working condition for its intended use.

Impairment of Non-Financial Assets (IAS 36) Accounting Policy

Last Review: July 2023

This policy applies to property, plant and equipment, intangible assets and other non-financial assets. The accounting treatment of other types of impairment (i.e. financial assets and inventories) are outlined in various other IFRSs.

DEFINITIONS

Asset: is a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity (Conceptual Framework (CF) 4.4).

Carrying amount: is the amount at which an asset is recognized after deducting any accumulated depreciation (amortization) and accumulated impairment losses thereon (IAS 36.6).

Cash Generating Unit (CGU): is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (IAS 36.6).

Corporate assets: are assets other than goodwill that contribute to the future cash flows of both the CGU under review and other CGUs (IAS 36.6).

Discount rate: is a rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. This rate is estimated from the rate implicit in current market transactions for similar assets or from the weighted average cost of capital of a listed entity that has a single asset (or a portfolio of assets) similar in terms of service potential and risks to the asset under review. However, the discount rate(s) used to measure an asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted. Otherwise, the effect of some assumptions will be double counted (IAS 36.56).

Fair value less costs to sell: is the amount obtainable from the sale of an asset or cash generating unit (CGU) in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal (IAS 36.6).

Impairment: an asset is impaired when its carrying amount exceeds its recoverable amount. (IAS 36.8)

Impairment loss: is the amount by which the carrying amount of an asset or a cash generating unit exceeds its recoverable amount (IAS 36.6).

Recoverable amount: is the amount of an asset or a cash generating unit is the higher of its fair value less costs to sell and its value in use (IAS 36.6).

Right-of-Use Asset: a leased asset.

Value in use: is the present value of the future cash flows expected to be derived from an asset or cash-generating unit (IAS 36.6).

REQUIREMENTS

1. Accounting Treatment - Impairment

1.1. These requirements use the term ‘asset’ – this term applies equally to an individual property, plant and equipment asset, a right-of-use asset (lease) or a Cash Generating Unit (CGU). OLG typically tests for impairment at the CGU level.

1.2. An asset is impaired when its carrying amount exceeds its recoverable amount (IAS 36.8).

2. When a recoverable amount shall be determined

2.1 The carrying amounts of OLG non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

2.2 An impairment test, under IAS 36, is required for non-current assets and disposal groups before classification as ‘held for sale’. A plan to dispose of an asset is an internal indicator of impairment (IAS 36.12). Once an asset qualifies as a non-current asset (or disposal group), held for sale in accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations (IFRS 5), it is excluded from IAS 36’s scope.

2.3 Indications of asset impairment include, but are not limited to, any one of the following:

- the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use;
- continued net losses and negative cash flows generated from a CGU;
- internal or external changes with a significant adverse effect on OLG have taken place during the period, or will take place in the near future (i.e. technological, market, economic, business or legal environment);
- market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
  - evidence is available regarding obsolescence or physical damage of an asset or the economic performance of an asset is, or will be, worse than expected;

- cash flows related to the asset(s) (i.e. acquiring, operating, maintaining the asset) are significantly higher or expected profit related to the asset is significantly lower than originally budgeted.

2.4 Generally, if an indication of impairment exists, OLG will assess the remaining useful life, amortization method and residual value of the asset to determine if an adjustment is required, even if no impairment loss is recognized for the asset.

2.5 Intangible assets with an indefinite useful life or not yet available for use and goodwill must be tested for impairment at least annually. (IAS 36.15)

3. Measuring the recoverable amount

3.1 The recoverable amount of an asset or cash generating unit (CGU) is the greater of its 1) value in use and 2) its fair value less costs of disposal.

- In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.
- Fair value less costs of disposal represents the price that would be received for the asset, in an orderly transaction between market participants (i.e. unrelated parties) at the measurement date (i.e. using an independent valuator to assess asset price and costs of disposal.)

3.2 For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets.

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

4. Recognizing and measuring impairment losses

4.1 An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. The carrying amount of the asset shall be reduced to its recoverable amount (this reduction is an impairment loss). Impairment losses are recognized in the Consolidated Statements of Comprehensive Income. Impairment losses recognized in respect of CGUs are allocated to reduce, on a pro rata basis, the carrying amounts of the assets in the unit or group of units.

5. Reversing an impairment loss

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

6. Disclosure

6.1 If there is no impairment (or impairment reversals) in the year; OLG discloses only the material accounting policy for testing for triggers of impairment.

6.2 If there is impairment (or impairment reversals) in the year; OLG discloses the following for each class of assets (i.e. a grouping of assets of similar nature and use in OLG's operations):

- The amount in profit or loss during the period and the line item(s) of the Statement of Comprehensive Income in which those impairment losses/reversals are included.
- For each individual asset (including goodwill) or a CGU, for which an impairment loss has been recognized or reversed during the period:
  - the events and circumstances that led to the recognition or reversal of the impairment loss;
  - the amount of the impairment loss recognized or reversed;
  - the nature of the individual asset;
  - a description of the CGU.
- The recoverable amount of the asset or CGU and whether the recoverable amount of the asset or CGU is its fair value less costs of disposal or its value in use
- If the recoverable amount is fair value less costs of disposal:
  - the level of the fair value hierarchy (see IFRS 13) within which the fair value measurement of the asset or CGU is categorized in its entirety (without taking into account whether the 'costs of disposal' are observable);
  - for fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy; a description of (and changes made to) the valuation technique(s) used, each key assumption on which management has based its determination of fair value less costs of disposal.
  - the discount rate(s) used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique.
- If recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.

DEFINITIONS

Inventories: are assets:

- held for sale in the ordinary course of business (finished goods); or
- in the process of production for such sale (work-in-progress); or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services (raw materials)

Spare Parts: are classified as inventory unless they are expected to be used for more than one period, in which case they are classified as property, plant and equipment.

Cost of Inventories: is the amount of consideration given up to acquire (purchase costs), or construct, or develop inventories (production or conversion costs) and includes all costs directly attributable to acquisition, or construction or development (costs to bring inventory to its present location and condition) of inventories.

Net Realizable Value: is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Fair Value: is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Effective Interest Method: is the method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Qualifying Asset: is an asset that necessarily takes a substantial amount of time to get ready for its intended use or sale. Qualifying assets are those that are subject to major development or construction projects. OLG's position of "substantial amount of time" is a minimum of six months. An asset that is ready for its intended use when acquired is not a qualifying asset, even if expenditure subsequently is incurred on the asset.

The term "necessarily" is included in the definition of a qualifying asset to indicate that the nature of the asset should be such that it takes a long time to get it ready for its intended use or sale. An asset that takes a long time to prepare for use or sale only because of inefficiencies in the development process is not a qualifying asset.

REQUIREMENTS

1. Measurement

1.3. Inventories are measured at the lower of cost and net realizable value. Inventories are measured on an item-by-item basis. If item-by-item is impracticable, groups of similar items may be combined into a single inventory unit.

2. Components of Cost

2.1. The cost of inventories is comprised of:

- all costs of purchase;
- costs of conversion; and
- other costs incurred to bring inventory to its present location and condition.

2.2. Purchase cost includes:

- the purchase price,
- transport and handling costs,
- taxes that are not recoverable by OLG, and
- other costs directly attributable to the purchase.

2.3. Purchase costs do not include:

- Trade discounts, volume rebates, and other similar items.
- Freight costs, when not significant, will not be expensed as incurred and therefore not included in the cost of inventory. This owing to the fact that freight is paid on the full order and is not itemized by individual unit.
- Due to the unique arrangement that OLG has with the Federal government, Harmonized Sales Tax (HST) will not be included as the cost or purchase and will be expensed separately.

2.4. If it is probable that the rebate or volume discount will be earned (i.e., supported by past experience), and the amount can be estimated reliably, then the discount or rebate should be recognized as a reduction in the purchase price when the inventory is purchased. The corresponding receivable for the anticipated rebate is also recognized (KPMG Insights Into IFRS 3.8.160.20).

2.5. Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. It may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories (CF para 15).

2.6. When payment for inventory is deferred beyond normal credit terms, the arrangement contains a financing element and interest must be imputed if the impact is material.

2.7. When interest is imputed as required, the cost of inventory will be based on a cash price equivalent (price for normal credit terms).

2.8. The difference between the total cost and the deemed cost should be recognized as interest expense over the period of financing using the effective interest method.

3. Cost Formulas – Specific Identification and Weighted Average Cost

3.1. OLG applies two methods in accounting for inventory, depending on nature of the assets:

- Specific identification is applied to lottery instant products.
- Other lottery items (ex. rolls, slips and gift cards), Resorts gaming spare parts, and Resorts non-gaming supplies (ex. food and beverage) are accounted for using the weighted average cost method.

4. Recognition

4.1. Inventory is generally recognized at a point in time when OLG obtains control over the asset Indicators that control has passed, include OLG having (KPMG Insights Into IFRS 3.8.90.10):

- a present obligation to pay;
- physical possession;
- legal title;
- the risks and rewards of ownership; and
- accept the asset.

4.2. The amount of inventories consumed as an expense in the period will generally be:

- the carrying amount of inventories sold in the period; and
- the amount of any write-down of inventories to net realizable value and all losses of inventories current during the period**; less**
- the amount of any reversal in the period of any write-down of inventories, arising from an increase in net realizable value (reversals of previous write-downs are recognized in profit or loss in the period in which the reversal occurs).

4.3. When inventories are used rather than being sold, for example, inventory used as a component of self-constructed property, plant or equipment, their cost may be capitalized as part of the cost of another asset (i.e., property, plant and equipment). Their cost is then recognized as an expense through depreciation of that asset.

5. Note Disclosure

5.1. The financial statements shall disclose:

- The accounting policies adopted in measuring inventories, including the cost formula used;

- Total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
- The carrying amount of inventories carried at fair value less cost to sell;
- The amount of inventories recognized as expense during the period;
- The amount of any write-down of inventories recognized as an expense in the period;
- The amount of any reversal of any write-down that is recognized as a reduction in the amount of inventories recognized as expense in the period;
- The circumstances or events that led to the reversal of a write-down of inventories;
- The carrying amount of inventories pledged as security for liabilities.

Prepaid Expenses

Last Review: July 2023

DEFINITIONS

Asset: is a resource controlled by the entity as a result of past events, from which future economic benefits are expected to flow to the entity.

Prepaid Expenses: Operating and other expenditures paid in advance of receiving the future benefit.

Fair Value: is the amount for which an asset could be exchanged, or a liability settled between knowledgeable and willing parties in an arm's length transaction.

REQUIREMENTS

1. Initial Recognition and Measurement

1.1. Recognition Criteria

1.1.1. An asset is recognized in the statement of financial position when it meets the definition of an asset:

a) it is probable (more likely than not) that the future economic benefits will flow to the entity; and

b) the asset has a cost or value that can be measured reliably. [CF 4.3, 4.4 & 4.5]

1.1.2. The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. The potential may be a productive one that is part of the operating activities of the entity. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when an alternative manufacturing process lowers the costs of production. [CF 4.8]

1.1.3. Prepaid expenses encompass future economic benefits through their ability to reduce future cash outflows. Expenditures for goods and services are paid in advance and the economic benefits expected to be derived from the cash outflow will not be realized until a future period (when the good or service is provided to OLG).

1.1.4. Many assets, for example, property, plant and equipment, have a physical form. However, physical form is not essential to the existence of an asset; hence prepaid expenses, for example, are assets if future economic benefits are expected to flow from them to the entity and if they are controlled by the entity. [CF 4.12]

1.2. Measurement on Initial Recognition

1.2.1. Prepaid expenses are initially measured at the fair value of consideration exchanged.

1.2.2. Prepaid expenses that are $200,000 or more (in Canadian, pre-tax dollars) will be classified as a prepaid expense on the statement of financial position and will be evenly expensed over the period of the benefit.

Alternatively, prepaid expenses that are less than $200,000 will be expensed during the period of payment.

Thresholds are to be applied to the total prepaid amount, not on a line of business or department by department basis.

1.2.3. For example:

1. An insurance policy with a two-year term extending from April 1, 2021 through to March 31, 2023 is paid in full on April 1, 2021. The cost of the policy is $240,000 which will be classified as a prepaid expense on the statement of financial position. A monthly amount of $10,000 will be expensed and prepaid asset derecognized over the term of the policy.

2. A computer maintenance contract covering a three (3) year period beginning April 1, 2021 and costing $80,000 was paid in full on April 30, 2021. The amount will be expensed in April 2021 because the amount is less than $200,000.

3. An insurance policy covering future periods and costing $200,000 qualifies as a prepaid expense and should be set up accordingly. Although this policy may cover multiple departments, for example $40,000 for each of five (5) departments, it is examined in total.

2. Measurement after Initial Recognition

2.1. Prepaid expenses are measured at the unexpired or unconsumed cost of the procured goods and services paid for in advance.

3. Derecognition

3.1. OLG shall remove the prepaid asset from its statement of financial position when the economic benefit (asset or service) is received at a point in time or over a period of time. At this time, OLG will recognize the asset or expense, as appropriate.

4. Presentation

4.1. Prepaid assets can be separately presented on the Statement of Financial Position.

4.2. A financial asset is classified as current when it:

4.2.1. is expected to be realized in or is held for sale within twelve months of the reporting date
4.2.2. is held primarily for trading purposes,
4.2.3. is cash or cash equivalent that is not restricted from being used for at least twelve months of the reporting date.

5. Note Disclosure

5.1. No specific disclosure required unless applicable under other policies.

DEFINITIONS

Intermediate Lessor (Sublease): A sublease is a transaction for which an underlying asset is re-leased by OLG (‘intermediate lessor’) to a third party, and the lease (‘head lease’) between the head lessor and the lessee (OLG) remains in effect.

Lease: A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. (IFRS 16.9)

Lease Incentives: are payments made by a lessor to a lessee associated with the lease, or a reimbursement or assumption by a lessor of costs of the lessee.

Lease Term: is the non-cancellable period of a lease, together with both (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option (IFRS 16.18)

Net Investment in the Lease (for finance leases only whereby OLG is a lessor): is the gross investment in the lease discounted at the interest rate implicit in the lease.

Non-lease Component: A common example of an agreement that includes both lease and non-lease components is OLG facility leases. The facilities associated with the leases (i.e. OLG office space) are leased. The cost of the common area maintenance services (included in the lease arrangement) is a non-lease component.

Right-of-Use Asset: the leased asset.

Types of Leases: Leases are classified as ‘operating’ or ‘finance’ from the lessor perspective only. Lessee accounting does not distinguish between operating and finance leases as all leases are recognized as a right-of-use asset and lease liability (except short term or low value leases – see Section 2 (Exemptions and Practical Expedients) of this policy).

- **Finance Lease (OLG as lessor)** transfers substantially all the risks and rewards incidental to ownership of the underlying asset.
- **Operating Lease (OLG as lessor)** does not transfer substantially all the risks and rewards incidental to ownership to an underlying asset (IFRS 16.62).

To determine if a lease is ‘operating’ or ‘finance’ the terms of the lease (i.e. present value of lease payments, lease term, purchase options, ownership transfers etc.) are assessed.

REQUIREMENTS

1. Overview

1.1 OLG leases assets from other parties (OLG as a lessee) and also, leases assets to other parties (OLG as a lessor)

- As a lessee, OLG typically leases property (including buildings, land and office facilities), vehicles and equipment.
- As a lessor, OLG typically leases or subleases property and buildings to land-based gaming service providers.
- See Appendix A for Typical OLG Leasing Scenarios.

2. Exemptions and Practical Expedients

2.1 Short-term and Low Value Leases

2.1.1 For all asset classes, OLG elected to not apply IFRS 16 recognition and measurement requirements to:

- Short-term leases (lease with terms less than or equal to 12 months) or
- Low value leases (leases for assets valued at less than $5,000 when new)

2.1.2 For short-term and low value leases, OLG shall

- recognize the lease payments as an expense on a straight-line basis or another representative basis over the lease term.
- consider the lease to be new (i.e. reassess if lease continues to be short term or low value) if there is a lease modification or change to the lease term. (IFRS 16.7)

2.1.3 Specific presentation and disclosure requirements for short-term and low value leases are outlined in Sections 4 (Presentation) and 5 (Disclosure) of this policy.

2.2 Practical Expedients

2.2.1 Practical expedients applied by OLG include:

- IAS 38 – Intangible Assets shall be applied to intangible asset rights held as leases and
- For contracts that both convey a right to the Corporation to use an identified asset (i.e. lease component) and require services (i.e. non-lease component) to be provided to the Corporation by the lessor, the Corporation may elect, by class of asset, not to separate non-lease components from lease components and instead account for each lease component and any associated non-lease components as a single lease component. For example, for facility leases, OLG elected not to separate lease and non-lease components. (IFRS 16.15)

3. Recognition and Measurement

3.1 Initial recognition and measurement:

3.1.1 OLG as Lessee

3.1.1.1 At the inception of a contract, the Corporation assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. All leases are accounted for by recognizing a right-of-use asset and a lease liability at the commencement date except for (see Section 2 (Exemptions and Practical Expedients) of this policy):

- short-term leases with a lease term of 12 months or less and
- leases of low value assets (based on the value of the underlying asset when new)

3.1.1.2 For a contract that contains a lease component and one or more additional lease or non-lease components, where the election is not taken for the respective class of assets to combine lease and non-lease components, the Corporation must allocate the consideration in the contract to the various components. (IFRS 16.17)

3.1.1.3 The right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received from the lessor (for example payments or cost reimbursements made by a lessor to a lessee), and increased for lease payments made at or before commencement of the lease or initial direct costs incurred. (IFRS 16.23-24)

3.1.1.4 Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date and discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's incremental borrowing rate. Generally, the Corporation uses its incremental borrowing rate as the discount rate. Lease payments include:

- fixed payments, which may include, but are not limited to:
  - fixed lease payments;
  - the fixed portion (i.e. the floor or minimum amount to be paid) of a variable lease payment not tied to a rate or index. For clarity, these payments would not include variable lease payments that are trued up after year end based upon actual landlord costs when the true up can result in either a refund or excess lease payments;
  - non-variable payments for services when the Corporation elects to account for the entire contract as a lease for contracts that both convey a right to use an identified asset and receive services by the lessor (for example facility lease

and common area maintenance services).

- variable lease payments that depend on an index or a rate initially using the index or rate, such as CPI, as at the commencement date;
- residual value guarantees;
- lease payments in extension periods if the Corporation is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Corporation is reasonably certain not to terminate early.

3.1.2 **OLG as a lessor**

3.1.2.1 The Corporation determines at lease inception, whether a lease is a finance lease, or an operating lease based on whether the lease substantially transfers all risks and rewards incidental to owning the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. (IFRS 16.61-66)

3.1.2.2 For operating leases, no discount rate is required as lease payments received are recognized as lease income in the statement of profit and loss and other comprehensive income on either a straight-line basis or another systematic basis (IFRS 16.81) over the term of the lease.

3.1.2.3 For finance leases, at the commencement date, OLG shall recognize assets in the statement of financial position as a current or non-current, as applicable, receivable amount equal to the net investment in the lease which is computed using the interest rate implicit in the lease.

3.1.3 **OLG as an intermediate lessor**

3.1.3.1 When the Corporation is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately.

3.1.3.2 The Corporation applies lessee accounting for the head lease (see Section 3.1.1 of this policy) and applies lessor accounting for the sublease (see Section 3.1.2 of this policy) with the following considerations:

- The Corporation assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.
- For finance subleases, if the interest rate implicit in the sublease cannot be readily determined, OLG (the intermediate lessor) may use the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) to measure the initial investment in the sublease. (IFRS 16.68-70)
- Where the head lease and the sublease contain the same payments and same lease terms, the net investment in the lease

and lease liability will initially be recognized at the same amount.

3.2 **Subsequent measurement**

3.2.1 **OLG as Lessee**

3.2.1.1 Right-of-use assets are subsequently measured at cost less any accumulated amortization and impairment losses and adjusted for certain remeasurements of the lease liability.

3.2.1.2 Lease liabilities are subsequently measured at amortized cost and are remeasured when there is a change in future lease payments arising from a change in an index or rate or if there is a change in assessment of whether it will exercise an extension or termination option. OLG recognizes interest on the lease liability and variable lease payments (not included in the measurement of the lease liability) in the income statement.

3.2.1.3 Lease liability subsequent remeasurement includes using a new discount rate if there is a change to the lease term or a change in assessment of whether a purchase option will be exercised (IFRS 16.40). Otherwise lease liabilities are not remeasured for changes in the discount rate alone.

3.2.1.4 IAS 36 - Impairment of Assets is applied to determine whether the right-of-use asset (OLG is lessee) is impaired and to account for any impairment loss identified. (IFRS 16.33)

3.2.2 **OLG as a lessor**

3.2.2.1 For operating leases, in addition to the lease payments received and recognized as lease income over the term of the lease, the Corporation also recognizes costs associated with asset ownership, including depreciation, incurred in earning the operating lease income, as an expense. (IFRS 16.82)

3.2.2.2 For finance leases, OLG shall recognize finance income on the net investment of the lease over the lease term on a systematic and rational basis. (IFRS 16.75-76)

3.2.2.3 IFRS 9 – Financial Instruments is applied to determine whether a net investment in a lease (OLG is lessor) shall by derecognized or is impaired. (IFRS 16.77)

3.2.3 **Lease modifications**

3.2.3.1 Lease contracts may be amended throughout the lease term to change the leased asset, the scope of the lease, the term or the consideration.

3.2.3.2 For lessees and lessors, depending on the nature of a lease modification (i.e. change to the leased asset or consideration), the Corporation must reassess the lease accounting. (IFRS 16.44-46) (IFRS 16.79-80 & 87)

3.2.3.3 For lease modifications whereby both the scope increases by adding the right to use more underlying assets and the lease payments increase related to the new asset, then the lease modification is treated as a separate lease. (IFRS 16.44)

4. Presentation

4.1 OLG as a lessee

4.1.1 OLG shall either present in the statement of financial position, or disclose in the notes:

- right-of-use assets separately from other assets.
- lease liabilities separately from other liabilities.

4.1.2 In the statement of profit or loss and other comprehensive income, OLG shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs and must be presented separately in the statement of profit or loss and other comprehensive income. (IFRS 16.49)

4.1.3 In the statement of cash flows, OLG shall classify:

- cash payments for the principal portion of the lease liability within financing activities;
- cash payments for the interest portion of the lease liability applying the requirements in IAS 7 Statement of Cash Flows for interest paid; and
- short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

4.2 **OLG as a lessor**

4.2.1 OLG shall present underlying assets subject to operating leases in its statement of financial position according to the nature of the underlying asset. (IFRS 16.88)

4.3 **OLG as an intermediate lessor**

4.3.1 When the Corporation is an intermediate lessor, the head lease and the sublease information are presented separately. OLG utilizes the lessee presentation requirements (see Section 4.1 of this policy) for the head lease and lessor presentation requirements (see Section 4.2 of this policy) for the sublease.

5. Disclosure

5.1 OLG as a lessee

5.1.1 The objective is for lessees to disclose information that gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee.

5.1.2 OLG shall disclose information about its leases in a single note or separate section in its financial statements. Information need not be duplicated that is already presented elsewhere in the financial statements. OLG shall disclose the following for the reporting period:

- depreciation charge for right-of-use assets by class of underlying asset;
- interest expense on lease liabilities;
- the expense relating to short-term leases (this expense need not include the expense relating to leases with a lease term of one month or less);
- the expense relating to leases of low-value assets;
- the expense relating to variable lease payments not included in the measurement of lease liabilities;
- income from subleasing right-of-use assets;
- total cash outflow for leases;
- additions to right-of-use assets;
- gains or losses arising from sale and leaseback transactions;
- the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset; and
- a maturity analysis of lease liabilities separately from the maturity analyses of other financial liabilities. (IFRS 16. 53 & 16.58)

5.1.3 OLG shall disclose additional qualitative and quantitative information about its leasing activities which may include, but is not limited to, information that helps users of financial statements to assess:

- the nature of OLG’s leasing activities;
- future cash outflows to which OLG is potentially exposed that are not reflected in the measurement of lease liabilities. This includes:
  - variable lease payments;
  - extension options and termination options;
  - residual value guarantees; and
  - leases not yet commenced to which the lessee is committed.
- the manner of accounting for short-term leases or leases of low-value assets;
- restrictions or covenants imposed by leases; and
- sale and leaseback transactions.

5.2 **OLG as a lessor**

5.2.1 The objective is for lessors to disclose information that, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessor.

5.2.2 OLG shall disclose the following amounts for the reporting period, in a tabular format (unless another format is more appropriate):

- for finance leases:
  - selling profit or loss;
  - finance income on the net investment in the lease; and
  - income relating to variable lease payments not included in the measurement of the net investment in the lease.
- for operating leases:
  - lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate; and
  - a maturity analysis of lease payments, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.

5.2.3 OLG shall disclose additional qualitative and quantitative information about its leasing activities, which may include, but is not limited to, information that helps users of financial statements to assess:

- the nature of OLG's leasing activities; and
- how OLG manages the risk associated with any rights it retains in underlying assets. In particular, OLG shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which OLG reduces that risk. Such means may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits.

5.2.4 For items of property, plant and equipment subject to an operating lease, OLG shall:

- apply the disclosure requirements of IAS 16 – Property, Plant and Equipment; and
- be disaggregated into assets subject to operating leases and assets not subject to operating leases.

5.2.5 For finance leases, OLG shall:

- provide a qualitative and quantitative explanation of the significant changes in the carrying amount of the net investment in finance leases (asset), and
- disclose a maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for

the remaining years. OLG shall reconcile the undiscounted lease payments to the net investment in the lease. The reconciliation shall identify the unearned finance income relating to the lease payments receivable and any discounted unguaranteed residual value.

5.3 **OLG as an intermediate lessor**

5.3.1 When the Corporation is an intermediate lessor, the head lease and the sublease information are disclosed separately. OLG utilizes the lessee disclosure requirements for the head lease and lessor disclosure requirements for the sublease.

5.4 **General Lease Disclosure – Estimates and Judgments**

5.4.1 OLG must disclose, when applicable, lease information that involves critical judgment and significant estimation and uncertainty, defined as follows:

- critical judgments in applying accounting policies have the most significant effect on the amounts recognized in OLG's Consolidated Financial Statements and
- areas of significant estimation and uncertainty may have a significant effect on the amounts recognized in the Consolidated Financial Statements and could result in a material adjustment within the next fiscal year.

Appendix A
OLG - Typical Lease Scenarios

Scenario	Scenario Description*	Examples	OLG Accounting Treatment (Initial Recognition and Measurement)
A	**OLG as a Lessee** OLG leases assets from a third party	OLG typically leases property (i.e. OLG facilities- Foster Drive, YYM), land, equipment & vehicles	**See *Initial recognition and measurement* section of this policy for more information**
B	**OLG as a Lessor** Property owned by OLG that is leased to third party	**West GTA Bundle –** Brantford Site (operating lease) **Niagara Bundle** – Fallsview Site (operating lease)	**See *Initial recognition and measurement* section of this policy for more information**
C	**OLG as an intermediate lessor (i.e. OLG as a Lessee and a Lessor)** Property leased by OLG (OLG as lessee) and then OLG subleases property to a third party (OLG as a lessor)	This category includes leases assigned to Service Providers (SP) where OLG is not released from the lease (OLG remains liable for all liabilities, obligations and covenants as lessee under these leases and OLG must record a head lease (OLG as lessee) and a sublease (OLG as lessor)). Examples include: **Rama Site** (OLG leases from Rama First Nations & then leases to the Central Bundle SP) **Niagara Falls Entertainment Centre** (OLG leases from a vendor and then leases to the Niagara Bundle SP)	Lessee Accounting- See Scenario **A** above Lessor Accounting- See Scenario **B** above **See Initial recognition and measurement section of this policy for more information**
D	**Not an OLG Lease** Property leased directly by third party	This category includes leases for property where the SP directly leases from a third party. **OLG is not party to the lease** (i.e. OLG assigns the lease to the SP or the SP enters into a new lease). Examples include: Kawartha Site (East Bundle), Clinton (Southwest Bundle), Casino Niagara (Niagara Bundle) and others	**No accounting implication for OLG** OLG has no liability, obligation and/or responsibility for any covenants, obligations, agreements and/or responsibilities of the lease
E	**Not an OLG Lease** OLG party to lease but only in a conduct and manage capacity	This category includes leases for property where the SP directly leases from a third party but **OLG is party to the lease**. OLG, in its capacity as the party conducting and managing any Lottery Scheme, may have direct rights in the lease, whether or not it is the tenant under the lease (i.e. step-in rights). Example- **Woodbine Ground Lease**	**No accounting implication for OLG** OLG has no liability, obligation and/or responsibility for any covenants, obligations, agreements and/or responsibilities of the lease

**It is assumed the above scenarios describe leases that are neither short-term not low value (See section 2 of the policy)*

Financial Instruments Accounting Policy

Last Review: July 2023

This policy includes the following standards:

- International Accounting Standard (IAS) 1 – Presentation of Financial Statements (IAS 1);
- IFRS 9 – Financial Instruments (IFRS 9);
- IFRS 7 – Financial Instruments: Disclosure (IFRS 7);
- IFRS 13 – Fair Value Measurement (IFRS 13) and
- IAS 32 – Financial Instruments: Presentation (IAS 32).

DEFINITIONS

12-month expected credit losses (ECLs): are the portion of the lifetime expected credit losses that represent expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Amortized Cost of a Financial Asset or Financial Liability: is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization, using the effective interest method, of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for the loss allowance.

Business model: refers to how an entity manages its financial assets in order to generate cash flows. IFRS 9 prescribes two business models; holding financial assets to collect contractual cash flows; and holding financial assets to collect contractual cash flows and selling. FVTPL is the residual category which is used for financial assets that are held for trading or if a financial asset does not fall into one of the two prescribed business models.

Credit Impaired Financial Asset: is a financial asset that has had its estimated future cash flows detrimentally impacted by one or more events.

Credit loss: is the difference between all contractual cash flows that are due to an entity in accordance with the contract and all discounted cash flows that the entity expects to receive.

Derivative: is a financial instrument or other contract within the scope of IFRS 9 with all three of the following characteristics:

- its value changes in response to a change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable provided in the case of a non-financial variable that the variable is not specific to the party to the contract (sometimes called an ‘underlying’); and
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a

similar response to changes in market factors; and
- it is settled at a future date.

Effective Interest Method: is the method used in the calculation of the amortized cost of a financial asset or financial liability and in the allocation and recognition of the interest revenue or interest expense in profit or loss over the relevant period.

Effective Interest Rate: is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e. the amortized cost of the financial asset, before adjusting for any loss allowance) or to the amortized cost of a financial liability.

Equity Instrument: is any contract that evidences a residual interest in assets of an entity after deducting all of its liabilities. An example of an equity instrument could be common stock shares, such as those traded on a stock exchange.

Expected Credit Losses (ECL): is the weighted average of credit losses with the respective risks of a default occurring as the weights.

Fair Value: is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

Fair Value Through Profit or Loss (FVTPL): is a classification of a financial instrument which measures the instrument with changes in fair value recognized in profit or loss. OLG typically, does not have FVTPL financial assets. OLG does have FVTPL financial liabilities.

Fair Value Through Other Comprehensive Income (FVOCI): is a classification of financial assets which measures the instrument with changes in fair value recognized through other comprehensive income. OLG typically does not have FVOCI financial assets.

Financial Instruments: are any contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Asset: is any asset that is cash or a contractual right to receive cash or another financial asset from another entity; or the contractual right to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to OLG. Typical OLG financial assets include cash, restricted cash, trade and other receivables, amounts due from Service Providers and finance lease receivable.

Financial Liability: is any liability that is a contractual obligation to:
- Deliver cash or another financial asset to another entity; or
- To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to OLG.

Typical OLG financial liabilities include trade & other payables, amounts due to operators/service providers/Government of Canada and long-term debt.

Gross Carrying amount of a Financial Asset: is the amortized cost of a financial asset, before adjusting for any loss allowance.

Held for Trading: are financial assets or financial liabilities that:

- are acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- are a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument)

Inputs: are the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, such as the following:

- the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model); and
- the risk inherent in the inputs to the valuation technique.

Level 1 Inputs: are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 Inputs: are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Inputs: are unobservable inputs for the asset or liability.

Lifetime expected credit losses: are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Loss Allowance: is the allowance for expected credit losses on financial assets, lease receivables, contract assets, accumulated impairment for financial assets and the provision for expected credit losses on loan commitments and financial guarantee contracts, measured in accordance with IFRS 9.

Wagering Transactions: are defined as revenue earned from transactions where OLG takes a position against the customer and OLG's net gain or loss on the transaction is determined by an uncertain future event. When the outcome of revenue transactions is based on a future event (i.e. certain lottery and digital game offerings), the financial liabilities are accounted for under IFRS 9.

REQUIREMENTS

1. Overview

1.1 Financial Instruments are any contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity (see Appendix A for further information regarding Financial Instruments) (see Appendix B for Balance Sheet Items that Meet the Definition of a Financial Instrument).

1.2 Financial instruments can be:

- traded with the goal of making profit (i.e. speculative transactions involving the purchase and sale of stock); or
- traded in order to ease other transactions with the goal of making profit (i.e. loans); or
- basic transactions from which they were created (i.e. accounts receivable and accounts payable resulting from sales and purchases)

Typically, OLG is involved in basic financial instrument transactions (including loans). OLG, generally, does not engage in speculative transactions or hold any equity instruments.

1.3 Given the potential complexity and risks related to financial instruments:

- IFRS 9
  - establishes principles for the financial reporting of financial assets and financial liabilities in order to present relevant and useful information to users of the financial statements for their assessment of the amounts, timing and uncertainty of OLG's future cash flows; and
  - outlines the accounting for financial instrument loss allowances.

- IFRS 7 requires disclosures that enable users to evaluate:
  - The significance of financial instruments for OLG's financial position and performance; and
  - The nature and extent of risks arising from financial instruments to which OLG is exposed during the period and at the reporting date, and how OLG manages those risks.

- IFRS 13
  - Defines fair value
  - Sets out the framework for measuring fair value; and
  - Requires disclosures about fair value measurements

- IAS 32
  - establishes principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities (IAS 32.2); and
  - provides guidelines for the classification of financial instruments, from the

prospective of the issuer, into financial assets, financial liabilities or equity instruments; and the classification of related interest, dividends, losses and gains.

2. Recognition, Classification and Measurement

2.1 Initial Recognition – All Financial Instruments

2.1.1 All financial instruments under IFRS 9 are initially recognized at fair value, plus or minus (in the case of a financial asset or financial liability not at FVTPL) transaction costs that are directly attributable to the acquisition or issue of the financial instrument. The fair value of the financial instrument is normally the transaction price (that is, the fair value of the consideration given or received).

2.2 Financial Assets– Classification and Subsequent Measurement

2.2.1 On initial recognition, a financial asset is classified and subsequently measured at amortized cost, fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVTOCI depending on the business model in which they are held and the characteristics of their contractual cash flows.

2.2.2 OLG subsequently measures all cash and cash equivalents, restricted cash, trade & other receivables, amounts due from Service Providers and Finance lease receivable at amortized cost.

2.2.3 Typically, the Corporation does not have FVTPL or FVOCI financial assets.

2.2.4 The Corporation initially recognizes financial assets on the date, which is the date the Corporation becomes a party to the contractual provisions of the instrument.

2.2.5 Subsequent to initial recognition, financial assets measured at amortized cost are measured using the effective interest method, less any allowance for expected losses.

2.2.6 The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

2.2.7 When and only when OLG changes its business model for managing financial assets shall it reclassify all affected financial assets as required (IFRS 9.4.4).

2.3 **Financial Liabilities – Classification & Subsequent Measurement**

2.3.1 On initial recognition, a financial liability is classified and subsequently measured at amortized cost or FVTPL. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (for example derivatives) or the Corporation elects to measure them at FVTPL.

2.3.2 The Corporation's non-derivative financial liabilities are classified and subsequently measured at amortized cost. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method, less any allowance for expected losses. For the Corporation, these non-derivative financial liabilities may include trade & other payables, amounts due to operators/service providers/Government of Canada, lease liabilities and long-term debt.

2.3.3 The Corporation's derivative financial liabilities are classified and subsequently measured at FVTPL. Subsequently, these financial liabilities are measured at fair value. Net gains or losses for financial liabilities measured at FVTPL, including any interest expense, are recognized in profit or loss. The Corporation’s derivative financial liabilities include any liabilities arising from Wagering Transactions (certain lottery draw based games that are set to take place in the future and unsettled sports betting positions) as well as the liability relating to the Brantford lease arrangement. Wagering Transactions are typically presented as contract liabilities in the Statement of Financial Position.

2.3.4 The Corporation initially recognizes financial liabilities on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

2.3.5 The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or have expired. On derecognition of a financial liability, the difference between the carrying amount and the consideration paid is recognized in profit or loss.

2.3.6 OLG shall not reclassify any financial liabilities. (IFRS 9.4.4)

3. Impairment of Financial Instruments – Financial Assets

3.1 At each reporting date, the Corporation assesses whether financial assets carried at amortized cost, contract assets (under IFRS 15) or lease receivables (under IFRS 16) are credit-impaired.

3.2 The Corporation establishes expected credit losses (ECLs) that represent its estimate of potential credit losses based on the credit risk of the financial asset at the reporting date.

3.3 The Corporation measures loss allowances at an amount equal to lifetime expected credit losses (ECLs) for:

a) trade receivables and contract assets when there is no significant financing component (i.e. – the balances are repayable over a short period of time); and
b) lease receivables, when the Corporation makes the policy choice to do so.

3.4 For financial assets carried at amortized cost or lease receivables whereby the lifetime ECL is not used, see 3.3 above, the Corporation must determine whether the credit risk of a financial asset has increased significantly since initial recognition of the financial asset. If there has been a significant increase in credit risk since initial recognition, the Corporation must recognize lifetime ECL. If there has not been a significant increase in credit risk since initial recognition, the Corporation must recognize 12-month ECL.

3.5 When estimating ECLs, the Corporation considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Corporation's historical experience and informed credit assessments and forward-looking information.

3.6 ECLs are discounted at the effective interest rate of the financial asset. When measuring ECL, the estimate of expected cash shortfalls must reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms

3.7 ECLs are quantified as follows:

3.7.1 For trade receivables, the Corporation uses past experience of historic actual credit losses and an assessment of the current economic environment as well considering forward-looking information, as the basis for estimating ECLs and applies this estimate to its gross balance (net of balances already fully impaired and written off) at each reporting date. The Corporation believes this amount to best reflect the ECL. ECLs are discounted at the effective interest rate of the financial asset.

3.7.2 For due from Service Provider receivables, the Corporation uses historic actual credit losses adjusted for forecasts of future conditions.

3.7.3 For lease receivables, the Corporation uses historical actual credit losses adjusted for forecasts of future conditions.

4. Presentation

4.1 Financial assets are presented in statement of financial position with separate presentation of cash and cash equivalents and trade and other receivables. Additional line items may be presented.

4.2 Financial liabilities are presented in statement of financial position with separate presentation of trade and other payables. Additional line items may be presented.

4.3 A financial asset is classified as current when it:

- is expected to be realized in or is held for sale within twelve months of the reporting date,
- is held primarily for trading purposes, or
- is cash or cash equivalent that is not restricted from being used for at least twelve months of the reporting date.

4.4 A financial liability is classified as current when it:

- is expected or due to be settled within twelve months of the reporting date,
- is held primarily for trading purposes or
- does not have the right at the end of the reporting date to defer settlement for at least twelve months after the reporting date.

4.5 Financial assets and financial liabilities are offset and the net amount presented in the Consolidated Statements of Financial Position when, and only when, the Corporation currently has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4.6 Interest, dividends, losses and gains relating to financial instruments or a component that is a financial liability shall be recognized as income or expense in profit or loss.

4.7 Loss allowances on financial assets measured at amortized cost, contract assets or lease receivables are deducted from the gross carrying amount of the asset and the related impairment loss is recorded separately on the Consolidated Statements of Comprehensive Income (loss). The gross carrying amount of a financial asset is written off when the Corporation has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof.

5. Disclosure

5.1 OLG shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. OLG shall provide sufficient information to permit reconciliation to the line items presented in the Statement of Financial Position.

5.2 For the Statement of Financial Position - The carrying amounts of each category of financial asset and financial liability shall be disclosed either in the Statement of Financial Position or in the notes.

5.3 For the Statement of Comprehensive Income - Items of income, expense, gains or losses shall be disclosed either in the Statement of Comprehensive Income or in the notes. Such items include:

a. Net gains or net losses on each class of financial asset.
b. Net gains or net losses on each class of financial liability.
c. Total interest revenue (calculated using the effective interest method) for financial assets that are measured at amortized cost.
d. Total interest expense (calculated using the effective interest method) for financial liabilities that are not measured at fair value through profit or loss.
e. Fee income and expense (other than amounts included in determining the effective interest rate) arising from financial assets and financial liabilities that are not at fair value through profit or loss

OLG shall disclose an analysis of the gain or loss recognized in the Statement of Comprehensive Income arising from the derecognition of financial assets measured at amortized cost, showing separately gains and losses arising from derecognition of those financial assets. This disclosure shall include the reasons for derecognizing those financial assets.

5.4 Fair Value Disclosures: For each class of financial assets and financial liabilities, OLG shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its' carrying amount. Disclosure is not required when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables or for lease liabilities.

In most cases, OLG does not recognize a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) nor based on a valuation technique that uses only data from observable markets. In such cases, OLG shall disclose by class of financial asset or financial liability:

a. its accounting policy for recognizing in profit or loss the difference between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants would take into account when pricing the asset or liability.
b. the aggregate difference yet to be recognized in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.
c. why OLG concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.

5.5 Disclosure regarding the Nature and Extent of Risks arising from Financial Instruments: Risks arising from financial instruments and how these risks are managed are disclosed. These risks include, but are not limited to:

a. credit risk;
b. liquidity risk; and
c. market risk.

See Appendix C for Overview – OLG Disclosure: Credit Risk, Liquidity Risk and Market Risk Disclosure

For each type of risk, OLG shall provide the following qualitative disclosures:

a. the exposures to risk and how they arise;
b. its objectives, policies, and processes for managing the risk and the methods used to measure the risk; and
c. any changes in (a) or (b) from the previous period.

For each type of risk, OLG shall provide the following quantitative disclosures:

a. summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of OLG (as defined in IAS 24 Related Party Disclosures), for example OLG's Board of Directors or Chief Executive Officer.
b. to the extent not provided in accordance with (a), refer to IFRS 7.35A-7.42 for quantitative disclosure requirements.
c. concentrations of risk if not apparent from the disclosures made in accordance with (a) and (b).

If the quantitative data disclosed as at the end of the reporting period are unrepresentative of OLG's exposure to risk during the period, OLG shall provide further information that is representative.

5.6 Other Disclosures: OLG shall disclose its material accounting policies (in accordance with IAS 1) comprising the measurement basis used in preparing the financial statements and other accounting policies used that are relevant to an understanding of the financial statements.

Appendix A
Financial Instruments – Characteristics/Examples

A financial instrument, in its simplest form, is a sum of money, the right to recover a sum of money or the obligation to give one. A common example of a financial instrument is a lender gives money to a borrower in exchange for regular payments of interest and principal.

All financial instruments are defined by contracts. The terms 'contract' or 'contractual' refers to an agreement between two parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law. Contracts defining financial instruments may take a variety of forms and need not be in writing.

All financial instruments are required to be contracts under IAS 32. Cash is not necessarily a contract, but it is a financial asset, because it represents the medium of exchange and is therefore the basis on which all transactions are measured and recognized in the financial statements. A deposit of cash with a bank or similar financial institution is a financial asset, because it represents the contractual right of the depositor to obtain cash from the institution or to draw a cheque or similar instrument against the balance in favor of a creditor in payment of a financial liability (Price Waterhouse – Manual of Accounting 40.20)

There are three basic types of financial instruments: derivatives, equities (i.e. shares) and debt instruments (including receivables). In addition to the three basic instruments, there are hybrid or compound financial instruments with more complicated features. Typically, OLG has relatively basic financial instruments (i.e. cash, receivables, payables and loans), however, there are instances that OLG utilizes derivative financial instruments.

Appendix B
Balance Sheet Items that Meet the Definition of a Financial Instrument

Balance Sheet item	Financial Instrument (Yes or No)
Assets	
Cash or Cash Equivalents	Yes
Restricted Cash	Yes
Trade and Other Receivables	Yes
Contract assets (per IFRS 15)	Not a financial instrument but included in IFRS 9/7 scope for impairment purposes
Lease receivable (recognized by lessor)	Yes a financial instrument but dealt with in IFRS 16 – inside scope of IFRS 7 & IAS 32 but outside scope of IFRS 9 except for derecognition and impairment purposes only
Due from Service Providers	Yes
Prepaid Expenses	No
Inventory	No
Property, Plant and Equipment	No
Right-of-use asset (lessee perspective)	No
Intangible Assets	No
Liabilities	
Trade and Other Payables	Yes
Provisions	No
Accruals	Yes
Taxes payable	No
Due to Operators and Service Providers	Yes
Derivative financial liability relating to the Brantford lease arrangement	Yes
Derivative financial liabilities arising from wagering transactions (certain lottery draw based games that are set to take place in the future and unsettled sports betting positions)	Yes
Contract Liabilities and Deferred Revenue	No
Debt	Yes
Lease liabilities (lessee perspective)	Yes a financial instrument but dealt within IFRS 16 except within scope of IFRS 7 disclosure (except for disclosure of fair value) and within scope of IFRS 9 for derecognition
Employee Benefits	Yes a financial instrument but employers' rights and obligations under employee benefit plans are dealt with in IAS 19 – Employee Benefits (not IFRS 9)
Equity	
Retained Earnings	No
Contributed Surplus	No

Appendix C
Overview - OLG Disclosure – Credit, Liquidity and Market Risk

- OLG typically has exposure to credit risk, liquidity risk and market risk from
- OLG's risk management framework is described and outlines controls in place to identify, assess and manage risks that could threaten the achievement of financial and non-financial objectives.

- **Credit risk:** the risk that the Corporation will suffer a financial loss due to a third party failing to meet its financial or contractual obligations to OLG. Detail is provided regarding specific credit risk areas (i.e. Trade and Other Receivables, Due from Service Providers and Finance Lease Receivable), including
  - Nature of the credit risk;
  - Credit risk management practices (i.e. credit evaluations);
  - types/magnitude of risk;
  - amount and considerations related to the computation of expected credit losses;
  - significant credit risk concentrations and credit risk exposure

- **Liquidity risk:** is the risk that the Corporation will not be able to meet its financial obligations as they fall due. Disclosure requirements include:
  - a maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities;
  - a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows; and
  - a description of how liquidity risk is managed for derivative and non-derivative financial liabilities.

- **Market risk:** is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes:
  - interest rate risk (i.e. cash flows will fluctuate due to changes in market interest rates)
  - foreign currency risk (i.e. OLG's exposure to changes in the foreign exchange rates)
  - other market price risk (i.e. risks related to sports-based lottery products)

DEFINITIONS

Accruals (IAS 37.11): are liabilities to pay for goods or services that have been received or supplied but not yet paid for or invoiced. The uncertainty of timing and amount generally is less for an accrual than for a provision. Examples are fees for services rendered such as audit or consulting fees and certain employee benefits such as vacation pay.

Constructive Obligation (IAS 37.10): is an obligation that derives from OLG's actions where:

a) by an established pattern of past practice, published policies or a sufficiently specific current statement, OLG has indicated to other parties that it will accept certain responsibilities; and
b) OLG has created a valid expectation on the part of those other parties that it will discharge those responsibilities (e.g., a sufficiently specific public statement by OLG).

A decision made by OLG management or Board of Directors by itself does not represent a constructive obligation until it is communicated in a sufficiently specific manner, such as publicly accepting responsibilities for rectifying environmental damage, even though it is not legally required.

Contingent Asset (IAS 37.10): is a possible asset that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of OLG.

Contingent Liability is **(IAS 37.10):**

a) a possible obligation that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within OLG’s control; or
b) a present obligation that arises from past events but is not recognized because:
    - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
    - the amount of the obligation cannot be measured with sufficient reliability.

Decommissioning Liability: is a legal or constructive obligation associated with a long-lived asset to restore the environment or dismantle an asset upon retirement of the long-lived asset.

Large Population: is a number of items for which an obligation exists and must be measured for recognition as a provision based on the expected value of all possible outcomes, such as warranties on products sold.

Legal Obligation: is an obligation that derives from (IAS 37.10):

- a contract (through its explicit or implicit terms);
- legislation; or
- other operation of law.

Liability: is a present obligation of OLG arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits (IAS 37.10).

Obligating Event: is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation (IAS 37.10).

Onerous Contract: is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it (IAS 37.10).

Provision: is a liability of uncertain timing or amount (IAS 37.11).

Reliable Estimate: is an estimate, determined by management, of the obligation that is sufficiently reliable to use in recognizing a provision. The use of estimates is an essential part of the preparation of the financial statements and does not undermine their reliability. It is considered extremely rare that no reliable estimate can be made (IAS 37.26).

Restructuring (IAS 37.10): is a program that is planned and controlled by management, and materially changes either:

- the scope of a business undertaken by an entity; or
- the manner in which that business is conducted.

Single Obligation: is a single item for which an obligation exists and must be measured using the best estimate for recognition as a provision, such as a legal claim.

REQUIREMENTS

1. Recognition of a Provision

1.1. A provision is recognized when all of the following criteria are met (IAS 37.14):

a) OLG has a present legal or constructive obligation (an obligating event) as a result of a past event, or, it is more likely than not that a present obligation exists, or in cases of doubt as to the existence of an obligation (for example a lawsuit), when it is more likely than not that a legal or constructive obligation has arisen from a past event; and

b) it is probable (i.e., more likely than not) that an outflow of resources

embodying economic benefits will be required to settle the obligation; and
c) the amount of the obligation must be a reliable estimate.

Refer to Appendix A: Decision Tree for IAS 37 Recognition Provision.

1.2. For practical purposes, OLG has determined “more likely than not” or “probable” to be greater than 50% (IAS 37.23).

1.3. In the extremely rare case where no reliable estimate can be made, the liability will be treated as a contingent liability and will not be recognized but disclosed in the financial statements (IAS 37.26).

2. Obligating Event

2.1. Obligating event is a past event that leads to a present obligation. For an event to be an obligating event, it is necessary that OLG has no realistic alternative to settling the obligation created by the event. This is the case only:

a) where the settlement of the obligation can be enforced by law (normally arise from contracts, court settlements from legal claims or legislation); or
b) where, in the case of a constructive obligation, the event (which may be an action of OLG, such as past practice or a sufficiently detailed public statement) creates valid expectations in other parties that OLG will carry out the action. See 2.3 below regarding legal settlements.

2.2. When uncertainty exists whether OLG has a liability as a result of past event, particularly in the case of a legal claim that is ongoing, OLG must assess all available evidence (such as the opinion of experts including legal counsel) to determine whether it is more likely than not (greater than 50%) that a present obligation exists (that OLG will have to pay an amount) at the reporting date regardless of whether or not OLG is disputing the claim (IAS 37.16.)

2.3. In the case of legal settlement discussions that occur outside of court, entering into discussions with the counterparty do not in itself cause a constructive or legal obligation. However, whether an obligation exists will depend on all the facts and circumstances surrounding the legal negotiations. For example, if the settlement negotiations have been agreed to by both parties and a valid expectation has been created, however not formally documented in a legal settlement agreement, this could result in a constructive obligation.

3. Measurement of a Provision

3.1. The amount recognized as a provision is the best estimate of the expenditure to be incurred by OLG. It is not acceptable to measure the provision based on the lowest or the highest anticipated outcome.

3.2. The amount to be recognized is the amount required to settle the present obligation at the end of the reporting period. (IAS 37.36).

3.3. The reference to the end of the reporting period does not preclude use of later additional evidence or better information but indicates that the best estimate will be the amount that OLG would rationally pay at the end of the reporting period to have the obligation taken away – by settlement or by transfer to a third party at that time (37.37).

3.4. Large Populations

3.4.1. Where the provision being measured involves a large population of items (e.g. product warranties), the obligation is measured at a probability-weighted expected value (by weighting all possible outcomes by their associated probabilities). The name for this statistical method of estimation is 'expected value'.

3.4.2. Where there is a continuous range of possible outcomes, and each point in that range is as probable as any other, the mid-point of the range is used. (IAS 37.39)

3.5. Single Obligations (IAS 37.40)

3.5.1. Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, OLG considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount (e.g., if OLG has to rectify a serious fault, the individual most likely outcome may be for the repair to succeed at the first attempt at a cost of 1,000, but a provision for a larger amount is made if there is a significant chance that further attempts will be necessary).

3.6. Discounting

3.6.1. Where the effect of the time value of money is material, the amount of a provisions, whether a situation of large populations (section 3.4 above) or single obligations (section 3.5 above), shall be the present value of the expenditures expected to be required to settle the obligation. The discount rate shall be a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability. (It is usually appropriate to make an initial assessment of whether the impact of discounting might be material by considering the time horizon and the expected discount rate.)

3.6.2. The discount rate should not reflect risks for which future cash flow estimates have been adjusted (IAS 37.47).

3.7. Future Events

3.7.1. In many cases, future events do not represent present obligations and therefore are not recognized as liabilities. Future events may, however, affect the measurement of a present obligation.

3.7.2. OLG will reflect future events that may affect the amount required to settle an obligation in the amount of a provision where there is sufficient objective evidence that they will occur (IAS 37.48).

3.7.3. In measuring a provision, OLG will consider future events as follows:

a) A technological development that would make decommissioning or asset retirement obligation less expensive as a result of future technology (37.49).
b) New legislation should be reflected only where there is sufficient objective evidence that the legislation is virtually certain to be enacted (37.50).

4. Subsequent Measurement

4.1. OLG management will review provisions at each reporting date and adjust to reflect the current best estimate of the settlement amount (IAS 37.59). Changes to the best estimate of the settlement amount may result from changes in the amount or timing of the outflows or revisions to the discount rate.

4.2. If outflow is no longer probable (i.e., no longer probable that a transfer of economic benefits will be required to settle the obligation), the provisions should be reversed in the results of operations for that period (IAS 37.59).

4.3. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognized as a borrowing cost (IAS 37.60).

5. Onerous Contracts

5.1. Determination of an Onerous Contract (IAS 37.67)

5.1.1. A provision should be recognized if OLG has a contract that is onerous, where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

5.1.2. In determining whether a contract is onerous, it is necessary to consider:
- the unavoidable costs of meeting the contractual obligations, which is the lower of the net costs of fulfilling the contract and the cost of terminating it, and
- the economic benefits to be received over the term of the contract.

5.1.3. A contract is not onerous when:
- it can be terminated without a penalty, or
- it contains unfavourable terms, unless the costs of fulfilling the obligations under the contract exceed the benefits to be derived, or
- it is not performing as well as it was anticipated, unless the costs of fulfilling the obligations under the contract exceed the benefits to be derived.

5.2. Costs to Fulfill a Contact

5.2.1. The costs to fulfill the contract include the unavoidable costs due in the period in which the contract cannot be cancelled. If there is an option to cancel the contract and pay a penalty, then the present value of the amount to be paid on cancellation of the contract should also be considered.

5.2.2. The cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both:

a) the incremental costs of fulfilling that contract – for example direct labour and materials

b) an allocation of other costs that relate directly to fulfilling contracts – for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract among others

5.2.3. Unavoidable costs of meeting obligations under a contract will be considered to be costs that:
- were incurred in the period in which the contract cannot be cancelled;
- are variable and directly associated with the contract and therefore considered incremental to the performance of the contract;
- exclude allocated or shared costs that would be incurred regardless of whether the contract is fulfilled or not; and
- cannot be avoided by future actions.

5.2.4. Accordingly, costs that would be incurred regardless of whether or not the contract is fulfilled are not considered incremental and, therefore, are excluded from the determination of cost to fulfill the contract.

Such following costs would be considered fixed and non-cancelable (i.e. excluded from the onerous contract analysis):

- depreciation on property, plant and equipment, and
- personnel costs for employees who will be retained.

5.3. Expected Benefits Under a Contract

5.3.1. The expected benefit under a contract is the net present value of the future inflows expected to be received over the term of the contract.

5.4. Measurement and Recognition of Onerous Contracts:

5.4.1. If OLG has a contract that is deemed onerous, the present obligation under the contract shall be recognized and measured as a provision, see below for sample journal entry (IAS 37.66).

5.4.2. OLG will record any onerous provisions at the lower of:

- the cost of fulfilling the contract, net of offsetting revenues
- any compensation or penalties arising from failure to fulfill the contract (discounted)

5.5. Contracts Part of Overall Loss-Making Operation

5.5.1. A provision will not be recognized if a contract is part of an overall loss-making operation, unless the cash flows relating to the contract are clearly distinguishable from the operations as a whole. Otherwise, the provision effectively would be recognized for future operating losses, which is prohibited by IFRS.

5.5.2. Future operating losses do not meet the definition of a liability and the general recognition criteria.

5.5.3. An expectation of future operating losses is an indication that certain assets of the operation may be impaired in which IAS 36 Impairment of Assets would apply (IAS 37.65). For example, if the line of business to which a contract for operator fees relates to is incurring continued net losses due to declining revenues and/or increasing expenses, the contract itself may not be onerous, but rather the assets within the line of business may be impaired.

6. Restructuring Activities

6.1. OLG will recognize a provision for restructuring costs only when the general recognition criteria for provisions are met.

6.2. The following are examples of events that may fall under the definition of restructuring:

- sale or termination of a line of business;
- the closure of a business location;
- changes in management structure.

6.3. A constructive obligation to restructure arises only when OLG:

a) has a detailed formal plan for the restructuring identifying at least:
   - the business or part of a business concerned;
   - the principal locations affected;
   - the location, function, and approximate number of employees who will be compensated for terminating their services;
   - the expenditures that will be undertaken; and
   - when the plan will be implemented; and

b) has raised a valid expectation in those affected that it will carry out the restructuring either by starting to implement that plan or announcing its main features to those affected by it (IAS 37.72).

6.4. A restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both:

a) necessarily entailed by the restructuring; and
b) not associated with the ongoing activities of OLG.

Excluded are the following costs:

- retraining or relocating continuing staff;
- marketing;
- investment in new systems and distribution networks.

7. Decommissioning Liabilities

7.1. A decommissioning liability will be recognized for both legal and constructive obligations as they become probable (determined to be greater than 50%), either on initial acquisition of the related long-lived asset or subsequent to initial acquisition (e.g., if triggered by a law enacted after the asset was acquired). OLG typically has decommissioning liabilities related to restoring leased office space. The amount being an estimate to restore the space to contractual requirements.

7.2. The measurement will be the present value of management's best estimate of the future cash flows using a discount rate associated with the risk related to the decommissioning liability.

7.3. Accretion expense is recognized over the life of the asset as interest expense in the financial statements.

7.4. The estimate will be periodically reviewed and revised due to a change in one of the following:

- estimated amount or timing of payments;
- discount rate;
- increase due to the passage of time.

7.5. The effect of any changes to an existing obligation for decommissioning costs will be added to or deducted from the cost of the related asset and depreciated prospectively over the remaining useful life of the asset (e.g., treated as a change in estimate).

8. Provisions and Other Liabilities

8.1. Provisions can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

a) trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier; and
b) accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

8.2. Accruals are often reported as part of trade and other payables, whereas provisions are reported separately. (IAS 37.11)

9. Relationship Between Provisions and Contingent Liabilities

9.1. In a general sense, all provisions are contingent because there is uncertainty about the timing or the amount. However, based on IAS 37 principles, OLG will use the term ‘contingent’ for liabilities and assets that have not been recognized in the financial statements because their existence will be confirmed only after the occurrence, or if the non-occurrence of one or more uncertain future events not wholly within the control of OLG. Further, the term ‘contingent liability’ is used where the recognition criteria as provided herein is not met.

9.2. Consequently, based on IAS 37 principles, OLG distinguishes between:
a) provisions which have already been recognized as liabilities (assuming that the amount has been reliably estimated) because they represent OLG’s present obligation that OLG is likely to meet and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
b) contingent liabilities which have not been recognized as liabilities because

they are:

- possible obligations to the extent that has yet to be confirmed whether OLG has a present obligation that may involve an outflow of resources embodying economic benefits, or
- present obligations that do not meet the recognition criteria of IAS 37 (either because it is unlikely that an outflow of resources embodying economic benefits will be required, or the amount of the obligation cannot be measured reliably).

10. Contingent Liabilities

10.1. A contingent liability, as defined in this policy (see Definitions above), is not recognized but rather disclosed unless the possibility of an outflow of resources embodying future economic benefits is remote, determined to be less than 10%.

10.2. Where the outflow of economic benefits is considered probable, determined to be greater than 50%, the liability is no longer contingent and can be recognized as a provision accordingly.

10.3. Contingent liabilities may develop in a way not initially expected; therefore, they will be regularly assessed to determine whether an outflow of resources representing economic benefits has become probable (refer to Appendix A: Decision Tree for IAS 37 Recognition Provision).

10.4. All contingent liabilities will be regularly assessed to determine whether an outflow of resources representing economic benefits has become probable.

11. Contingent Assets

11.1. The accounting treatment of contingent assets will depend on the probability of future benefits (IAS 37.31-35).

11.2. Contingent assets are not recognized in the financial statements since this may result in the recognition of income that may never be realized. However, when the realization of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

12. Reimbursements

12.1. The asset resulting from reimbursement (such as insurance recoveries, warranties, or indemnities) should only be recognized as a separate asset when it is virtually certain (OLG uses a threshold of determined to be greater than 90%) that reimbursement will be received if OLG settles the obligation.

12.2. The amount recognized should not exceed the amount of the related provision.

13. Note Disclosure

Provisions:

13.1. For each class of provision, the following disclosures are required (37.84):

- The carrying amount at the beginning and end of the period;
- Additional provisions made in the period, including increases to existing provisions;
- Amounts used during the period;
- Unused amounts reversed during the period; and
- The increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

13.2. An entity shall disclose the following for each class of provisions (37.85):

- a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
- an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events; and
- the amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.

Class of Provisions:

13.3. In determining which provisions or contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfill the disclosure requirements in IAS 37. For example it may be appropriate to treat as a single class of provision amounts relating to product warranties; however it would not be appropriate to treat legal claims that vary in nature as a single class of provision (IAS 37.87).

13.4. Furthermore, where provisions or contingent liabilities arise from the same set of circumstances, an entity should disclose the link between the two (IAS 37.88).

Contingent Liabilities:

13.5. Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable (37.86):

- an estimate of its financial effect, measured under paragraphs 36-52;

- an indication of the uncertainties relating to the amount or timing of any outflow; and
- the possibility of any reimbursement.

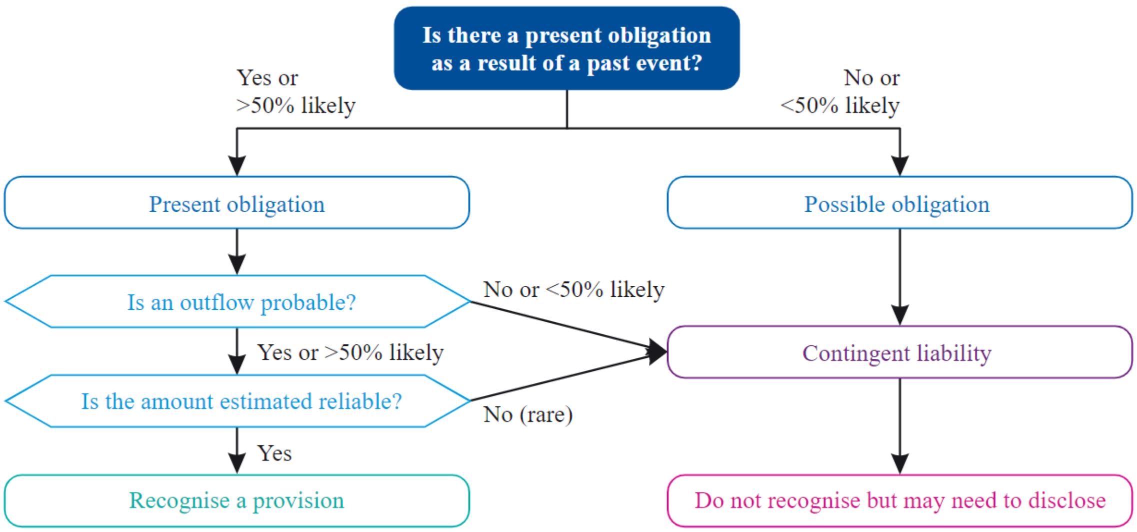
13.6. In extremely rare cases, these disclosures are exempted as they prejudice seriously the position of the entity in disputes with other parties. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

Contingent Assets:

13.7. Where an inflow of economic benefits is probable, an entity shall disclose a brief description of the nature of the contingent assets at the end of the reporting period, and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs 36-52.

13.8. It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of income arising (37.90).

Appendix A: Decision Tree for IAS 37 Recognition of a Provision



Revenue and Promotions Accounting Policy

Last Review: July 2023

This policy includes the following standards:

- IFRS 15 - Revenue from Contracts with Customers (IFRS 15);
- IFRS 9 - Financial Instruments (IFRS 9) when applicable; and
- IFRS 16 Leases (IFRS 16) for lease revenue.

This policy does not apply to items of other income that do not arise from the ongoing major or central activities (also described as ordinary activities) of OLG. Examples of these items are interest income, foreign exchange gains, gains on disposal of property, plant and equipment and other miscellaneous income items.

DEFINITIONS

Breakage: refers to situations where customers do not exercise all of their contractual rights to receive goods or services in the future. Common examples include forfeiting balances on gift cards; not claiming loyalty points and not claiming winning lottery tickets.

Contract Liability: represents an obligation to transfer goods or services to a customer for which the Corporation has received consideration for. A portion of the contract liability may relate to customer's contractual rights that the entity does not expect to be exercised (breakage). When the likelihood of the customer exercising its rights becomes remote, the estimated breakage amount adjusts the value of the contract liability to reflect the remaining rights expected to be redeemed.

Complimentaries: free or discounted goods or services provided to patrons.

Customer Loyalty Program: is a non-discretionary promotional program offered to patrons (eg: player club points redeemable for cash).

Discretionary Program: is offered based on past levels of play or to incent future play but is not an obligation of past play. Prior to the incentive being offered, there was no obligation to provide any good or service to the patron. Examples of discretionary promotional programs include, but not limited to, complementary goods or services, free play/tickets or cash incentives provided to customers not in conjunction with a gaming transaction.

Gaming Revenue: proceeds from Lottery and Gaming less lottery prizes.

Lease revenue: revenue from arrangements whereby the Corporation leases property to third parties.

Net Gaming Revenue: gaming revenue less Service Provider fees.

Non-Discretionary Program: a customer loyalty program where OLG has an obligation to provide the patron as a result of the patron's past play. Examples of non-discretionary promotional programs include, but not limited to, slot club points that allow customers to earn points based on the volume of play in which are redeemable for cash, free play and/or free or discounted goods/services, or purchasing a lottery ticket and receiving a free ticket as part of the purchase.

Non-Gaming Revenue: generated at Caesars Windsor, includes revenue earned from accommodations, food and beverage, entertainment, and other services. Non-gaming revenue is recognized at its' stand-alone selling price in the period it is earned.

Prizes: represent prizing for retail Lottery products and for Lottery products (excluding digital Sports products) purchased on OLG's digital gaming platform.

Proceeds from Lottery and Gaming (Proceeds): Represents:

Lottery retail:

- sales from retail Lottery products (including regional and national LOTTO, INSTANT and Sports) before deduction of prizes.

Land-based Gaming (Casino Gaming and Charitable Gaming):

- net win before the deduction of service provider fees

Digital Gaming:

- net win from casino-style games and digital Sports (iSports) products purchased on OLG's digital platform, and
- sales from Lottery products purchased on OLG's digital platform (iLottery) platform before the deduction of prizes.

Promotions: Includes customer loyalty programs or non-discretionary programs and discretionary programs.

Revenue: The increase of economic benefits during the accounting period, arising in the course of ordinary activities of OLG, in the form of inflows or enhancements of assets or decreases of liabilities that result in an increase in equity, other than those relating to contributions from equity participants. Revenue includes net gaming revenue, non-gaming revenue and lease revenue.

Service Provider fees: Represent fees paid to, or on behalf of, Charitable Gaming and Casino Gaming service providers. Also included in service provider fees are other adjustments such as reclassifications and amounts related to advanced consideration received from service providers.

REQUIREMENTS

1. Overview

1.1 OLG's revenue sources generally comprise Gaming revenue, non-gaming revenue and lease revenue.

2. Classification

2.1 Revenue represents the core operating business transactions accounted for under IFRS 15, IFRS 9, and IFRS 16.

2.1.1 IFRS 15 reflects:

- Revenue earned from transactions where the Corporation administers games amongst players (Administered Games), as well as
- Other transactions made in exchange for a defined good or service.

2.1.2 IFRS 9 reflects:

- Revenue from transactions where the Corporation takes a position against the customer such that the Corporation's net gain or loss on the transaction is determined by an uncertain future event (Wagering Transactions).

2.1.3 IFRS 16 reflects:

- Revenue from lease contracts where the Corporation leases certain properties to third parties.

2.2 For each new product, OLG completes a scoping exercise to assess whether the product should be classified under IFRS 15 or IFRS 9.

2.3 Significant judgment is needed to determine whether wagering transactions are within the scope of IFRS 15 or IFRS 9. The mechanics, characteristics and probability of loss of each game will assist in determining the classification.

2.4 Refer to Appendix A for a decision tree flowchart used to analyze products.

3. Recognition & Measurement

3.1 IFRS 15:

3.1.1 Revenue recognition includes the transfer of promised goods or services at an amount that reflects the expected consideration to be received. This is achieved by applying five steps:

1) Identify the contract with a customer

Revenue is not recognized until there is a contract with a customer, whereby enforceable rights and obligations are created through a written, oral or implied contract. Where collection under a contract is not probable, the contract may not be valid from an accounting perspective and no revenue recognized until the probability changes.

2) Identify the performance obligations in the contract

Contracts must be assessed to identify the promises of distinct goods or services that the Corporation makes, ultimately to determine if there are one or more performance obligations (for example, purchasing a lottery product and receiving a free ticket).

A distinct good or service is one in which the customer can benefit from on its own or with other resources that are available to the customer. A good or service is also distinct if the Corporation's promise to transfer the good or service is identifiable from other promises in the contract. Each distinct good or service that the Corporation promises to transfer is a performance obligation.

3) Determine the transaction price

Revenue is measured at the transaction price, which is the amount the Corporation expects to be entitled to for providing the good or service (the performance obligation). Revenue is recognized net of consideration paid or payable to a customer (for example Land-based Gaming Service Provider Fees or lottery prizes), see Appendix B.

The transaction price could include fixed amounts as well as variable amounts such as incentives, sales-based royalties or amounts contingent on a future event. The Corporation must consider whether variable consideration is constrained, such that the consideration cannot be quantified with reasonable certainty and is only recognized when the amount becomes highly probable.

Consideration is adjusted for the effects of time value of money if the timing of payments agreed to by the parties provides with the Corporation or the customer with a significant benefit of financing. A significant financing component might exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties.

4) Allocate the transaction price to the performance obligations in the contract

Where there is more than one performance obligation, revenue must be allocated to each performance obligation based upon stand-alone selling prices (or market prices that would be paid by third parties). For example, a free lottery ticket received with a purchase of a lottery ticket, the transaction price would be allocated pro-rata to each ticket based upon it's stand-alone selling price.

5) Recognize revenue when (or as) the entity satisfies a performance obligation

A performance obligation is satisfied by transferring control of a promised good or service, either at a point in time or over time.

3.1.2 Revenue from Administered Games under IFRS 15:

3.1.2.1 Lottery (Retail & Digital)

- Revenue from lottery tickets for which results are determined based on a draw is recognized when the related draw occurs net of awarded prizes. These tickets are sold to customers either by contracted lottery retailers or on OLG's digital platform. The value of regional Lotto game prizes that are unclaimed and are anticipated to reach expiration (breakage amount), are recorded as a reduction to unclaimed prize liability and an increase to gaming revenue.
- INSTANT lottery games revenue is recognized net of the predetermined prize structure at the time retailers make them available for sale to the public. This is indicated by the retailer's activation of tickets which acts as a proxy for the eventual sale to the customer.
- Revenue from POOLS is recognized when the event is concluded, net of consideration payable to winners.
- Tickets issued as a result of the redemption of free ticket prizes are not recorded as additional revenue, however may result in deferral of revenue of the original lottery ticket purchase (see Contract Liabilities section).

3.1.3 Revenue from other transactions made in exchange for a defined good or service under IFRS 15:

3.1.3.1 Land-based Gaming Service Provider Arrangements

OLG recognizes net gaming revenue generated by Land-based gaming casino sites operated by Land-based Casino Gaming service providers, in the same period games are played. Net gaming revenue is determined after the deduction of service providers' fees, primarily comprising a fixed fee, a variable fee (calculated as a percentage of gaming revenue) and an amount for permitted capital expenditures.

3.1.3.2 Charitable Gaming Service Provider Arrangements

OLG recognizes net gaming revenue generated by Charitable Gaming service providers in the same period the games are played. Net gaming revenue is determined after the deduction of service providers' fees, primarily comprising a variable fee (calculated as a percentage of gaming revenue).

3.1.3.3 Non-gaming revenue

Non-gaming revenue generated at Caesars Windsor includes revenue earned from accommodations, food and beverage, entertainment, and other services and is recognized in the period it is earned.

OLG does not recognize non-gaming revenue generated at sites operated by Land-based Casino Gaming and Charitable Gaming Service Providers.

3.1.3.4 Lease revenue (refer to IFRS 16 Leases Accounting Policy)

The Corporation leases certain properties in exchange for fixed and variable lease payments, as applicable, pursuant to lease agreements, including property tax and operating cost reimbursements under certain leases. The fixed and variable payments are recognized in lease revenue as they are earned. In addition to these payments, an adjustment is made for certain leases with service providers in accordance with IFRS 15, to reallocate gaming revenue to lease revenue with the objective of recognizing a fair market value lease payment.

3.1.4 Contract Liabilities

3.1.4.1 Funds collected for unsettled sports betting positions and lottery games for which results are determined based on the outcome of an event or a draw, and for which tickets are sold in advance of the event or draw, are recorded as contract liabilities representing the portion of gaming revenue to be recognized once the related draw occurs and a separate portion for prizes that the Corporation expects to be returned to players.

3.1.4.2 Contract liabilities also include prepaid lease revenue and consideration received from Land-based Casino Gaming service providers which is recognized on a straight-line basis over the duration of the respective COSA.

3.1.4.3 Where customers are expected not to exercise all of their rights or options in an arrangement, for example, redeeming a winning lottery ticket or redeeming a gift card, this is referred to as breakage or forfeiture. The Corporation must consider the IFRS 15 guidance on constraining variable consideration to determine whether or not it expects to be entitled to a breakage amount. If the Corporation expects to be entitled to a breakage amount, the expected breakage amount is recognized as revenue and reduction to contract liability (in order for the liability balance to reflect the remaining rights expected to be redeemed). If the Corporation does not expect to be entitled to a breakage amount, it recognizes the expected breakage amount as revenue only when the likelihood of the customer exercising its rights becomes remote. The estimate for breakage is updated at each reporting period.

Breakage applies not only to any situation where an entity receives prepayments for future goods or services, but also to sales incentive programs, (see Appendix C) and certain unclaimed lottery prizes (see section 3.1.2.1).

3.2 IFRS 9

3.2.1 Revenue earned from Wagering Transactions (IFRS 9):

3.2.1.1 Lottery (Retail)

Revenue earned from Wagering Transactions where the outcome is based on a future event, includes revenue from certain lottery game or sports betting product offerings. Gaming revenue from Wagering Transactions represents the difference between the amounts earned through lottery and sports ticket sales or gaming wagers less prize payouts, net of any changes in fair market value measurements of unsettled sports betting positions. For Wagering Transactions, revenue is recognized in the same period the related draw occurs.

3.2.1.2 Land-based Gaming – Caesars Windsor

Revenue from land-based gaming being Caesars Windsor, OLG's last remaining owned facility, is recognized as the difference between amounts earned through gaming wagers less the payouts from those wagers, net of any changes in accrued jackpot liabilities and liabilities under customer loyalty incentive programs. Revenue is recognized in the same period as the games are played.

3.2.1.3 Digital

Revenue from digital casino gaming or sports product offerings is recognized as the difference between amounts earned through sports ticket sales and gaming wagers less prize payouts, net of any changes in accrued jackpot liabilities fair value remeasurements of unsettled sports betting positions and liabilities under customer loyalty incentive programs. Revenue is recognized in the same period as the games are played.

3.2.1.4 Financial liability

A financial liability will be created to represent the position against a player under IFRS 9. The liability will be adjusted once the final outcome of the game has been determined. Generally, the liability will not fluctuate greatly due to the short-term nature of gaming events.

As required, OLG must adjust the net position of the liability each year (e.g. a sporting event spanning over year-end).

3.3 Customer Loyalty, Promotional Programs and other Customer Options

3.3.1 Customer options to acquire additional goods or services include sales incentives, customer loyalty incentive programs and other discounts. When an arrangement includes options embedded in the agreement, the Corporation must determine if the customer is really purchasing two items; 1) the good/service originally purchased and 2) the right to a free or discounted good or service in the future (a material right). The customer is effectively paying in advance for the future goods or services.

A material right is a promise embedded in a current contract that should be accounted for as a separate performance obligation.

3.3.2 See Appendix C for the promotional program flowchart.

3.3.3 Customer loyalty incentive programs (provided by the Corporation)

The customer loyalty incentive programs are those whereby customer have the choice to receive free or discounted goods and services and, in many cases, the right to receive cash. Some of these customer loyalty incentive programs allow customers to earn points based on the volume of play during gaming transactions.

For programs that allow customers to earn points based on the volume of play during gaming or through purchases of non-gaming amenities, these points are recognized as a separate deliverable in the revenue transaction.

For programs that provide customers the right to receive cash, a financial liability is recognized when the points are granted and a corresponding amount equal to the cash value is recognized as a reduction to revenue. When the points are redeemed, expire or are forfeited, the financial liability is derecognized.

For programs that provide customers the right to receive free or discounted goods and services and/or free play, a financial liability is recognized when the points are awarded and a corresponding amount equal to the fair value is recognized as a reduction to revenue. The revenue is deferred until the points are redeemed, expire or are forfeited, at which time the financial liability is derecognized.

3.3.4 Complimentary goods and services

The Corporation may provide lodging, transportation, food and beverage, entertainment and other goods and services to customers at no charge, at sites operated owned by OLG.

When such complimentaries are not provided in conjunction with a gaming transaction, the Corporation does not recognize revenue from the complimentary goods and services or free tickets.

3.4 Consideration Payable to a Customer

3.4.1 When contracts with a customer include fees paid to or on behalf of the customer, an assessment is required to determine whether the fees should be presented as a reduction to revenue, as an expense or as an asset. The determination is based up on the nature of the payment:

Presentation as a reduction to revenue - when the payment is not for a distinct good or service received or receivable from the customer. For example, a service provider fee paid as part of a revenue share arrangement.

Presentation as an expense or asset - when the nature of the payment to the customer is in exchange for a distinct good or service received or receivable from the customer. For example, in exchange for the fees paid, OLG receives an asset OLG controls (ie – computer software and hardware) or a service from the customer (ie - maintaining and securing casino assets and sites while closed, or advertising services).

3.4.2 Refer to consideration paid to a customer flowchart in Appendix B.

4. Presentation and Disclosure

4.1 OLG shall recognize an asset or liability if one of the parties to the contract has performed before the other. For example, where OLG performs a service or transfers a good in advance of receiving consideration, it will recognize a contract asset or receivable. A contract liability will be recognized if OLG receives consideration in advance of performance.

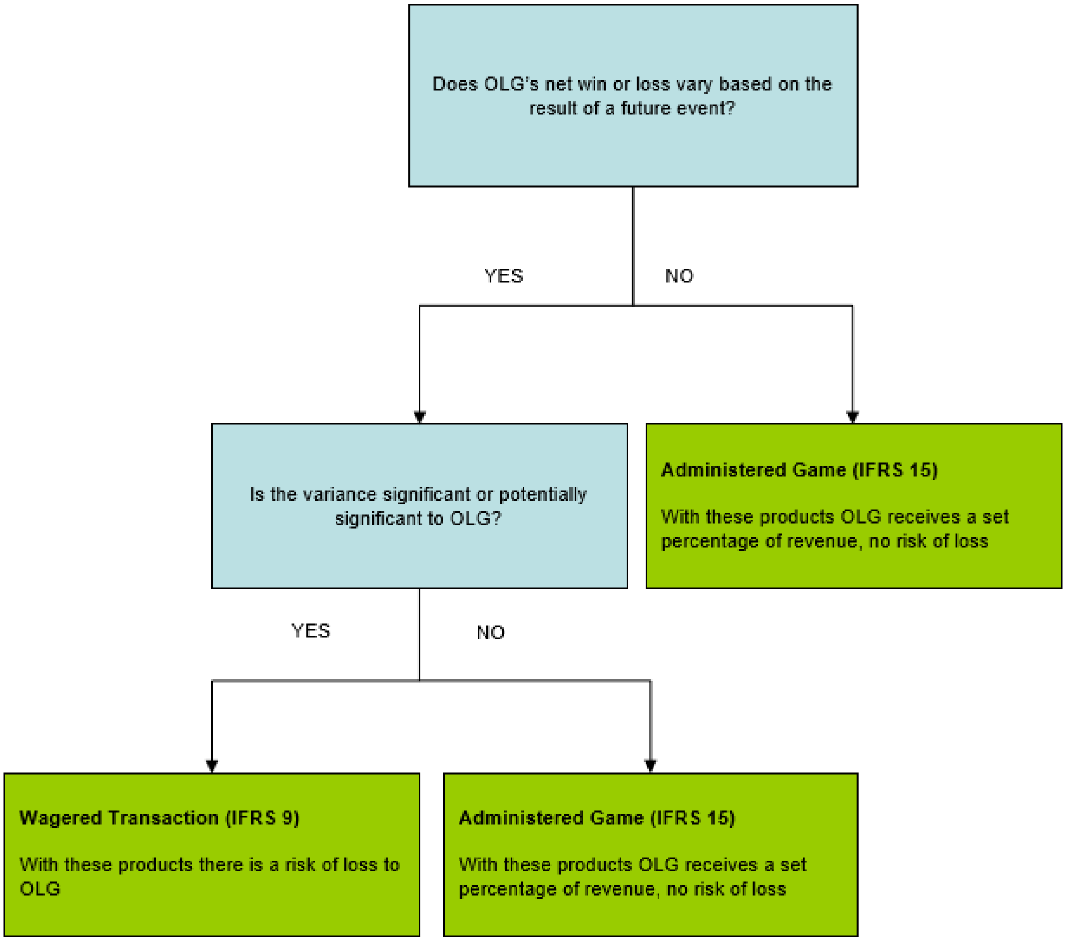
4.2 Alternative descriptions can be used for contract assets and contract liabilities (for example, deferred revenue) as long as they provide sufficient information to distinguish between those rights to consideration that are conditional (that is, contract asset) from those that are unconditional (that is, receivables).

4.3 OLG shall present or disclose revenue from contract with customers separately from other sources of revenue, including revenue from interest and leases.

4.4 OLG shall disclose:

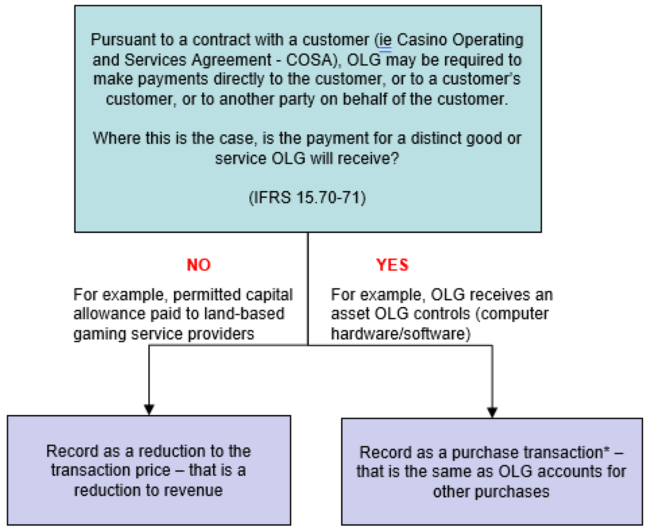
- Disaggregation of revenue into categories that depict how the nature, amount, timing an uncertainty of revenue and cash flows are affected by economic factors, including for example:
    - revenue by category (gaming, non-gaming, lease),
    - revenue by line of business (lottery, land-based gaming and digital), and
    - total revenue recognized from contracts with customers (disclosure of total revenue earned from IFRS 15 Administered Games and other IFRS 15 transactions) and total revenue earned from IFRS 9 Wagering Transactions
- Lease revenue, refer to IFRS 16 Accounting Policy
- Any impairment losses (determined in accordance with IFRS 9) on receivables or contract assets arising from an entity's contract with customers, separate from other impairment losses
- Significant judgments and changes in judgments in applying IFRS 15 and 9
- Assets recognized from the costs to obtain or fulfill a contract with the customer
- Liabilities recognized from contracts with customers (for example, contract liabilities such as deferred lottery revenue, unredeemed gift cards, amounts prepaid from customer in advance of OLG providing the good or service)
- Revenue recognized in the period that was included in the contract liability balance at the beginning of the period
- Other qualitative and quantitative IFRS 15 disclosures as necessary (refer to IFRS 15.110 to 129)

Appendix A
IFRS 15 & 9 Gaming Revenue Decision Tree Flowchart (for Games)



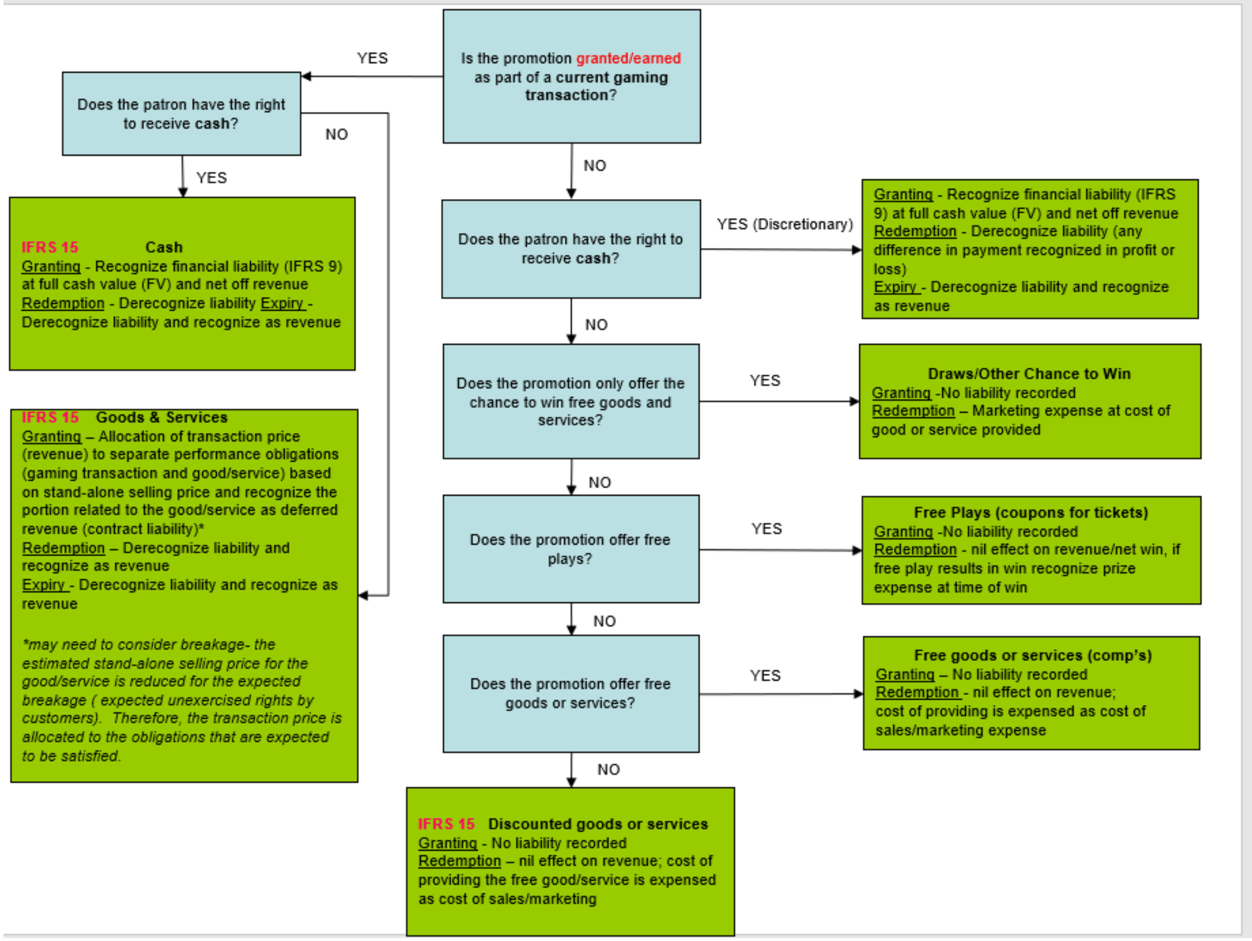
Appendix B
Consideration Payable to a Customer Flowchart

Consideration Payable to a Customer



** If the consideration paid/payable for a distinct good or service is not at fair value, refer to IFRS 15 guidance on consideration payable to a customer*

Appendix C
Promotion Flowchart



**There may be additional scenarios which are not included in the above. See External Reporting Department for any which may apply.*

HST

Last Review: July 2023

REQUIREMENTS

1. GST/HST is classified as an operating expense, with the exception of GST/HST related to capital acquisitions.

- Ontario Gaming Assets Corporation (OGAC) is a 100% owned subsidiary of OLG, which was established to purchase capital assets for use in the operations of OLG. The capital assets, subsequently leased to OLG as finance leases, are accounted for in accordance with OLG Capital policies.

- HST is paid and recovered on capital assets purchased by OGAC at the time of purchase. HST incurred on capital expenditures made in OGAC is ultimately recovered as input tax credits (ITCs).

- Effective April 1, 2022, capital assets will be acquired directly in OLG and not the OGAC subsidiary, with the exception of assets acquired for Caesars Windsor. HST paid to the vendor for capital purchases will be included in the cost of the asset and the imputed tax additional 13% will also be added to the asset cost.

- The HST paid to OGAC on the lease payments and the additional HST paid to the Federal Government is recognized as operating expenses when incurred.

- The GST/HST and imputed tax on gaming expenses (ITGE) related to capital purchases made by OLG are fully capitalized.

Disclosure of Accounting Policies

Last Review: July 2023

DEFINITIONS

Material: Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole. IAS 1.7

REQUIREMENTS

This policy outlines the amendments to IAS 1 *Presentation of Financial Statements* that requires disclosure of material accounting policy information and other explanatory information rather than significant accounting policies.

1. Disclosure Requirements

1.1. Accounting policy information is material if, when considered together with other information included in the financial statements, it can reasonably be expected to influence decisions. IAS 1.117

1.2. Examples of material transactions, other events or conditions that would require disclosure:

- Changes to accounting policies that resulted in material change to the information in the financial statements,
- If without the disclosure the users of the financial statements would be unable to understand other material information,
- Entity chooses an accounting policy from one or more options permitted under IFRS (for example, measuring an investment property at historical cost rather than fair value), or
- The accounting policy relates to an area that requires significant judgement or assumptions in applying an accounting policy.

1.3. Accounting policy information should focus on how the entity has applied the requirements of the IFRSs to its own circumstances and provide entity-specific information that is more useful to users of financial statements.

1.4. Disclosure should avoid standardized information and information that only duplicates or summarizes the requirements of the IFRSs.

1.5. To the extent immaterial accounting policy information is disclosed, it shall not obscure material accounting policy information.

1.6. The following are examples of circumstances that may result in material information being obscured:
- information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- information regarding a material item, transaction or other event is scattered throughout the financial statements;
- dissimilar items, transactions or other events are inappropriately aggregated;
- similar items, transactions or other events are inappropriately disaggregated; and
- the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material. IAS 1.7