MANITOBA FIRST NATION GAMING MARKET STUDY

Final Report: August 2007

HLT ADVISORY

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1. Introduction

HLT Advisory Inc. ("HLT") has been retained by the Province of Manitoba (the "Province") and the Assembly of Manitoba Chiefs ("AMC") through the Manitoba Gaming Control Commission ("MGCC") to conduct an independent assessment of the potential market for additional First Nation gaming facilities in Manitoba. This report ("Key Findings Report") summarizes the results of the market assessment.

1.1 BACKGROUND

The Province and AMC have partnered to develop and implement gaming activities for First Nations in the Province. In 2003, the Province and AMC formed a committee to review and evaluate the *First Nation's Casino Project, 2000*. In 2005, the partnership jointly established the following goals and objectives for First Nation gaming in Manitoba:

- Main Objective:
  - to provide revenues for all First Nations in Manitoba.
- Secondary Objectives:
  - to provide sustainable economic benefits and opportunities to the First Nations people of Manitoba;
  - to act as a catalyst for economic development and diversification for the First Nations people of Manitoba;
  - to create new jobs for First Nations people, as they represent the youngest and fastest growing segment of Manitoba's population;
  - to promote the tourism and the hospitality industry for Manitoba, locally, nationally and internationally; and
  - to provided for mitigating measures to address negative social impacts that may occur.

The Province/AMC partnership formulated a Joint Steering Committee to carry out tasks consistent with the above objectives. The gaming market potential assessment, summarized herein, is one such task that has been commissioned by the Joint Steering Committee.

1.2 SCOPE OF ASSESSMENT

To help achieve its stated goals and objectives, the Joint Steering Committee established the following scope for the market assessment. The purpose of the market assessment is:

- "to determine and assess new opportunities in the Province for the development of significant First Nation casino(s) where there likely exists the economic factors needed to optimize financial success".

The market assessment is to be focused first and foremost on the Primary Market Area (defined as Southern Manitoba), which includes the City of Winnipeg and the broader Capital Region. With regard to the City of Winnipeg, the Province is strongly opposed to a new casino(s) inside the City, while AMC is strongly in favour of a new casino(s) inside the City.

Further, the Joint Steering Committee wanted the following areas, at a minimum, addressed in the market assessment.

- A review of all gaming sectors in the Province including both existing and proposed gaming activities (and facilities).
- A review of possible ways (based on trends and best practices in the gaming industry) a new gaming facility location could competitively attract tourism from border jurisdictions.
- An analysis of development opportunities based on the current and projected market.
- Identification and description of potential specific geographic market areas based on current and future population, current operations, transportation, tourism and entertainment attractions.
- Estimation of the potential market size for the identified specific geographic market areas and the potential win based on estimated attendance.
- Estimation of related economic development impacts.
- Recommendations specific to future casino developments and other gaming development opportunities for First Nations in Manitoba.

HLT developed a work plan, including these study areas, to carry out the assessment.

1.3 ORGANIZATION OF THE REPORT

This document represents the Key Findings of the market assessment. The detailed analyses undertaken to arrive at these Key Findings are contained in a separate working document entitled *Manitoba First Nation Gaming Market Study*. This working document contains the following sections:

- Introduction – This section introduces the study and its objectives as well as outlines the scope of work undertaken.
- Province-Wide Market Area Assessment – This section describes the province in terms of current and future population characteristics.
- Manitoba Gaming Inventory and Assessment – This section analyzes and compares Manitoba's gaming industry to that of selected comparison jurisdictions.
- Provincial Comparisons – This section compares demographic and economic characteristics as well as gaming expenditure data and gaming facility performance of Manitoba to that of selected Canadian provinces.
- Manitoba Gaming Market Potential Analysis – This section focuses on estimating the potential size of the Manitoba market for casino gaming.
- First Nation Gaming Facility(s) Opportunities – This section assesses the First Nation gaming facility opportunities in light of total market potential and existing activity levels.
- Cash Flow Projections (Revenue and Expenses) – This section assess the financial viability of the identified First nation gaming facility opportunity.
- Economic Impact –This final section discussed the potential economic benefits of constructing and operating the identified First Nation gaming facility opportunity.

The remainder of this Key Findings Report is organized as follows:

Section 2 contains an analysis of the Province-wide market area.

Section 3 provides an assessment of Manitoba's gaming industry. To better understand Manitoba's gaming industry, comparisons to Saskatchewan, Nova Scotia and Alberta are also included.

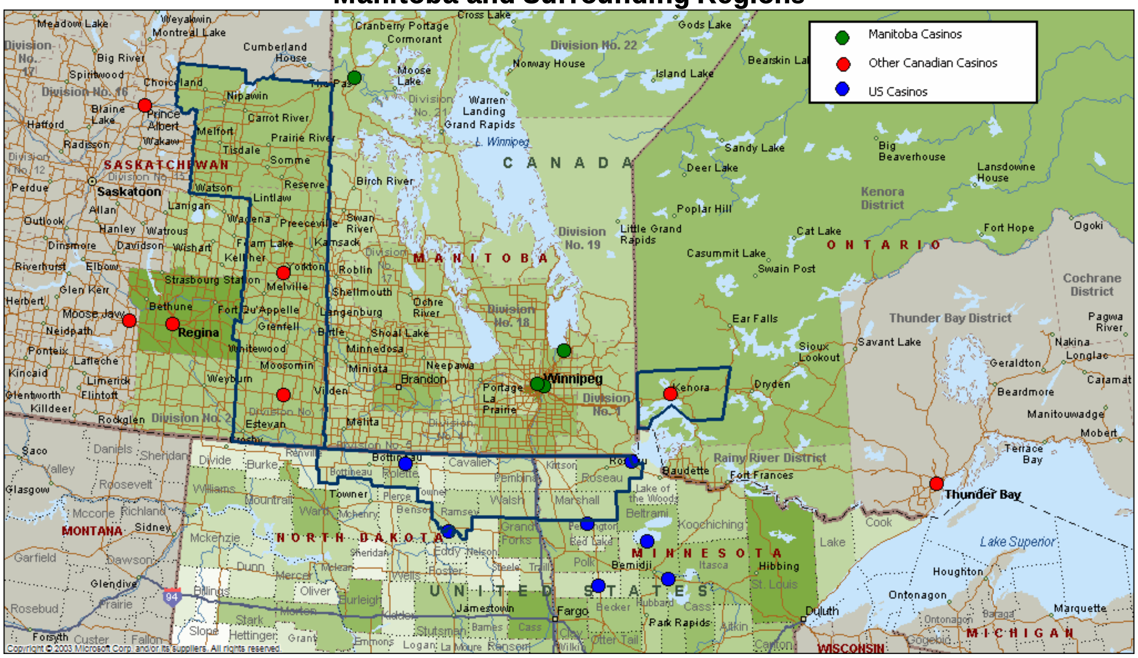
Section 4 contains the estimate of the potential size of the Manitoba market area for casino gaming.

Section 5 identifies the First Nation gaming facility opportunity(s) that flow out of the market potential analysis contained in Section 5.

Section 6 focuses on estimating the financial results of identified First Nation gaming facility opportunity(s).

Section 7 discusses potential economic impacts associated with the identified First Nation gaming facilities opportunity(s).

Exhibit 1
Manitoba and Surrounding Regions



2. Province Wide Market Area

This section of the report delineates the province into regions and accesses these regions in terms of current and future demographic characteristics. In addition to the resident adult population base in Manitoba, adults living in regions bordering the province as well as existing tourism to the province represent potential market sources for Manitoba gaming facilities.

2.1 THE PROVINCE

The Province of Manitoba is bordered by two provinces (Ontario and Saskatchewan) and two states (Minnesota and North Dakota). In this part of North America, Winnipeg is the largest urban centre. About 94.0 percent of Manitoba's adult population resides in the southern part of the Province (generally south of 53 degrees north).

Gaming facilities in Manitoba have the potential to generate visitation from adults residing in the province, as well as adults residing outside the province. The presence of casinos in these bordering regions however, (see Exhibit 1) impacts upon the ability of Manitoba gaming facilities to capture a significant share of this potential market. Conversely, gaming facilities located outside the province also have the ability to generate visitation from Manitoba. As discussed later in this report, a significant number of Manitobans are estimated to travel annually to casinos located in neighbouring regions.

Exhibit 2 summarizes the current total population of Manitoba as well as in the bordering regions. In general, the size of the potential market (as measured by adult population) located just outside the Province is limited (less than 200,000 adults). The total in-province market is almost 900,000 adults.

Exhibit 2
Size of Market (Adults) – Manitoba and Outlying Regions[1]

Current Manitoba and Border Region Populations*			
	Total	Adults (18+)	% of Total
Manitoba	1,179,600	898,820	82.8%
Saskatchewan	139,100	105,860	9.7%
North Dakota	58,553	45,730	4.2%
Minnesota	31,252	23,658	2.2%
Ontario	15,838	12,070	1.1%
Total	1,424,343	1,086,138	100.0%

**Sources: Manitoba - 2005 Manitoba Bureau of Statistics projections; Saskatchewan and Ontario - Statistics Canada, 2001 Census Data; United States: US Census Bureau, 2005 estimates.*

[1] Population totals for only those portions of jurisdictions outlined in Exhibit 1.

Exhibit 3
Manitoba Regions

Exhibit 4

Manitoba Adult Population (18+) Projections					
Region	2005	2010	2015	2020	2025
North:	54,140	56,500	59,160	60,720	62,020
CD 19	9,626	10,046	10,519	10,796	11,027
CD 21	16,504	17,224	18,035	18,510	18,906
CD 22	22,263	23,234	24,328	24,969	25,504
CD 23	5,746	5,997	6,279	6,445	6,583
Parklands:	34,020	34,100	33,740	33,160	32,660
CD 16	7,712	7,730	7,649	7,517	7,404
CD 17	17,915	17,957	17,768	17,462	17,199
CD 20	8,393	8,412	8,324	8,180	8,057
Southwest:	82,780	83,620	85,040	85,560	85,700
CD 5	11,168	11,281	11,473	11,543	11,562
CD 6	7,855	7,934	8,069	8,118	8,132
CD 7	45,943	46,409	47,197	47,486	47,564
CD 15	17,814	17,995	18,301	18,413	18,443
South Central:	40,280	44,500	48,060	51,340	54,480
CD 3	32,387	35,780	38,642	41,279	43,804
CD 4	7,893	8,720	9,418	10,061	10,676
North Central:	36,100	37,800	39,420	42,600	41,260
CD 8	10,869	11,381	11,869	12,826	12,423
CD 9	18,248	19,108	19,927	21,534	20,857
CD 10	6,982	7,311	7,624	8,240	7,980
Interlake:	68,640	72,520	76,800	79,900	81,860
CD 13	35,287	37,282	39,482	41,076	42,083
CD 14	14,464	15,282	16,184	16,837	17,250
CD 18	18,889	19,956	21,134	21,987	22,527
Winnipeg:	513,200	544,180	573,320	599,040	623,860
CD 11	513,200	544,180	573,320	599,040	623,860
Southeast:	69,660	77,320	83,980	89,380	94,220
CD 1	14,346	15,924	17,295	18,408	19,404
CD 2	39,235	43,549	47,300	50,342	53,068
CD 12	16,079	17,847	19,384	20,631	21,748
Total Manitoba	**898,820**	**950,540**	**999,520**	**1,041,700**	**1,076,060**

Source: HLT Advisory Inc. estimates based on Manitoba Bureau of Statistics January 2005 and Statistics Canada 2001 Census.

2.2 PROVINCIAL POPULATION AND GROWTH OUTLOOK

Based on data from the Manitoba Bureau of Statistics, the Province as a whole is projected to experience slow steady growth (about 1 percent annually) over the next twenty years (2005 to 2025). Currently the adult population of the Province is 898,820 (2005) and by 2025, it is expected to reach 1,076,060. This adult population is distributed in eight defined regions (see Exhibit 3), each consisting of between two to four Census Divisions (Stats Canada geographic terms used to defined county or regional levels of municipal units). Exhibit 4 provides a detailed breakdown of adult population projections by Region and Census Division. Characteristics of current and future projected adult population levels are:

- The Winnipeg Region (Winnipeg Census Division) currently accounts for 57.0 percent of the Province's total adult population. The Winnipeg Region's share of total provincial adult population is projected to be maintained in the future. Of the 177,240 additional adults that are expected to be living in the Province by 2025, over 100,000 of them are expected to reside in Winnipeg.
- Currently the Brandon area (Census Division 7) is the second largest urban area in Manitoba. By 2015, the Steinbach area (Census Division 2) is projected to exceed Brandon in terms of adult population.
- All regions in the Province are expected to increase in size over the next twenty years, except the Parklands Region (that Region generally located between Brandon and The Pas).

This growing (albeit slowly growing) adult population base represents the primary market for existing and potentially new gaming facilities in Manitoba.

2.3 THE STATE OF TOURISM

Existing tourism in Manitoba represents a potential market for Manitoba gaming facilities. Based on a review of Travel Manitoba's 2004 Tourism Profile, the following comments can be made about existing tourism to Manitoba.

- The majority of visitors to Manitoba are from neighboring regions (Ontario, Saskatchewan, North Dakota and Minnesota). In total tourism from these regions accounted for 60.0 percent of total visitors (1,919,000) in 2004.
- About 60.0 percent of all visitors to the province are from other regions of Canada.
- In terms of trip purpose, about 33.0 percent of visitor trips were for pleasure purposes followed by 30.0 percent for "visiting friends and relatives".

In terms of gaming based tourism initiatives, while all of the regions bordering Manitoba have gaming facilities, none of these jurisdictions use gaming to drive tourism. With this said, all of the same jurisdictions including Manitoba acknowledge that gaming is increasingly seen as a mainstream component of the tourism infrastructure that is available in virtually every North American jurisdiction.

2.4 CONCLUSIONS

Based on information summarized previously, the following conclusions about the Province-wide market for potential new First Nation gaming facilities can be highlighted:

- Manitoba is projected to experience slow steady growth over the next 20 years from a 2005 adult population total of 898,820 to a 2025 total of 1,076,060.
- Over 90.0 percent of Manitoba's adult population is concentrated in the southern regions of the Province. Winnipeg accounts for 57.0 percent of the total provincial adult population.
- The immediate regions bordering Manitoba contain less than 200,000 adults. Multiple casinos are also located in these regions, thus reducing the likelihood of Manitoba facilities generating significant gaming revenue from these regions. In fact given the number of casinos in these regions, it is likely that these casinos generate business from Manitobans.
- While gaming is not being used as a significant tourism initiative in Manitoba nor in any region bordering Manitoba, gaming is increasing being seen as a mainstream component of most North American jurisdiction's tourism infrastructure.
- The majority of tourists to Manitoba are from the four jurisdictions that border the province. Further the two main trip purposes of a tourist to Manitoba are pleasure and visiting friends and relatives. Given that these regions already have a significant number of casinos, gaming probably does not represent a large attraction draw for these visitors.

Potential new First Nation gaming facility opportunity(s) will have to mainly rely on the local Manitoban market to generate visitation and win. The tourism market segment and out-of-province market segment (from regions bordering Manitoba) are highly competitive given the current supply of gaming facilities in these regions.

3. Manitoba's Gaming Industry

This section of the report profiles and benchmarks Manitoba's gaming industry against selected other provinces. First the total Canadian gaming industry is presented in terms of growth trends and Manitoba's share of the same. Next, Manitoba's gaming industry trends are presented. Finally these trends are compared to Nova Scotia, Saskatchewan and Alberta. Nova Scotia and Saskatchewan are the two provinces with similar gaming industries and are also similar in size (population) to Manitoba. Alberta is shown as a contrast due to its larger size and economic performance. Alberta does however offer the same type of gaming activities as Manitoba.

3.1 THE CANADIAN GAMING INDUSTRY

The Canadian gaming industry consists of six basic sectors – bingo, casino, EGD VLT, EGD Other, lottery, and pari-mutuel. As depicted in Exhibit 5, most provinces permit all gaming sectors to operate within their boundaries. Newfoundland and Labrador, Prince Edward Island and New Brunswick do not currently permit the operation of casino facilities. While Ontario and British Columbia do not permit the operation of EGD VLTs in certain hospitality establishments, they do permit the operation of EGDs at other gaming facilities. Manitoba permits all gaming sectors to operate in the Province.

Exhibit 5

Gaming Availability in Canada by Sector

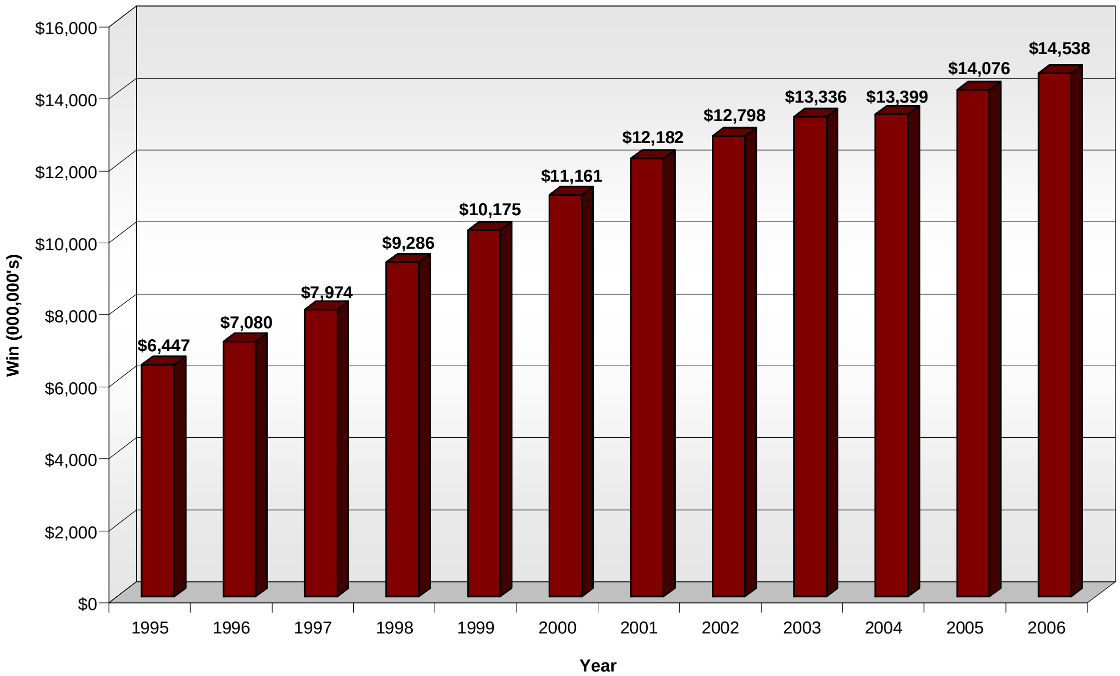
Province	Bingo	Casino	EGDs: VLTs	EGDs: Other*	Lotteries	Pari-Mutuel
British Columbia	●	●	---	●	●	●
Alberta	●	●	●	●	●	●
Saskatchewan	●	●	●	●	●	●
Manitoba	●	●	●	●	●	●
Ontario	●	●	---	●	●	●
Quebec	●	●	●	●	●	●
New Brunswick	●	---	●	---	●	●
Prince Edward Island	●	---	●	●	●	●
Nova Scotia	●	●	●	---	●	●
Newfoundland and Labrador	●	---	●	---	●	●

Source: HLT Advisory Inc.
** Horse Racetracks, Bingo Halls and Other*

It should be noted that the following information and data on the Canadian gaming industry as compiled by HLT does not generally include temporary casino events (i.e., "Monte Carlo nights") or charity lottery events (i.e., hospital lotteries) and in some cases where data is not available, HLT has estimated this data based on partial information and experience in the Canadian gaming industry. Also, HLT has reclassified certain March 31 fiscal year end dates into calendar years. For instance, FY March 31, 2005 data is included with 2005 calendar year end data and labeled as "2005".

Exhibit 6

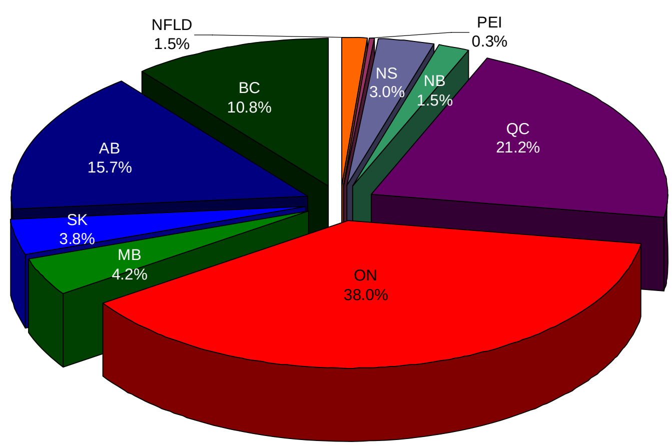
Canadian Gaming Industry Win Trends



Source: HLT Advisory Inc. based on various provincial government agency/corporation annual reports.

Exhibit 7

Gaming Win by Province - 2006



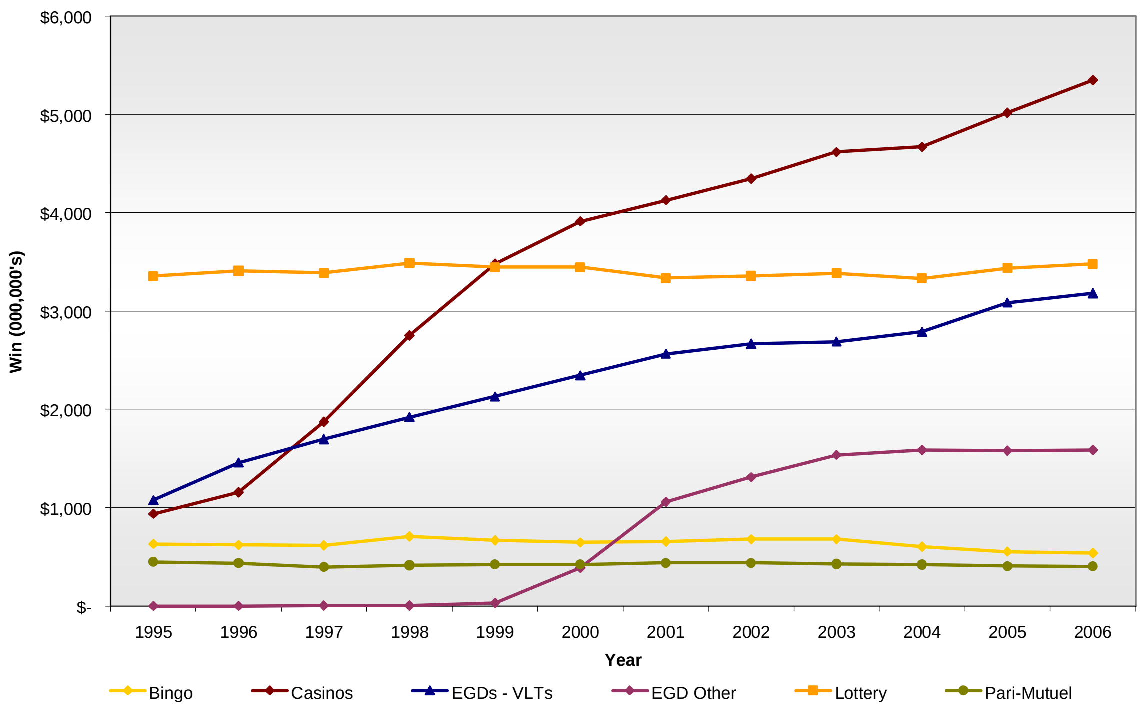
Source: HLT Advisory Inc. based on various provincial government agency/corporation annual reports.

As shown in Exhibit 6, the Canadian gaming industry has more than doubled in size since 1995 in terms of win (total wagering less prize payouts). Today the Canadian gaming industry as a whole is estimated at over $14.5 billion in size, with Manitoba accounting for 4.2 percent of this total (Exhibit 7).

From a sector perspective, casinos are the biggest sector followed by EGDs (VLT and Other combined) and lotteries. Bingo and pari-mutuel are the two smallest sectors in terms of win. As shown in Exhibit 8, the growth in the industry since 1995 has come from the expansion of casino facilities and the implementation of additional EGDs (VLT and Other). The three remaining sectors have remained somewhat stagnant from a win perspective.

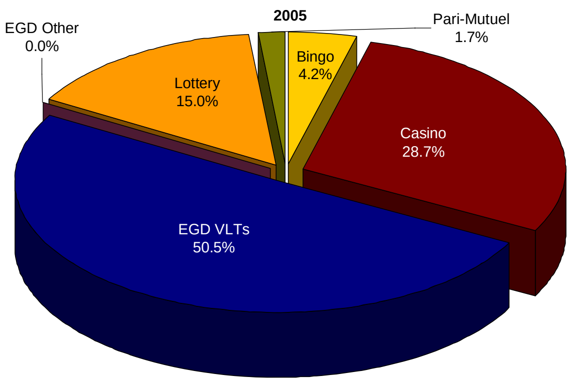
Exhibit 8

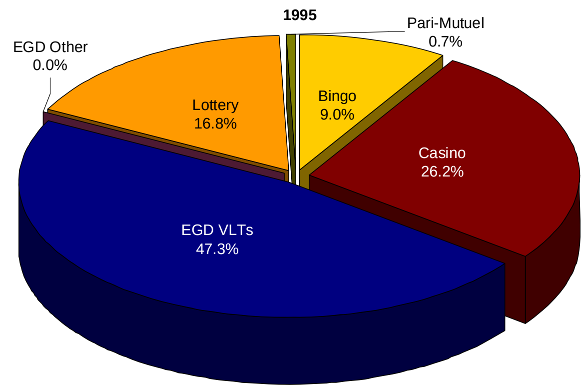
Canada Gaming Industry Win Trends by Sector



Source: HLT Advisory Inc. based on various provincial government agency/corporation annual reports.

Exhibit 9
Manitoba Gaming Win by Sector

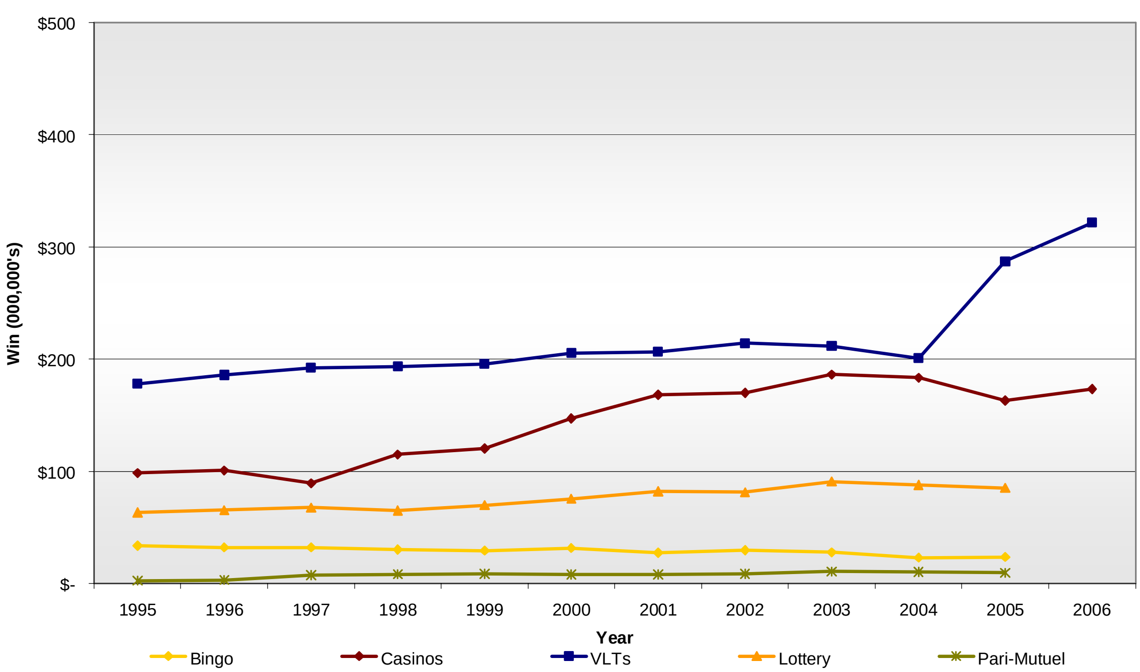




Source: HLT Advisory Inc. based on various government agency/corporation annual reports.
Note: While Manitoba does have an EGD Other sector (140 VLTs at Assiniboia Downs horse racetrack), win data is not broken our of the total VLT win data in published material.

Exhibit 10

Manitoba Gaming Industry Win Trends by Sector



Source: HLT Advisory Inc. based on various provincial government agency/corporation annual reports.

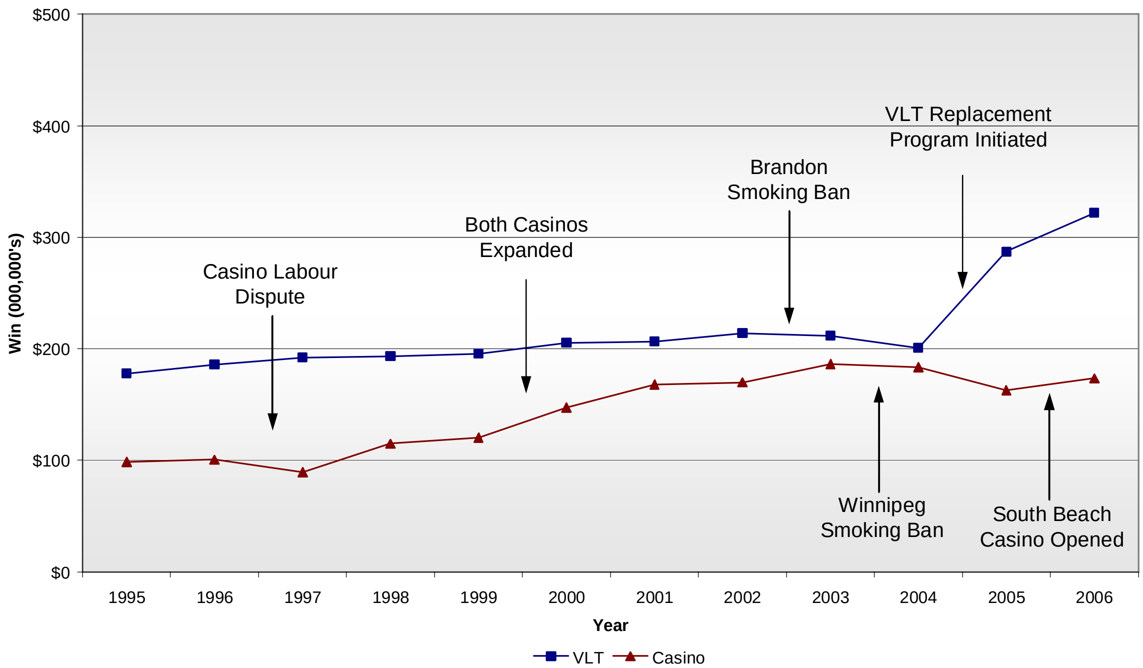
3.2 The Manitoba Gaming Industry

Manitoba's gaming industry is dominated by VLTs and casinos. Both of these sectors account for almost 80.0 percent of Manitoba's total industry (Exhibits 9&10). The casino and VLT sectors are also the dominant sectors in Nova Scotia, Saskatchewan and Alberta.

The recent performance (since 2003) of Manitoba's casino and VLT sectors have been influenced by a Province-wide smoking ban, the replacement of VLT machines, the addition of larger VLT sites (greater than 20 machines per site) and the addition of a casino outside of Winnipeg (South Beach). Exhibit 11 illustrates the impact on casino and VLT win trends by outside influences/factors.

Exhibit 11

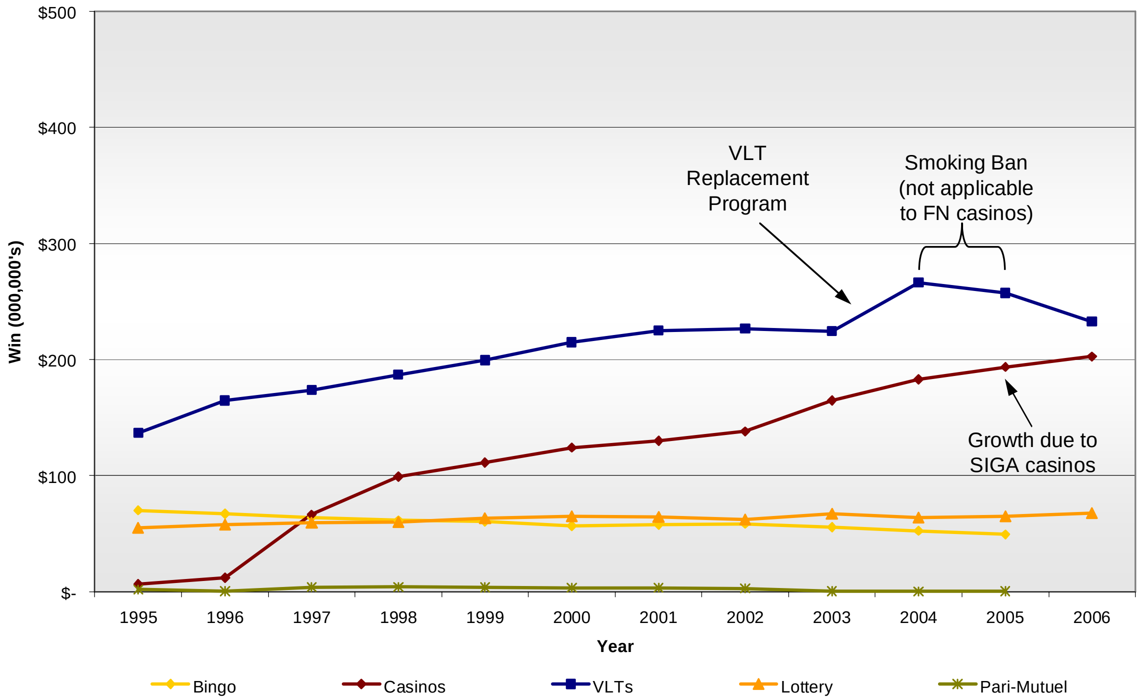
Manitoba Casino and VLT Win Trends



Source: HLT Advisory Inc. based on various provincial government agency/corporation annual reports.

Exhibit 12

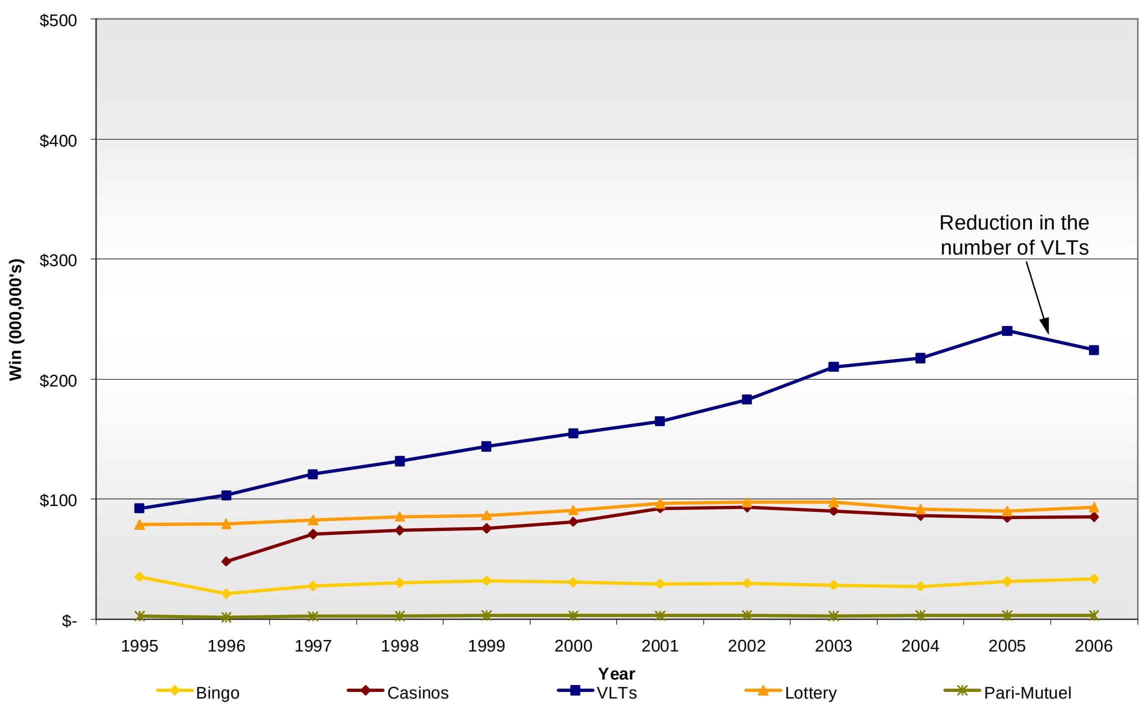
Saskatchewan Gaming Industry Win Trends by Sector



Source: HLT Advisory Inc. based on various provincial government agency/corporation annual reports.

Exhibit 13

Nova Scotia Gaming Industry Win Trends by Sector



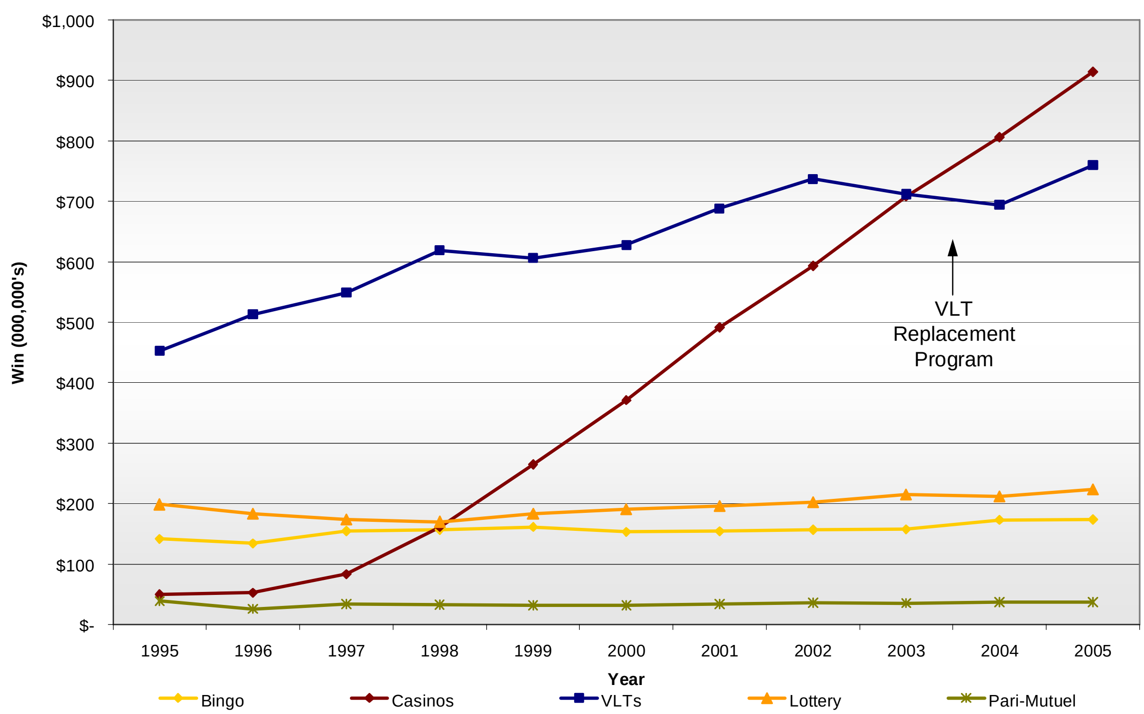
Source: HLT Advisory Inc. based on various provincial government agency/corporation annual reports.

Exhibits 12 through 14 provide a summary of recent impacts from external factors on Nova Scotia's, Saskatchewan's and Alberta's casino and VLT sectors.

- A smoking ban and a VLT replacement program have influenced the performance of Saskatchewan's casino and VLT sectors. The casino sector did not decline as Manitoba's did, due to the performance of SIGA (First Nation) casinos. The Province-wide smoking ban does not apply to SIGA casinos.
- Nova Scotia's casino sector has been stagnant while its VLT sector has declined in 2006. This decline is a direct result of a significant reduction in the number of VLT machines in the Province (government mandated 10.0 percent reduction in number of machines).
- Alberta's casino sector has experienced year-over-year growth due to increases in gaming supply (additional slot machines and new facilities). The replacement of VLTs helped reverse a two year decline in this sector.

Exhibit 14

Alberta Gaming Industry Win Trends by Sector



Source: HLT Advisory Inc. based on various provincial government agency/corporation annual reports.

3.3 CONCLUSIONS

Based on the assessment summarized in this section, the following conclusions can be put forward:

- The Canadian gaming industry is large, diverse and growing and Manitoba currently (2005) accounts for 4.2 percent of the total.
- Manitoba is similar to Nova Scotia, Saskatchewan and Alberta in that casinos, EGD VLTs dominate its total industry. The performance of Manitoba's and Nova Scotia's casino gaming sector however is not similar to that of Saskatchewan and Alberta. The latter two provinces' casino sectors have experienced year-over-year increases, while the casino sector in both Manitoba and Nova Scotia has had decreases over the last few years.
- There seems to be an overlap in the casino and VLT sectors in both Manitoba and Nova Scotia. Both provinces permit larger (greater then 20 machines per site) VLT sites. Manitoba has 73 larger VLT sites (49 non-First Nation and 24 First Nation sites), while Nova Scotia has 11 such sites.
- The recent performance of both Manitoba's casino and VLT sectors have been influenced by many factors including the replacement of old VLTs with new machines, smoking ban, larger VLT sites and the opening of a new casino.

The current makeup and performance of gaming sectors in Canada is greatly influenced by government gaming policy (written and unwritten) and external factors that are beyond the control of gaming operators. Understanding the current situation and trends within existing gaming activity is an important element of estimated future gaming potential.

4. Manitoba Gaming Market Potential Analysis

This section of the report estimates the potential size of the Manitoba market for casino gaming. To estimate the potential size of the Manitoba casino market, HLT researched and applied propensity factors to the market area population. Gaming propensity factors include:

- a percentage of the population that will visit a casino;
- the average number of visits per year; and
- the average expenditure (win) per visit.

These propensity factors can also be expressed in terms of a "win per capita" level. An important component of the research involved a comparison of the performance of different casino markets at both a provincial and "local" market level. In addition, provincial demographic, economic and gaming spend comparisons were also undertaken.

4.1 Comparison of Provincial Gaming Industries

As stated above, an important component of the research into appropriate gaming propensity factors used to estimate the potential size of the Manitoba market for casino gaming, involved detailed comparisons between selected provinces (Saskatchewan, Nova Scotia and Alberta). Areas of research that were focused on included:

- population in total and by casino market area;
- age of population;
- detailed income and expenditure patterns on goods and services;
- detailed gaming expenditure patterns (per capita spending and percentage of income);
- performance of specific gaming facilities; and
- operating policies of specific gaming facilities.

From this detailed research, the following conclusions were drawn:

- No significant demographic and/or income differences exist between Manitoba, Nova Scotia and Saskatchewan that can explain the different performance of the casino sector in each province.
- Manitoba's total gaming win per adult is similar to Nova Scotia's, however Manitoba's casino and VLT (2006) win per adult levels are higher.
- Historically Manitoba's casino and VLT (combined) win per capita levels have been about $100 lower than Saskatchewan's. In 2006, the difference decreased to about $40 (due primarily to higher VLT spending in Manitoba).

Exhibit 16

Casino Gaming Market Analysis Based on Regional 2006 Adult Population Projections

	Region								
	North	Parklands	Southwest	North Central	South Central	Interlake	Winnipeg	Southeast	Total
Adult Population (18+)	54,560	34,020	82,180	36,500	41,120	68,580	519,120	71,200	907,280
Casino Propensity Factors									
Propensity to Game	40%	40%	40%	40%	40%	40%	40%	40%	40%
Number of Gamers	21,824	13,608	32,872	14,600	16,448	27,432	207,648	28,480	362,912
Average Visits/Year	15	15	15	15	15	15	15	15	15
Average Annual Visi	327,360	204,120	493,080	219,000	246,720	411,480	3,114,720	427,200	5,443,680
Average Win/Visit	$70	$70	$70	$70	$70	$70	$70	$70	$70
Casino Win Potential	$22,915	$14,288	$34,516	$15,330	$17,270	$28,804	$218,030	$29,904	$381,058

Source: HLT Advisory Inc. based on Manitoba Bureau of Statistics, Statistics Canada, provincial gaming authorities and HLT Advisory Inc. estimates.

Exhibit 17

Casino Win Potential Projections Summary

	Region								
Casino Win Potential	North	Parklands	Southwest	North Central	South Central	Interlake	Winnipeg	Southeast	Total
2006	$22,915	$14,288	$34,516	$15,330	$17,270	$28,804	$218,030	$29,904	$381,058
2010	$23,730	$14,322	$35,120	$15,876	$18,690	$30,458	$228,556	$32,474	$399,227
2015	$24,847	$14,171	$35,717	$16,556	$20,185	$32,256	$240,794	$35,272	$419,798
2020	$25,502	$13,927	$35,935	$17,892	$21,563	$33,558	$251,597	$37,540	$437,514
2025	$26,048	$13,717	$35,994	$17,329	$22,882	$34,381	$262,021	$39,572	$451,945

Source: HLT Advisory Inc. based on Manitoba Bureau of Statistics, Statistics Canada, provincial gaming authorities and HLT Advisory Inc. estimates.

- Prior to 2005, Manitoba and Nova Scotia had similar win per adult levels for casinos and VLTs combined. Since that time however, Manitoba has replaced its entire VLT network (new and improved machines) and has added one more casino to the Winnipeg market, while Nova Scotia has removed VLTs from operation.
- While Manitoba's current casinos serve a larger portion of the Province's adult population as compared to Saskatchewan, Saskatchewan casinos spend more than double that of Manitoba casinos on marketing. Saskatchewan casinos also utilize player tracking systems while MLC casinos do not. South Beach also utilizes a player tracking system. Once South Beach's system is fully implemented (2 years) it will represent a significant competitive advantage for South Beach over MLC casinos.

4.2 VISITATION AND WIN ANALYSIS ASSUMPTIONS

Based on the review of provincial and local market comparisons combined with HLT's experience in all jurisdictions in Canada, the following propensity factors were chosen to calculate the potential size of the Manitoba casino market (Exhibit 15).

Exhibit 15

HLT Estimate of Manitoba Casino Gaming Propensity Factors	
Propensity to Game	40%
Average Visits	15
Average Win per Visit	$70
Per Capita Win	$420

Source: HLT Advisory Inc. estimates.

<u>It should be noted that potential does not imply that the total resultant win can be captured.</u> The actual captured rate is influenced by many factors such as distribution of win potential, competition, size and scope of facility. Another factor that has to be considered is the "cost" to capture this potential.

4.3 THE MANITOBA CASINO WIN MARKET POTENTIAL

Applying the above noted propensity factors to the regional adult population totals summarized in Section 2 provides a win potential distribution for Manitoba. Exhibit 16 shows the 2006 total estimated casino win potential for Manitoba by region. In total, the Province is estimated to contain $381.1 million of win potential.

Exhibit 17 summarizes the win potential by region for projection years. By 2025, the Province is estimated to contain $451.9 million in win potential. It should be noted that for the purposes of this analysis HLT did not inflate the propensity factors (specifically win per visit). This assumption was based on the recent historic and future projected economic growth for the Province which generally has and is expected to keep pace with inflation.

4.4 CONCLUSIONS

Based on the casino win market potential summarized in this section, the following conclusions can be put forward.

- The first step to determine First Nation gaming facility opportunities is to estimate the current and future size of the Manitoba casino gaming market.
- Appropriate propensity factors were researched and then applied to the Manitoba market to arrive at a potential size of that market - $381.1 million (2006). This win potential level is estimated to increase by about 19 percent ($451.9 million) over the next 19 years (2006-2025).
- Win potential does not imply that all win can be captured. Further, a portion of this estimated potential is currently being captured by existing facilities located both inside and outside the province.
- Out-of-province regions were not considered due to the small size (population) as well as the presence of numerous competitive facilities in these regions.

The opportunity for additional First Nation gaming facilities is contained within the win potential estimates summarized in this section. From this win potential, existing casino and competitive gaming activity performance must be factored into the opportunity analysis.

5. First Nation Gaming Facility Opportunity(s)

This section summarizes the results of the analysis of First Nation gaming opportunity(s). Simply, opportunity(s) were determined by subtracting existing competitive win from the total win potential estimated to exist in the market. Existing inflow and outflow situations were also considered.

The amount of existing competitive win is the most significant issue that impacts the opportunity for additional gaming facilities in Manitoba. Clearly, the existing casino market is competitive. Also, as identified in the various analyses conducted, a certain portion of the VLT market has been considered to be in direct competition to the casino sector.

5.1 Casino and VLT Market Overlap

Given the different types of gaming facilities/activities that are currently available in Canada and the recent introduction of new gaming facilities (i.e., slots at racetracks, EGDs at bingo halls and larger VLT sites), the issue of gaming market overlap is emerging in Canada. While different gaming activities have different levels of customer appeal (certain people prefer different gaming activities) there is a degree of market overlap among all activities. For instance, the attraction of a gaming facility containing 5 EGDs is different than a gaming facility containing 500 EGDs. At some point however, when the smaller facility increases in size, its attraction draw should approach that of the larger facility.

In Canada the issue of market overlap between gaming sectors exists in some degree in:

- Ontario (large slot facilities at racetracks and casinos)
- Manitoba (larger VLT sites and casinos)
- Nova Scotia (larger VLT sites and casinos)
- Alberta (larger VLT sites and casinos)
- British Columbia (slots at bingo halls and casinos)

For Ontario, British Columbia and Alberta, the current degree of overlap is difficult to quantify given the size of the market and/or the under-supplied gaming situation that currently exists in these provinces. In Manitoba, and especially Nova Scotia, this overlap can be isolated to a greater extent. Manitoba actually has the greatest number of larger VLT sites in Canada (73 sites containing between 20 and 60 machines each). Many of these sites are also constructed with a level a quality approaching that of existing casinos in the Province. Using data (confidential) obtained from both Manitoba and Nova Scotia, HLT assessed the performance of larger VLT sites, in terms of win level and penetration of local markets (expressed as win per capita levels), and compared these to performance levels of casinos in the same market. Based on this research, HLT has concluded that there is an overlap in these markets between larger VLT sites and smaller casinos (such as Casino Sydney, Casino Winnipeg and South Beach Casino). This overlap is currently more pronounced in Nova Scotia, but trends in Manitoba suggest that the same situation will likely occur in the future. Based on this research, for the purposes of determining First Nation gaming facility opportunity(s) in Manitoba, HLT has subtracted both existing casino win and that portion of total VLT win that is generated by larger VLT sites (defined as sites containing 20 or more VLTs) from the total casino market win potential estimated, to arrive at an estimate of excess potential.

5.2 Inflow and Outflow Considerations

To assess the issue of existing inflow and outflow of casino gaming dollars in Manitoba, HLT relied on a variety of secondary data sources including:

- Manitoba Lottery Corporation (bus program)
- Travel Manitoba Tourism Survey (2004)
- Statistics Canada International Travel Survey (2003, 2004, 2005)
- Las Vegas Convention and Visitor Authority – Visitor Profile and Statistics (2005)
- Statistics Canada Air Passenger Origin and Destination, Canada-United States Reports.

Based on these data sources, HLT estimates that more casino gaming dollars currently leave Manitoba, than flow into the Province (inflow of $8.0 to $10.0 million; outflow of $20.0 to $30.0 million).

While additional casino facilities in the province could help reduce the dollars that currently flow out, it is unlikely that these facilities (if operated like existing casinos) could re-capture a significant share of this outflow. The existing inflow of gaming dollars to the province is limited due to the presence of multiple casinos located outside Manitoba as well as the limited amount of marketing dollars currently being spent to attract visitors by existing Manitoba casinos. If a Manitoba-based casino wanted to attract out-of-province visitors, it would have to assess the costs and benefits associated with such an operation focus.

5.3 Assumption and Notes

The following assumptions and notes are an integral part of the excess market potential analysis that is summarized in Section 5.4:

- Large VLT sites are directly competitive to casinos and as such, their existing win is subtracted from the total market win potential.
- Casino win outflow from Manitoba is greater than inflow to the Province. Hence, out-of-province casino win is not subtracted from existing casino win. A portion of the resultant excess win potential (casino win potential less existing casino win and existing large VLT win) will likely still flow out of the Province.

Exhibit 18

Casino Gaming Market Analysis based on 2005 Adult Population Within 100 kms

	Winnipeg / South Beach	Brandon	The Pas	Thompson	Remainder North[1]	Remainder South[2]	Total Manitoba
Adult Population (18+)	699,242	89,584	9,286	10,924	71,832	17,952	898,820
% of Total	77.8%	10.0%	1.0%	1.2%	8.0%	2.0%	100.0%
Casino Propensity Factors							
Propensity to Game	40%	40%	40%	40%	40%	40%	40%
Number of Gamers	279,697	35,833	3,714	4,370	28,733	7,181	359,528
Average Visits/Year	15	15	15	15	15	15	15
Average Annual Visits	4,195,452	537,502	55,717	65,543	430,992	107,712	5,392,920
Average Win/Visit	$70	$70	$70	$70	$70	$70	$70
Casino Win Potential ($000)	$293,682	$37,625	$3,900	$4,588	$30,169	$7,540	$377,504
Less Existing Casino Win ('05/'06) ($000)	$165,170	$0	$8,273	$0	$0	$0	$173,444
Less Existing VLT Win ('05/'06) ($000)	$94,198	$14,923	$5,524	$8,039	$13,611	$0	$136,295
Excess Win Potential ($000)	$34,313	$22,702	($9,897)	($3,451)	$16,558	$7,540	$67,766

Source: HLT Advisory Inc. based on Manitoba Bureau of Statistics, Statistics Canada, provincial gaming authorities and HLT Advisory Inc. estimates.
[1] HLT estimate - North, Parklands, Interlake Regions
[2] HLT estimate - South Central, Southeast Regions

Exhibit 19

Casino Gaming Market Analysis based on 2010 Adult Population Within 100 kms

	Winnipeg / South Beach	Brandon	The Pas	Thompson	Remainder North[1]	Remainder South[2]	Total Manitoba
Adult Population (18+)	739,478	94,738	9,821	11,552	75,965	18,985	950,540
% of Total	77.8%	10.0%	1.0%	1.2%	8.0%	2.0%	100.0%
Casino Propensity Factors							
Propensity to Game	40%	40%	40%	40%	40%	40%	40%
Number of Gamers	295,791	37,895	3,928	4,621	30,386	7,594	380,216
Average Visits/Year	15	15	15	15	15	15	15
Average Annual Visits	4,436,867	568,431	58,923	69,314	455,792	113,910	5,703,240
Average Win/Visit	$70	$70	$70	$70	$70	$70	$70
Casino Win Potential ($000)	$310,581	$39,790	$4,125	$4,852	$31,905	$7,974	$399,227
Less Existing Casino Win ('05/'06) ($000)	$178,000	$0	$8,273	$0	$0	$0	$186,273
Less Existing VLT Win (05/06) ($000)	$91,900	$14,923	$5,524	$8,039	$13,611	$0	$133,997
Excess Win Potential ($000)	$40,681	$24,867	($9,673)	($3,187)	$18,294	$7,974	$78,956

Source: HLT Advisory Inc. based on Manitoba Bureau of Statistics, Statistics Canada, provincial gaming authorities and HLT Advisory Inc. estimates.
[1] HLT estimate - North, Parklands, Interlake Regions
[2] HLT estimate - South Central, Southeast Regions

- The results of the market opportunity assessment contained in Section 4 were presented in terms of Regions as defined by the Manitoba Bureau of Statistics (see Section 2). The analysis of excess market potential contained in this section has been presented in terms of market areas (defined by HLT as approximately 100km from Manitoba's main urban areas). This was accomplished through the use of an in-house HLT mapping/data application. At the time of this report, population data was available for 2005 only; future year population data by market area was estimated based on growth factors derived from Section 2 of this report.
- To estimate current excess win potential, we subtracted FY2005/2006 casino and large VLT site win from 2005 win potential. To estimate future (2010, 2015, 2020, 2025) excess win potential, we subtracted estimated FY2006/2007 casino and large VLT site win (for Winnipeg market only) from the future year's win potential. No attempt has been made to account for likely changes in existing facilities' win levels. Hence, excess future win potential can be overstated as the introduction of additional facilities will likely result in existing facilities changing their operation methods.

5.4 RESULTS

Exhibits 18 through 22 show the results of the analysis for the years 2005, 2010, 2015, 2020 and 2025. As stated above, the identified regions in Manitoba were aggregated into six market areas, four of which are centered on the urban centres of Winnipeg, Brandon, The Pas and Thompson. These market areas extend approximately 100km outward from the identified urban centres. Those portions of the Province that do not lie within 100km of these market areas were grouped into two areas, Remainder North and Remainder South; these two areas combined contain 10.0 percent of the total provincial adult population.

The results of the analysis are presented by identified market areas and are as follows:

Winnipeg/South Beach Market Area

- Current (2005) excess win potential of $34.0 million is further reduced to $24.0 million when current estimated performance (2006/2007) of existing casinos and large VLT sites are applied to total Winnipeg market area potential of about $294.0 million.
- Excess win is estimated to reach $41.0 million by 2010 and $82.0 million by 2025. This growth assumes however that the market area's population grows as projected and existing casinos and large VLT sites maintain current estimated performance levels (2006/2007).

Exhibit 20

Casino Gaming Market Analysis based on 2015 Adult Population Within 100 kms

	Winnipeg / South Beach	Brandon	The Pas	Thompson	Remainder North[1]	Remainder South[2]	Total Manitoba
Adult Population (18+)	777,582	99,620	10,327	12,148	79,880	19,963	999,520
% of Total	77.8%	10.0%	1.0%	1.2%	8.0%	2.0%	100.0%
Casino Propensity Factors							
Propensity to Game	40%	40%	40%	40%	40%	40%	40%
Number of Gamers	311,033	39,848	4,131	4,859	31,952	7,985	399,808
Average Visits/Year	15	15	15	15	15	15	15
Average Annual Visits	4,665,493	597,721	61,960	72,886	479,279	119,780	5,997,120
Average Win/Visit	$70	$70	$70	$70	$70	$70	$70
Casino Win Potential ($000)	$326,584	$41,840	$4,337	$5,102	$33,549	$8,385	$419,798
Less Existing Casino Win ('05/'06) ($000)	$178,000	$0	$8,273	$0	$0	$0	$186,273
Less Existing VLT Win ('05/'06) ($000)	$91,900	$14,923	$5,524	$8,039	$13,611	$0	$133,997
Excess Win Potential ($000)	$56,684	$26,917	($9,460)	($2,937)	$19,938	$8,385	$99,528

Source: HLT Advisory Inc. based on Manitoba Bureau of Statistics, Statistics Canada, provincial gaming authorities and HLT Advisory Inc. estimates.

1 HLT estimate - North, Parklands, Interlake Regions

2 HLT estimate - South Central, Southeast Regions

Exhibit 21

Casino Gaming Market Analysis based on 2020 Adult Population Within 100 kms

	Winnipeg / South Beach	Brandon	The Pas	Thompson	Remainder North[1]	Remainder South[2]	Total Manitoba
Adult Population (18+)	810,396	103,824	10,762	12,660	83,251	20,806	1,041,700
% of Total	77.8%	10.0%	1.0%	1.2%	8.0%	2.0%	100.0%
Casino Propensity Factors							
Propensity to Game	40%	40%	40%	40%	40%	40%	40%
Number of Gamers	324,159	41,530	4,305	5,064	33,300	8,322	416,680
Average Visits/Year	15	15	15	15	15	15	15
Average Annual Visits	4,862,378	622,945	64,574	75,962	499,504	124,834	6,250,200
Average Win/Visit	$70	$70	$70	$70	$70	$70	$70
Casino Win Potential ($000)	$340,366	$43,606	$4,520	$5,317	$34,965	$8,738	$437,514
Less Existing Casino Win ('05/'06) ($000)	$178,000	$0	$8,273	$0	$0	$0	$186,273
Less Existing VLT Win ('05/'06) ($000)	$91,900	$14,923	$5,524	$8,039	$13,611	$0	$133,997
Excess Win Potential ($000)	$70,466	$28,683	($9,277)	($2,722)	$21,354	$8,738	$117,244

Source: HLT Advisory Inc. based on Manitoba Bureau of Statistics, Statistics Canada, provincial gaming authorities and HLT Advisory Inc. estimates.

1 HLT estimate - North, Parklands, Interlake Regions

2 HLT estimate - South Central, Southeast Regions

- While the current gaming facilities (casinos and VLTs) have the capacity to accommodate additional growth (as seen by existing 2005/2006 win per device levels and number of devices – MLC: $146 win/slot/day; 2,690 slots and South Beach: $180 win/slot/day; 300 slots), they (mainly MLC casinos) currently are operated below "typical industry standards" (use of player tracking system and marketing expenditures).
    - If MLC casinos were operated at "typical industry standards" they would likely increase their share of the available market. For instance, if MLC implemented a player tracking system and increased their current marketing expenditures, it would not be unrealistic to suggest that win per slot machines could increase to the $200 per machine per day level (33% increase over existing performance). This would generate incremental win of $49.0 million, and would satisfy the current uncaptured market as well as impact the existing larger VLT sites.
- HLT does not recommend that an additional casino be added to the Winnipeg market at this time. This situation however can be revisited between 2010 and 2015 when total market demand is estimated to reach between $300.0 and $325.0 million. At that time the performance and trends of the existing gaming devices (both casinos and VLTs) in the market area can be better understood (i.e., the long-term impact of both the smoking ban and new VLT machines can be identified and fully assessed).

Brandon Market Area

- Currently the Brandon market area (approximately 100K around Brandon) has excess win potential of around $23.0 million available. Given low population growth estimates however, this excess win is only expected to increase to $30.0 million by 2025.
- The Region directly north of the Brandon market area (Parklands) contains approximately a further $10.0 million in win potential. The Parklands Region however is not estimated to experience any population growth over the next 20 years. Also, this Region is located close to Yorkton, Saskatchewan which currently is rebuilding its casino.
- The Brandon market area could support a small-sized casino. In order to grow, this casino would have to extend its market reach in all directions. The ability of a small-sized casino to extend its market reach however is limited unless it contained ancillary facilities (i.e., hotel rooms, food and beverage and entertainment, etc.) that helped increase its market appeal. The financial viability of investing in these ancillary facilities must be investigated thoroughly.

Exhibit 22

Casino Gaming Market Analysis based on 2025 Adult Population Within 100 kms	Winnipeg / South Beach	Brandon	The Pas	Thompson	Remainder North[1]	Remainder South[2]	Total Manitoba
Adult Population (18+)	837,127	107,249	11,117	13,078	85,997	21,492	1,076,060
% of Total	77.8%	10.0%	1.0%	1.2%	8.0%	2.0%	100.0%
Casino Propensity Factors							
Propensity to Game	40%	40%	40%	40%	40%	40%	40%
Number of Gamers	334,851	42,900	4,447	5,231	34,399	8,597	430,424
Average Visits/Year	15	15	15	15	15	15	15
Average Annual Visits	5,022,761	643,493	66,704	78,467	515,980	128,952	6,456,360
Average Win/Visit	$70	$70	$70	$70	$70	$70	$70
Casino Win Potential ($000)	$351,593	$45,044	$4,669	$5,493	$36,119	$9,027	$451,945
Less Existing Casino Win ('05/'06) ($000)	$178,000	$0	$8,273	$0	$0	$0	$186,273
Less Existing VLT Win ('05/'06) ($000)	$91,900	$14,923	$5,524	$8,039	$13,611	$0	$133,997
Excess Win Potential ($000)	$81,693	$30,121	($9,128)	($2,546)	$22,508	$9,027	$131,675

Source: HLT Advisory Inc. based on Manitoba Bureau of Statistics, Statistics Canada, provincial gaming authorities and HLT Advisory Inc. estimates.

[1] HLT estimate - North, Parklands, Interlake Regions

[2] HLT estimate - South Central, Southeast Regions

The Pas Market Area

- The existing casino and larger VLT sites within The Pas' market area satisfies the demand for casino gaming from this market area. In fact, the existing gaming facilities penetrate its market area beyond what HLT estimates the size of the market to be. This situation is not uncommon in northern and rural locations where the availability of different gaming activities as well as alternative entertainment options are limited.
- It is likely that given its location (on the border of Saskatchewan) the casino in The Pas probably generates some of its win from areas beyond its defined market area. To grow, the casino must increase this market segment of its business.

Thompson Market Area

- The existing larger VLT sites within Thompson's market area satisfy the existing and future demand for casino-type gaming in this area.
- Beyond Thompson and The Pas, the north contains around $5.0 million of additional excess demand. This demand however is spread over this large region thus making it difficult to capture, let alone on a cost-effective basis. Further, given negative excess demand estimated in The Pas and Thompson's market area, the existing gaming facilities in these areas probably already satisfy a significant portion of this excess demand.

Remainder North Region

- The Remainder North generally includes those areas of the North, Parkland and Interlake Regions (see Section 2 for definition of these Regions) that do not fall within 100 km of The Pas, Thompson, Brandon or Winnipeg/South Beach.
- This Region currently contains about $17.0 million of excess win potential, and is expected to reach about $23.0 million by 2025.
- The majority of this win potential (about $10.0 million) is currently concentrated in Parkland Region, directly north of Brandon. Given the distribution of excess win potential, this Region cannot support a casino. As stated earlier, the Parkland Region can be served by a casino located in the Brandon market area. Also, the existing facilities in both The Pas and Thompson probably already capture a portion of this excess potential.

Remainder South Region

- The Remainder South Region generally includes those areas of the South Central and Southeast Regions (see Section 2 for definitions of these Regions) that do not fall within 100 km of Winnipeg/South Beach and Brandon.
- The Remainder South Region does not contain any existing large VLT sites and has excess win potential of under $8.0 million. This potential is only expected to increase by about $1.0 million over the next 20 years. The majority of this excess

win potential is located in the area west and south of Winkler. This area of the Province is located close to existing casinos in Minnesota and North Dakota.

5.5 Conclusions

Based on the analysis summarized in this section, the following conclusions can be made:

- While the Winnipeg market area currently contains excess win potential of $24.0 million, the current facilities within the market area (3 casinos containing 2,690 slot machines and 74 tables; 37 large VLT sites containing over 1,100 VLTs) have the capacity to satisfy this excess demand. Also, the long-term impact of the smoking ban and implementation of new VLT machines as well as new slot machines in the MLC casinos is currently not fully understood. Given this situation, HLT does not believe that the Winnipeg market area would be better served by the addition of another casino at this time. The issue could be revisited between 2010 and 2015 when total market demand is expected to exceed $300.0 million and the stabilized performance of the casinos and VLTs will be better understood (thus permitting the amount of excess win potential to be identified).
- The Brandon market area (100km around Brandon) can currently support one small-sized casino facility. The growth prospects for the Brandon market however are minimal. If a casino is implemented in this area, it would have to extend its market reach to exceed $30.0 million in win. The ability of a small-sized casino to extend its market reach beyond 100km however is currently not well understood in Canada.
- The remaining market areas in the Province do not contain any concentrations of excess win that could support the development of a meaningful gaming facility.

The Brandon market area contains an immediate opportunity for a First Nation gaming facility. At a future date (between 2010 and 2015) the Winnipeg market area may represent another opportunity. This situation should be revisited when all existing activity in the Winnipeg market area achieves a more stabilized performance level.

6. Cash Flow Projections (Revenue & Expense)

This section of the report assesses the financial viability of the identified Brandon area casino opportunity. Issues addressed included:

- size and scope of facilities required to capture excess win;
- operating costs (including marketing); and
- capital costs to build facility (including land).

The analysis contained in this section is based on a number of financial and operating assumptions. These assumptions were made by HLT based on our experience in the Canadian gaming industry and specifically the Manitoba gaming market. These assumptions have been used in numerous Canadian markets and are suitable for business/government planning purposes.

Actual costs and results as estimated by HLT will likely vary and as such should be investigated further as part of the facility development process.

6.1 Size and Scope of Facility

While the size and scope of casino facilities (as measured by number of gaming devices and facility ancillary components) does impact upon the market reach of the casino (as measured by distance people are willing to travel to the facility), the majority of casinos in Canada serve local market areas up to 100km or 1 hour away from the facility.

- In terms of the number of gaming devices that a market can support as well as the number of gaming devices that are required to fully penetrate a defined market area, consideration has to be given to "return on investment" (which can be measured by win per device per day levels) and capacity (which can be measured by utilization of gaming devices by day) factors.
- In terms of scope of facility that is required to fully penetrate a market area, consideration has to be given to "return on investment" (which can be measured by comparing the cost to construct and operate to the incremental win that ancillary facility components could generate) as well as competition (what amenities competitive casinos offer).

From Section 5, the Brandon market area currently has excess win potential of around $23.0 million. This win potential level is estimated to increase to $30.0 million by 2025. A further $10.0 million (approximately) of win potential is currently located beyond 100km of Brandon to the north. This further potential however is not expected to grow. While a casino located in the Brandon market area would not likely capture all of this potential, it should be sized to capture a significant portion of this amount.

Exhibit 23

HLT Estimate of Typical Statement of Operations
For $20.0 to $30.0 Million Casino Win

Stabalized Year			
TOTAL CASINO WIN		**$20.0 M**	**$30.0 M**
REVENUES			
Slot Machines	90%	19,350,000	29,025,000
Table Games	10%	2,150,000	3,225,000
Total Gaming	**100%**	**20,000,000**	**30,000,000**
Food & Beverage	5%	1,000,000	1,500,000
Other Revenue	3%	500,000	750,000
Total Revenues		**$ 21,500,000**	**$ 32,250,000**
Less: Promotional Expenses	10%	$ 2,150,000	$ 3,225,000
NET REVENUE		**$ 19,350,000**	**$ 29,025,000**
NET REVENUE	**100%**	**$ 19,350,000**	**$ 29,025,000**
DEPARTMENTAL EXPENSES			
Slot Department			
Payroll Expenses	5%	$ 967,500	$ 1,451,250
Other	5%	$ 967,500	$ 1,451,250
Total Slot Department	**10%**	**$ 1,935,000**	**$ 2,902,500**
Table Department			
Payroll Expenses	40%	$ 860,000	$ 1,290,000
Other	5%	$ 107,500	$ 161,250
Total Table Department	**45%**	**$ 967,500**	**$ 1,451,250**
Food & Beverage	90%	$ 900,000	$ 1,350,000
Other Expenses	75%	$ 375,000	$ 562,500
Total Departmental Expenses	**19%**	**$ 4,177,500**	**$ 6,266,250**
UNDISTRIBUTED EXPENSES			
Administrative & General	2%	$ 430,000	$ 645,000
Marketing/Advertising	5%	$ 1,075,000	$ 1,612,500
Salaries & Wages	20%	$ 4,300,000	$ 6,450,000
Security & Surveillance	2%	$ 430,000	$ 645,000
Repairs & Maintenance	3%	$ 537,500	$ 806,250
Utility Costs	2%	$ 430,000	$ 645,000
MLC Recovery Expense (of Gaming)	7%	$ 1,400,000	$ 2,100,000
Other Undistributed Expenses	4%	$ 860,000	$ 1,290,000
Total Undistributed Expenses	**49%**	**$ 9,462,500**	**$ 14,193,750**
Total Expenses	**70%**	**$ 13,640,000**	**$ 20,460,000**
EBITDA (% of net revenue)	**30%**	**$ 5,710,000**	**$ 8,565,000**

Source: HLT Advisory Inc. estimate

Exhibit 24

HLT Estimate of Capital Cost
For a Small Sized Casino

	Units/Unit Cost	Total Costs
Number of Table Games	10	
Number of Slot Machines	300	
Space Per slot (SF)	30.00	$ 9,000
Space per table (SF)	300.00	$ 3,000
Total Gaming Space		$ 12,000
Back of house (equals gaming space) (SF)		$ 12,000
Lobby/F&B/Other Space (SF)		$ 10,000
Total Building Space (SF)		$ 34,000
Average Cost to Construct	$ 500.00	$ 17,000,000
All Other Costs (excluding slot machines)	30%	$ 5,100,000
Parking Spaces (1 per gaming position)	360	
Staff Parking (100)	100	
Total Parking Space	460	
Parking Construction Cost	$ 3,000.00	$ 1,380,000
Cost of Land (6 acres)	$ 200,000.00	$ 1,600,000
Total Contsruction Costs		**$ 25,080,000**

Source: HLT Advisory Inc. estimates based on typical captial costs for Canadian casinos.

- Based on win per slot per day levels of $200 to $250 and win per table per day levels of $700 to $900, a 300 slot machine, 10 table casino could comfortably accommodate a win level of $25.0 to $30.0 million.

As stated previously, the scope of facilities (what type and amount of potential ancillary facilities) that are required to penetrate an available market, must be factored in along with the location of the available market, return on investment and competition. While a full assessment of these issues is beyond the scope of this report, we offer the following comments:

- The majority of available market is located within the defined market area (100km radius of Brandon).
- The size of the available market surrounding the defined market area is limited in size.
- Competitive casino facilities are located just beyond the defined market area in all directions except in the north. All of these facilities contain hotel rooms or have lodging facilities located in close proximity. They also all have food and beverage and entertainment components.

HLT recommends that if a casino is developed in the Brandon market area, it should initially have up to 300 slot machines and up to 10 table games. Once established in the market, this recommended size range can be reviewed.

6.2 Financial Results

Exhibit 23 presents the estimated cash flow (expressed as EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization) for a typical casino with win levels between $20.0 and $30.0 million.

The capital cost assumptions (contained in Exhibit 24) were estimated by HLT to illustrate the magnitude of construction costs to build a small-sized casino (300 slot machines, 10 tables). Total capital costs (excluding slot machines) are in the magnitude of $25.0 million.

Assuming the casino is 100.0 percent financed, the casino can generate between $2.1 and $4.9 million in cash flow (before taxes, depreciation and amortization) after debt services annually until the debt is paid off. Once paid off, cash flow increases to between $5.7 and $8.6 million (Exhibit 25).

Exhibit 25

HLT Estimate of Cash Flow After Debt Serice
For $20.0 to $30.0 Million Casino Win

TOTAL CASINO WIN	$20.0 M	$30.0 M
EBITDA	$ 5,710,000	$ 8,565,000
Total Capital Costs (estimate)	$ 25,080,000	$ 25,080,000
Annual Debt Service[1]	$ 3,630,809	$ 3,630,809
Cash Flow After Debt Service	**$ 2,079,191**	**$ 4,934,191**

Source: HLT Advisory Inc. estimate.
[1] *Based on 10 yr amortization and 8% interest.*

7. Economic Benefits

This section of the report discusses potential economic benefits of constructing and operating a casino in the Brandon market area. Areas of potential economic impacts include:

- Construction of facility
- Operation of facility
- Tourism

To complete this work step, HLT relied on its understanding of economic impacts typically associated with casino developments in Canada.

7.1 Construction Impacts

The construction of the casino facility will generate positive “one time” economic impacts from both the purchase of materials and equipment as well as labor. The degree to which these expenditures will generate positive impacts within the Province of Manitoba will depend on the amount of material and equipment that will be purchased locally as well as produced locally. It is not unreasonable to assume that labor costs could equal 30.0 percent of total capital costs (not including land purchase). At this rate, total labor costs (salaries) would equal about $7.0 million. Further, it is not unreasonable to assume that all labor would originate from within the Province.

7.2 Operation Impacts

The operation of the casino will produce annual economic benefits through the paying of salaries and wages to employees as well as the purchase of goods and services needed to run the facility. Typical direct goods and services that will likely be purchased by the casino include:

- Food and beverage
- Uniforms and other clothing
- Cards and playing chips
- Furniture products (tables, chairs, etc.)
- Printing and publishing services
- Cleaning supplies and services
- Equipment sales and services
- Electrical and electronic products (i.e., computers, lighting, telecommunication equipment, etc.)

- Repairs and maintenance
- Transportation services
- Communication, courier and postal services
- Accountants, insurance, financial services and lawyers
- Dry cleaning services

The majority of these goods and services will likely be purchased locally either through existing businesses or through new business startups that are created to service the casino.

One of the biggest areas of impact will be in terms of jobs. HLT estimates that total direct payroll should range between $7.0 and $8.5 million. This level of payroll should generate between 200 and 300 jobs.

7.3 TOURISM IMPACTS

Tourism impacts (at the provincial level) can be generated if the casino attracts visitation from beyond the Province. While the tourism component (expressed as visitation and win from beyond 1 day's drive from the casino) of the operation at the majority of Canadian casinos is currently limited (less than 10%), most Canadian jurisdictions are currently exploring ways to further penetrate this market segment. Tourism was and still is a significant gaming policy direction in most Canadian provinces.

Those Canadian casinos that have had success with penetrating the tourist market segment have focused on existing tourism to an area as opposed to generating new tourists. As discussed in Section 2, casino gaming is not seen as a major tourism generator in most jurisdictions in North America (except Nevada, Atlantic City and possibly the Gulf Coast), but rather it is recognized as part of the tourism infrastructure that a region has to offer. Part of the reason behind this view of casino gaming is the proliferation of casino gaming opportunities that exist in North America today.

If the Brandon market area casino wanted to focus on the tourism sector, it should investigate ways to support existing tourism patterns as opposed to attempting to generate new tourists (existing tourism strategies will likely be more cost effective than strategies focused on new tourists).