GAMING IN WESTERN CANADA: A TALE OF TWO PROVINCES

Alberta & British Columbia - Casino Gaming Profile	Alberta	BC
Population	2,742,375	3,518,235
Number of Casinos	23	15
Slot Machines*	11,024	7,837
Table Games	423	481
Casino Revenue (million FY2008)*	$1,339.6	$1,322.1
Major Service Providers (# of casinos):		
Gateway Casinos	2	7
Great Canadian Gaming Corporation*	-	4
Paragon Gaming	3	1
Casinos ABS	4	-
Gamehost Income Fund	4	-
Others	12	3
VLTs	6,000	-
VLT Revenue (000s FY2008)	$838,000	$0

Source: Alberta Gaming and Liquor Commission and British Columbia Lottery Corporation annual reports; HLT Advisory.

**Excludes all Alberta (i.e., Northlands, Evergreen Park, Whoop Up Downs) and British Columbia (i.e., Fraser Downs and Hastings Park) racetracks offering slot machines.*

Few Canadian jurisdictions have experienced greater growth in the supply of and demand for casino gaming than British Columbia and Alberta. While on a national basis, casino gaming has increased about 50% from $3.9 billion to $5.9 billion between (fiscal) 2000 and 2008, British Columbia and Alberta combined posted a 235% growth over the same period with total revenue exceeding $2.6 billion in fiscal 2008. HLT estimates casino gaming revenue in British Columbia and Alberta in fiscal 2009 will be slightly ahead of fiscal 2008 revenue.

Although these two provinces have produced strong revenue growth, the approach used by each jurisdiction to deliver casino gaming is quite different. In Alberta, the Province's 23 casinos are operated through the "charity model" of the Canadian Criminal Code so that while private-sector service providers manage day-to-day operations - as in British Columbia - Alberta charities play a role in table game operations and in the on-site management of cash. One of the most significant differences from a consumer demand point-of-view however, is that Alberta also permits Video Lottery Terminals (VLTs). Alberta's 6,000 VLTs generated an additional $838 million in fiscal 2008.

Despite the difference in operating models, interest by private-sector service providers in both provinces remains strong with growth in the supply of gaming positions increasing at a pace just behind gaming demand (as measured by revenue growth). Slot capacity at full-service Alberta casinos has increased threefold between 2000 and 2008 while in British Columbia slot capacity has increased 3.6 times. In addition to full-service casinos, slots are available at two British Columbia and three Alberta racetracks.

Alberta & British Columbia Revenue Comparison	Fiscal Years Ended March 31st		
	2000	2004	2008
Alberta:			
# of slots	3,400	5,900	11,000
# of tables	n/a	290	425
Slot Revenue (000s)	$249,600	$637,867	$1,142,093
Table Revenue (000s)	$101,071	$122,763	$197,464
Alberta Total Revenue (000s)	$350,671	$760,630	$1,339,557
British Columbia:			
# of slots	2,175	3,832	7,837
# of tables	402	377	481
Slot Revenue (000s)	$230,526	$463,547	$973,908
Table Revenue (000s)	$214,681	$269,938	$348,215
BC Total Revenue (000s)	$445,207	$733,485	$1,322,123

Source: Alberta Gaming and Liquor Commission and British Columbia Lottery Corporation annual reports; HLT Advisory.

One of the most attractive and increasingly competitive markets in western Canada is the greater Vancouver area, where table gaming revenue exceeded slot machine revenue for years (a result of most Vancouver-area municipalities prohibiting slots until recently). In 2000, Vancouver-area casinos accounted for 75% of all table games in British Columbia but only 35% of slot machines. Vancouver now accounts for 80% of the Province's table games and about two thirds of all slot machines.

Greater Vancouver Revenue Comparison			
	Fiscal Years Ended March 31st		
	2000	2004	2008
# of slots	769	1,271	5,018
# of tables	304	275	382
Slot Revenue (000s)	$96,940	$227,718	$641,628
Table Revenue (000s)	$188,338	$242,759	$318,434
GVA Total Revenue (000s)	$285,278	$470,477	$960,062

Source: British Columbia Lottery Corporation annual reports; HLT Advisory.

The different approaches also result in different compensation schemes for service providers in each province. In Alberta, the Alberta Gaming and Liquor Commission (AGLC) retains 70% of slot machine revenue and none of the table revenue. The remaining slot revenue (30%) is split on a 50:50 basis between charities and the service provider. Table revenue is also shared 50:50 for most casinos located in major population centers, while service providers receive 75% for rural casinos. A modified revenue sharing arrangement exists for First Nation casinos.

In British Columbia, service providers earn 25% of slot revenue and 40% of table game revenue with an additional payment - the Facility Development Commission - designed to repay eligible capital investment in gaming and non-gaming capital assets. The British Columbia approach has, in some cases, resulted in the development of hotels, entertainment venues and more comprehensive food and beverage offerings.

So what does the rest of 2009 and 2010 hold for Alberta and British Columbia casino service providers, in the wake of an unprecedented economic melt down? Anecdotal information suggests that revenue declines on a province-wide basis have been negligible; in fact casino revenue in fiscal 2009 may actually exceed, albeit slightly, casino revenue generated in fiscal 2008. Anecdotal information also suggests that in the few situations where revenue declined, most have been confined to Alberta's northern resource communities and in Calgary. A province-wide smoking ban in Alberta (which had been voluntarily implemented a year earlier in Edmonton) is believed to have had a negative impact on Calgary casinos, a fact exacerbated by a new casino on First Nation land where the smoking ban is not applicable.

Over the medium term however, the fundamentals in both the Alberta and British Columbia casino gaming industry are solid including:

- A stable legislative and operating regime for casino service providers.
- A revenue sharing formula that, while some service providers might suggest needs modest adjustment, is fundamentally consistent with capital investment expectations.
- Widespread public acceptance of casino gaming.
- Further upside in gaming demand in historically strong, albeit resource-based, economies.

These operating fundamentals lead us to believe that the current adversity facing some service providers in Alberta and British Columbia is more a function of capital structure than diminished market demand and/or profitability.

For further information on how HLT Advisory can assist your organization contact:

HLT ADVISORY

Lyle Hall
416.924.7737 x222
lylehall@hlta.ca

Rob Scarpelli
416.924.7737 x224
robertscarpelli@hlta.ca

Jeff Dover
416.924.7737 x223
jeffdover@hlta.ca

Cindy Wilson
416.924.7737 x226
cindywilson@hlta.ca

166 Pearl Street, Suite 200
Toronto ON M5H 1L3
www.hlta.ca