

**Great Canadian Gaming Corporation**  
**Business Case – River Rock Casino 3<sup>rd</sup> Floor High Limit Facilities Enhancements**  
**October, 2014**

**Project Rationale**

Immigration and visitation to the GVRD from Mainland China has been on the increase for some time now, resulting in ever increasing levels of higher limit Baccarat play in the marketplace since the beginning of 2013. Current events in Mainland China and Hong Kong are likely to result in even greater inflows of new residents and visitors in the near future.

China's Central Government's anti-corruption and flight capital campaign will continue to escalate in 2015, redirecting VIP Baccarat play to locations other than Macau, such as the GVRD and River Rock Casino Resort in particular. When the investigations have been completed and reports submitted to Beijing it is widely believed that these campaigns will ramp up to compound the aforementioned effects.

The goal of the Chinese campaign is to curb extravagant and conspicuous consumption of premium brand consumer goods purchases, luxury hotel stays and opulent fine dining. Those who currently enjoy this lifestyle will want to maintain low profiles in China, but continue to enjoy the benefits of their wealth, which means in offshore destinations such as Vancouver.

The US government's current campaign to curb money laundering, involving the Justice Department, the Treasury Department and FinCEN, will continue to focus on Las Vegas-based gaming companies that operate in Macau (Wynn, Sands and MGM). VIP residents of the Peoples' Republic will encounter increasing restrictions on access to funds for gaming in Macau and Las Vegas, again making the GVRD a highly desirable gaming destination.

Current protests in Hong Kong against unlimited rule by the Mainland Chinese government will result in much reduced visitation to the city, again diverting tourist traffic to destinations such as the GVRD.

Citizens of the Peoples' Republic who reside in other countries such as Australia, the USA and the UK will be encouraged by the actions and events described above to choose Canada as a travel destination, using 10 year Canadian visitor visas, as opposed to going home for vacations. Similarly, Chinese persons with landed immigrant status in Canada will choose to remain in Canada rather than return to China.

All of the above provide a solid basis for the assumption that prospects for continuing significant increases in VIP, mass VIP and premium play at River Rock are very good.

**Purpose and Scope of the Project**

The project will have a number of focal points, among which are the following:

- Provide the Salon Prive and Phoenix Room with layouts and décor based on the Macau model, which features brighter lighting, brighter colour schemes and tiered, layered gaming zones, more accommodating to the tastes of the elite VIP player.
- Creation of an 'Inner Sanctum' in the former Surveillance and Security spaces, which will combine private gaming and dining offerings for the first time to greater enhance convenience, privacy and discretion for River Rock's top tier players.

- Create facilities which will be attractive to domestic and international players who visit the area by means of cruise ship operators, Mainland Chinese travel companies and organized golf tour groups who wish to avoid being viewed as 'privileged' in China (golf being viewed as a symbol of extravagance in the homeland). These facilities could well include a redevelopment of the River Rock Marina to create a high-end Chinese private club, members of which are luxury lifestyle seekers who game, sail and golf for pleasure.

### **Gaming Area Enhancements**

The refinished 3<sup>rd</sup> floor will include:

- 17 additional tables, 7 in the Salon Prive and 10 in the Phoenix Room
- The introduction of smaller Baccarat tables, which accommodate 5 players as opposed to the more conventional 9 seat tables. These tables will facilitate more 'reserved' games which typically seat 1-3 players, resulting in greater productivity in terms of increased hands per hour and more efficient use of available space.
- The introduction of a \$25,000 chip/plaque to encourage aspirational play and satisfy the currently unmet demand for a higher bet limit from the VVIP player group.
- The establishment of a \$150,000 table aggregate bet limit, pre-approved by BCLC, but deployed at Great Canadian's discretion.
- Increased Executive Host/VIP Host presence in these areas.
- Private cage service in the Phoenix Room.
- Expanded rest room facilities

### **Player Experience and Entertainment Enhancements**

To complement the upgraded gaming facility features, the following would be offered, utilizing the theatre, conference and meeting facilities of the River Rock Resort complex:

- World-class Chinese concerts and variety shows
- Luxury brand lifestyle events
- Chinese economic trade shows and business conferences

In addition, the following would be enhanced or introduced to provide more exclusive VIP privileges and experiences:

- Appreciation dinner parties
- Off-site excursions
- Innovative, customized VIP gifts
- Superior selection and quality of food offerings
- Personalized celebrity meetings

Also, Great Canadian would extend and expand its Chinese community outreach by:

- Increasing its support of impactful Chinese community charities and causes (sponsoring venue and in-kind value for fundraising purposes, for example)
- Developing meaningful, cooperative alliances with Chinese business and social organizations
- Helping to foster relations with governmental agencies that are instrumental in providing opportunities for affluent Chinese to visit the area and utilize the facilities and amenities at River Rock Casino Resort (trade delegations, educational and cultural exchanges, for example)

## Project Cost Estimate

The project is currently estimated to cost \$3,700,000 all-in.

## Assumptions Underlying Incremental EBITDA Projections

Associated incremental revenue projections were based primarily on the estimated utilization of the additional 17 Baccarat tables combined with extrapolations from historical high limit player game duration, average bet, game pace, and hold % data. To project incremental labor costs, projected 'tables opened' data was combined with an estimate of a total time in use per table per day of 10 hours, to produce a forecast of total table operating hours for 2015. Operating hours were then converted to the equivalent labor hours (1.25:1 for dealers and 0.625:1 for supervisors, to account for hourly 15 minute breaks). The estimate of incremental operating expenses was based solely on BCLC's 1% of GGR levy to cover such costs. An additional \$10,000 was included to cover the cost of felt replacements.

## Summary of Operating Projections

Incremental Revenues from Salon Prive and Phoenix Room	\$25,284,376	
Incremental EBITDA	\$23,639,388	93.5%
Incremental Cash Flow	\$19,922,467*	

\*CCA and Income tax expense were estimated using the a flat rate of 20% for the total capex and ½ of the provincial corporate tax rate of 26%, to reflect the impact of the ½ year rule.

## Summary of Financial Modeling Results

Given the sizable amount of incremental cash flow relative to the planned capital expenditure over a time span of less than one year, standard ROI computations were not required. A 'simple payback' calculation estimates full recovery of the investment in 2.23 months.

## Appendices

1. Renderings and floor plans
2. 2015 high level pro forma schedules (prepared by R. McPherson)
3. 2015 detailed pro forma schedules (prepared by W. Soo)