

PRIVILEGED AND CONFIDENTIAL

Brad Desmarais
Vice President, Casino and Community Gaming
British Columbia Lottery Corporation
2940 Virtual Way
Vancouver, BC V5M 0A6

Date: October 11, 2017

Re: Restriction to Table Games Buy-in Levels

Dear Mr. Desmarais,

INTRODUCTION

HLT Advisory Inc. ("HLT") has been retained by British Columbia Lottery Corporation ("BCLC") to estimate the impact of restricting the acceptance of table game cash "buy-ins" (i.e., acquisition of playing chips) of more than \$10,000 at BC gaming facilities. This restriction will impact High-Limit (or High-End) table game business as the majority of cash buy-ins over \$10,000 occur in this component of casino operations.

SCOPE OF WORK

To complete the impact analysis HLT assessed the following data:

- FY2016, FY2017 and six fiscal periods of FY2018 table drop, net win and hold rate by table game type.
- FY2017 High-Limit table drop, net win and hold rate by casino.
- Large cash transactions ("LCT") for 12 fiscal periods ending September 23, 2017.
- Buy-In from both LCTs and non-LCTs (12 fiscal periods ending September 23, 2017).

HIGH-LIMIT TABLE BUSINESS

The High-Limit table segment in British Columbia casinos is defined as midi and squeeze (or "EZ") baccarat. As shown in Exhibit 1 following, high-limit baccarat has historically accounted for approximately ^{s 17(1)} percent of total table drop and between approximately ^{s 17(1)} to ^{s 17(1)} percent of total table net win. Casinos which offer high limit tables typically experience volatile hold rates in high limit games, as evidenced in BC with a high of ^{s 17(1)} in FY2016 to a low of ^{s 17(1)} in FY2018 YTD. The impact of this hold rate change is highlighted in FY2017 where high-limit baccarat drop increased over FY2016 but net win decreased due to a significantly lower hold rate in FY2017.

Exhibit 1					
Provincial Table Drop, Net Win & Hold Rate (Excluding Table Poker and TouchBet Roulette)					
	High-Limit Baccarat	Main Floor Baccarat	Blackjack	All Other	Total
Fiscal 2016					
Drop	s 17(1)				
% of Total Drop					
Net Win					
% of Total Net Win					
Hold %					
Fiscal 2017					
Drop					
% of Total Drop					
Net Win					
% of Total Net Win					
Hold %					
Fiscal 2018 YTD*					
Drop					
% of Total Drop					
Net Win					
% of Total Net Win					
Hold %					

Source: HLT Advisory Inc, based on BCCLC data.
 *Fiscal 2018 YTD equals April 1 through September 23, 2017

As shown in Exhibit 2, the high-limit baccarat business is concentrated in five Lower Mainland casinos. These casinos account for approximately 98% of total high-limit drop and net win. s 17(1), s 21

Exhibit 2	
High-Limit Table Drop & Net Win by Casino (FY2017)	
s 17(1), s 21	Total
Drop	s 17(1), s 21
Net Win	
Hold %	
Drop % of Total	
Win % of Total	

Source: HLT Advisory Inc, based on BCCLC data.

It should be recognized that high-limit tables account for over s 17(1), s 21 of total table business in each of these casinos. s 17(1), s 21

CASH BUY-INS (LCTs FILED)

Table game buy-ins are made either through cash or by way of withdrawal from a customer account (PGF). Monies in the latter case originate mainly from bank drafts from a customer's bank account to an account maintained by the casino for that customer. If a cash buy-in exceeds \$10,000 (either via one transaction or a series of transactions which total \$10,000 or more in a 24-hour period), an LCT report is filed with FINTRAC. The majority of PGF buy-ins, and approximately s 17(1), s 21 of LCTs are for high-limit table games.

To calculate the range of potential loss we used data for the trailing twelve fiscal periods ending September 23, 2017. As shown in Exhibit 3, LCTs (including discarded LCT transactions) account for s 17(1), s 21 of total table drop. This percentage increases to approximately s 17(1), s 21 if only high-limit table drop is considered.

Exhibit 3				
Buy-In (Drop) by Source (12 fiscal periods ending Sept 23, 2017)				
Source of Buy-In	Number	Table Drop	% of Total	Average Buy-In
LCTs	s 17(1), s 21			
Discarded LCT Transactions *				
PGF ** and other Cash Buy-in				
Total Table Game Drop				

Source: HLT Advisory Inc. based on BCCLC data.
 NA - not available
 * Discarded transactions are player buy-ins occurring after an LCT is recorded. The discarded amounts for these players do not total to an additional \$10,000, accordingly no additional LCT was filed.
 ** PGF (Player Gaming Fund) represents player account amounts. These are amounts that are received at the casino from the player's financial institution and held on account for player. The player draws on his/her account for buy-in.

Of the 35,417 filed LCTs, s 15(1) of the total value of LCTs filed. PGF buy-ins have a similar stratification.

Exhibit 4					
LCT Level Stratification (12 fiscal periods ending Sept 23, 2017)					
LCT Level	Number	% of Total	Amount of LCTs	% of Total	Average LCT
\$10k-\$20k	33,120	93.5%	\$385,307,948	76.2%	\$11,634
>\$20k to \$30k	926	2.6%	\$25,888,316	5.1%	\$27,957
>\$30k to \$40k	320	0.9%	\$12,148,580	2.4%	\$37,964
>\$40k to \$50k	462	1.3%	\$22,730,945	4.5%	\$49,201
>\$50k to \$75k	213	0.6%	\$13,177,851	2.6%	\$61,868
>\$75k to \$100k	250	0.7%	\$23,206,470	4.6%	\$92,826
>\$100k to \$250k	112	0.3%	\$17,501,855	3.5%	\$156,267
>\$250k	14	0.0%	\$5,808,840	1.1%	\$414,917
Total LCTs Filed	35,417	100.0%	\$505,770,804	100.0%	\$14,280
Discarded Transactions *	41,704		\$78,697,817		
Total			\$584,468,621		

Source: HLT Advisory Inc. based on BCCLC data.
 * Discarded transactions are player buy-ins occurring after an LCT is recorded. The discarded amounts for these players do not total to an additional \$10,000, accordingly no additional LCT was filed.

ESTIMATED NET WIN IMPACT

To estimate the potential impact of restricting cash buy-ins to below \$10,000, HLT provided a range of net win loss:

- The upper end of the range assumes that all buy-ins from LCTs will be lost (i.e. all customers who currently play at a level that requires an LCT report to be filed will no longer visit BC casinos).
- The lower end of the range assumes that all players who have cash buy-ins at \$10,000 or more will continue to come to the casino, however, their daily buy-in would be capped at \$9,999.

Exhibit 5 following summarizes the range of estimated loss. An estimated hold rate of 15% was assumed to calculate the loss associated with both the upper and lower end of the range as defined above. In total, HLT estimates that between \$34.6 and \$87.7 million of net win could be lost if cash buy-ins were restricted to amounts less than \$10,000.

Exhibit 5	
Range of Estimated Loss in Net Win	
Upper End of Loss Range	
Total Value of LCTs (drop)	\$584,468,621
Estimated Hold	15%
Net Win Loss	\$87,670,293
Lower End of Loss Range	
Total Value of LCTs (drop)	\$230,423,266
Estimated Hold	15%
Net Win Loss	\$34,563,490

Source: HLT Advisory Inc. based on BCLC data.

ESTIMATED GOVERNMENT AND SERVICE PROVIDER IMPACT

This loss of net win will impact both the Province (through BCLC) and SPs. As summarized in Exhibit 6, the income loss to BCLC would equal net win less SP commission paid and GST. In total income loss to BCLC would range from \$18.6 to \$47.2 million.

Exhibit 6		
Income Loss to BCLC		
	Minimum Potential Loss	Maximum Potential Loss
Estimated Table Net Win Loss	\$34,563,490	\$87,670,293
Less Savings in:		
Service Provider Commissions (44%)*	\$15,207,936	\$38,574,929
GST	\$760,397	\$1,928,746
Income Loss to BCLC	\$18,595,158	\$47,166,618

Source: HLT Advisory Inc. based on BCLC data & HLT estimate

*40% base plus 5% FDC/AFDC, less 1% table game supplies

As summarized in Exhibit 7 following, total SP loss would range from s 17(1), s 21

Exhibit 7			
Commission Revenue Loss by Casino & SP *			
Casino	Percent of LCTs	Minimum Potential Loss	Maximum Potential Loss
s 17(1), s 21			
River Rock			
Parq (Edgewater)			
Grand Villa			
Starlight			
Hard Rock			
Total All Other			
Total	100.0%	\$15,207,936	\$38,574,929
Service Provider	Percent of LCTs	Minimum Potential Loss	Maximum Potential Loss
GCGC	s 17(1), s 21		
Parq (Edgewater)			
Gateway			
Total All Other			
Total	100.0%	\$15,207,936	\$38,574,929

Source: HLT Advisory based on BCCLC & HLT estimate
 *40% base plus 5% FDC/AFDC, less 1% table game supplies

The casinos most impacted by a loss in high-limit table business resulting from limiting cash buy-ins to amounts less than \$10,000, account for approximately 76% of total SP investment to date in gaming facilities (excluding intangible assets; \$1.4 billion from 2015 SP Compensation review plus \$792 million to account for recent investment in Parq Casino) or approximately \$1.6 billion in investment. These facilities also generate 55% of total gaming win in the province.

* * * * *

Should you have any questions on this letter report, please do not hesitate to contact
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Sincerely,

HLT Advisory Inc.

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