

SINGLE-EVENT SPORTS WAGERING IN CANADA

A CASE STUDY: BORDER COMMERCIAL CASINOS IN ONTARIO

Key Findings Report



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ADVISORY

2010 - 2011

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EXECUTIVE SUMMARY





EXECUTIVE SUMMARY

The Canadian gaming industry has matured and now faces stronger competition from alternative entertainment options, gaming facilities in neighbouring US jurisdictions as well as the internet. A key factor of future growth will be increased penetration rates into specific market demographic segments (i.e., offering gaming products that appeal to specific demographic segments). Single-event sports wagering is such a product.

The Canadian Criminal Code sets out the parameters of legal gaming in Canada. While the Criminal Code does not prohibit sports based wagering activity, it currently does prohibit wagering on the outcome of a single sporting event.

In Canada, provinces are responsible for operating, licensing and regulating all legal forms of gaming. Each province determines the types, amount and location of gaming activity that is available in their jurisdiction. This provincial determination is based on specific government policy objectives. If single-event sports wagering was permitted each province would determine if and how they would implement this enhanced product based on their own policy objectives and market circumstances.

To illustrate the potential benefits of permitting the introduction of single-event sports wagering, this research report focuses solely on assessing the potential benefits of permitting this type of sports wagering in the form of a traditional casino “sport book” at Ontario’s commercial casinos located at borders (i.e., Windsor and Niagara Falls). For greater clarity, no attempt is made in this research report to assess the potential benefits that could be generated in the entire Ontario market.

Consistent with the rationale behind selecting the Cities of Windsor and Niagara Falls as commercial casino sites, a significant portion of their respective businesses has been derived from US customers. Besides the obvious impact associated with the introduction of competitive casinos in Detroit and Buffalo, this dependency on a US customer base has additional considerable economic risk associated with it, most notably related to currency fluctuation and changes to international border policies. Both of these situations have changed dramatically since 2000 and have negatively impacted the ability of Caesars Windsor and Niagara Casinos to compete in the US portion of their markets.

With the decline in revenues and associated profits from US markets, both Caesars Windsor and the Niagara Casinos require strategies to “re-connect” with the US market. In other words, they must find competitive advantages that can offset the competitive disadvantages that they have been forced to operate with. Given the complexity of the US federal law limiting further expansion of sports wagering, it is extremely unlikely that the States of Michigan and New York could introduce single event wagering in the near future.

Single-event sport wagering is only permitted in Nevada in the United States. Limited lottery based (parlay based) sports products are permitted in Delaware, Montana and Oregon. If customers located in the Midwest (including Detroit and Buffalo) want to wager on sporting events, they either have to travel to Nevada or partake in illegal activities (e.g. bookmakers or the internet).

The size of the illegal United States sports wagering market is thought to be significant. The US National Gambling Impact Study Commission (1999) stated that “estimates of the scope of illegal sports betting in the United States range anywhere from \$80 billion to \$380 billion annually”. While the size of the illegal bookmaking market in Canada is unknown, it is also thought to be significant. If the range of illegal sports betting in the United States is accurate, it would not be unreasonable to assume that the range in Canada is between \$10.0 billion and \$40.0 billion.



HLT estimates that a competitive legal sports book that offered single-event wagering could potentially generate primarily from the US market about \$70.0 million in wagering (or \$3.6 million in win) in Windsor and about \$35.0 million (or about \$1.7 million in win) in Niagara. These estimates are consistent with the average results of sports books in Las Vegas.

In addition to sports book win, incremental gaming win and incremental non-gaming or ancillary revenue could also be generated due to the sports book. HLT estimates that between \$18.0 and \$24.0 million in gaming win and between \$5.0 and \$7.0 million in ancillary revenue could be generated at Caesars Windsor. HLT estimates that between \$9.0 and \$12.0 million in gaming win and about \$3.0 million in ancillary revenue could be generated at the Niagara Casinos.

In total, a sports book offering single-event sports wagering could potentially generate incremental revenue of between \$27.0 and \$35.0 million in Windsor and between \$13.0 and \$17.0 million in Niagara, the majority of which would be earned from US customers. Utilizing the results of the 2010 Economic Impact of the Canadian Gaming Industry Study (which utilized the Statistics Canada Input-Output Model) this incremental business could support/sustain up to 150 jobs (full-time equivalent) in Windsor and up to 100 jobs (full-time equivalent) in Niagara. Given that both casinos currently have capacity to accommodate increased business levels, it is likely that the introduction of a sports book would help to protect existing employment levels.

Summary: Potential Benefits of Sports Book at Ontario Border				
Commercial Casinos				
(in millions)				
	<u>Windsor</u>		<u>Niagara</u>	
Total Sports Book Visits	1.0		0.5	
Total Sports Book Wagering	\$72.7		\$34.4	
Incremental Revenue				
Sports Book Win	\$3.6	\$3.6	\$1.7	\$1.7
Gaming Win	\$18.2	\$24.2	\$8.6	\$11.8
Ancillary Revenue	\$5.2	\$6.9	\$2.5	\$3.3
Total Incremental Revenue	\$27.0	\$34.8	\$12.8	\$16.8
Potential Jobs Supported/Sustained	150		100	

Source: HLT Advisory Inc. estimates.

1. INTRODUCTION

HLT Advisory Inc. (“HLT”) was retained by the Canadian Gaming Association (“CGA”) to research and assess the benefits of enhancing sports based gaming activity for the Canadian gaming industry. Specifically the benefits of introducing single-event sport wagering activity. The report that follows summarizes the key findings of this research.





1.1 CANADIAN GAMING INDUSTRY - BACKGROUND

The gaming industry is one of the largest entertainment industries in Canada, as well as being a pillar of the broader Canadian hospitality industry. Over the past 15 years, the industry has almost tripled in size from \$6.4 billion in gaming win (wagering less prizes) in 1995 to about \$15.1 billion in 2010. In addition to gaming win, \$900.0 million in non-gaming revenue (i.e. food and beverage, accommodations, entertainment and retail) was also generated for a total industry revenue base of \$16.0 billion in 2010. A wide range of gaming activity is available in virtually every province and sub-provincial region in Canada, and such, economic benefits of gaming activity can be found in all regions of Canada.

Of the \$16.0 billion total revenue, governments (including First Nations) and charities received almost \$8.7 billion. The majority of these revenues were spent to support government/charity priority areas and programs. The remaining \$7.3 billion was spent by activity operators to sustain operations. Of the \$7.3 billion spent to sustain operations, \$2.4 billion was directly spent on labour supporting over 54,000 jobs (full-time equivalent - 2010 Economic Impact of the Canadian Gaming Industry; Canadian Gaming Association prepared by HLT Advisory Inc.).

The Canadian gaming industry has matured and now faces stronger competition from alternative entertainment options, gaming facilities in neighbouring US jurisdictions as well as the internet. Future growth will likely be dependent upon increased penetration rates into specific market demographic segments (i.e., offering gaming products that appeal to specific demographic segments) and strength of the overall economy. Single-event sports based wagering is a product that could assist provinces in competing with competitors as well as increasing penetration in specific demographic market segments.

1.2 RESEARCH REPORT FOCUS

The Canadian Criminal Code sets out the parameters of legal gaming in Canada. Gaming (except horse racing) is referred to as “lottery schemes” in the Code. With regard to permitted forms of gaming, the definition of a “lottery scheme” specifically prohibits betting on a single sport event or athletic contest [Section 7 (4) (b)]. For greater clarity, the Criminal Code does not prohibit sports based wagering activity but rather only wagering on the outcome of a single sporting event.

In general, Section 206 of the Code generally prohibits all forms of gaming, while Section 207 provides for a number of exceptions. These exceptions permit provinces, charity/religious groups and fair boards/exhibitions to “conduct and manage” gaming. The latter two groups have certain restrictions on the types of gaming they can “conduct and manage” and they must obtain a license from a province. Hence, except for horse racing, provinces are responsible for operating, licensing and regulating all legal forms of gaming in Canada.

Each province determines the types and amount of gaming activity (both products and facilities/delivery channels) that is available in their jurisdiction. This provincial determination is based on specific government policy objectives. If single-event sports wagering was permitted under the Criminal Code, each province would determine if and how they would implement this enhanced product based on their own policy objectives and market circumstances.

To illustrate the potential benefits of permitting the introduction of single-event sports wagering, this research report focuses solely on assessing the potential benefits of



permitting this type of sports wagering in the form of a traditional casino “sport book” at Ontario’s border commercial casinos (e.g., located in Windsor and Niagara Falls). For greater clarity, no attempt is made in this report to assess the potential benefits that could be generated in the entire Ontario market or in any other province.

1.3 ORGANIZATION OF REPORT

Following the introduction, the report is organized in four sections:

Section 2

Provides a background on the current status of sports wagering in Canada and North America, both in terms of legal and illegal wagering.

Section 3

Profiles the historic development and current market situation of Ontario’s commercial casinos located in Windsor and Niagara Falls.

Section 4

Presents an estimate of the potential benefits that could occur if single-event sports wagering were permitted and “casino sports books” were added to Ontario’s commercial casinos.

2. CURRENT STATUS OF SPORTS WAGERING

For many people, the appeal of a sporting event is enhanced through wagering on the event. While most people realize that Nevada is the only jurisdiction in North America where single-event sport wagering is allowed, most do not appreciate that it is not only allowed but part of the culture in virtually all European countries as well as in many other countries around the world.

This section of the report profiles and discusses the current state of legal and illegal sports-based gaming in Canada and the United States. First a brief account of the global sport industry is presented.

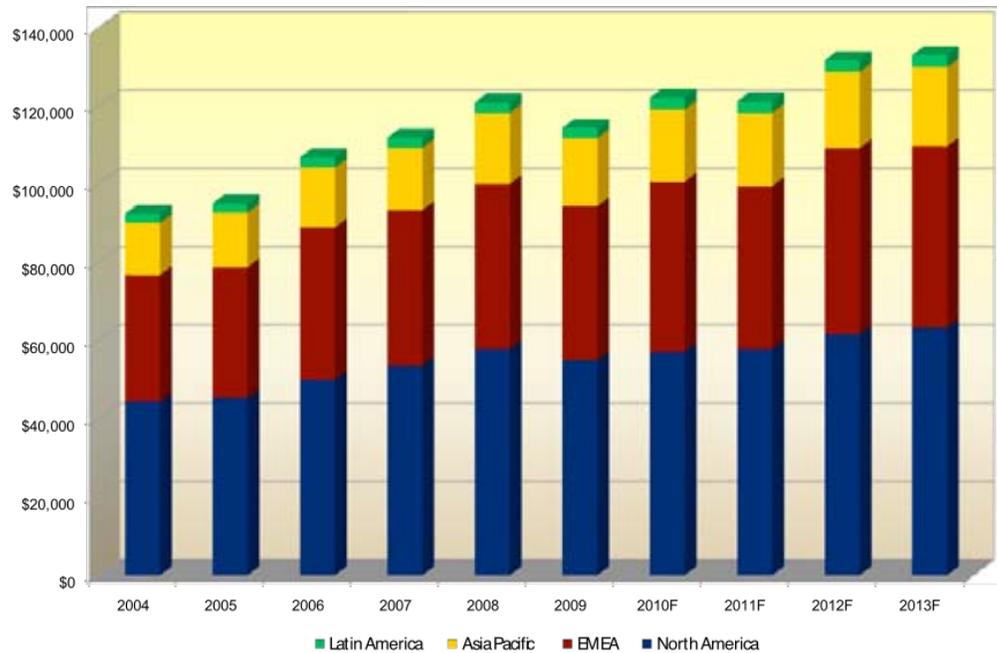




2.1 THE GLOBAL SPORTS INDUSTRY

Sport is a large global industry with total estimated revenues (from merchandising, sponsorship, media rights and gate revenues) of about \$US120.0 billion in 2011. By 2013, revenue is estimated to exceed \$US130.0 billion. Of that amount, 50% or \$65 billion is expected to be generated in North America (see *Exhibit 1*). As discussed in the remainder of this Section, this amount is dwarfed by the global amount of legal and illegal wagering on sports.

Exhibit 1
Global Sports Market by Region (\$US Millions)



Source: HLT Advisory Inc. based on Pricewaterhousecoopers LLPs "Back on track? The outlook for the global sports market 2013"

2.2 EXISTING LEGAL SPORTS WAGERING IN CANADA

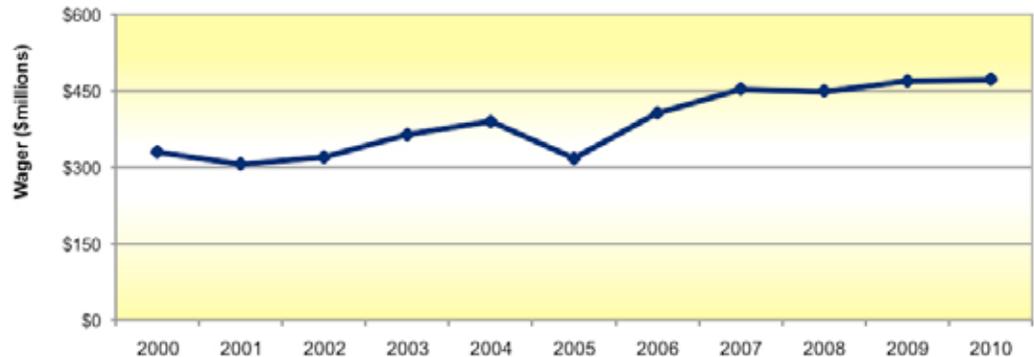
The Criminal Code of Canada only prohibits wagering on the outcome of a single sport event. In response, all provinces through their provincial gaming corporations have long offered "parlay" based wagering on sporting events. Parlay wagering, as currently offered in Canada, involves predicting the outcome two or more sporting events. Customers choose the outcome of two or more sporting events (on which predetermined odds are published in advance of the event by the provincial gaming corporation) and the amount that they are willing to wager. In order for the customer to be successful, the outcome of all of the events must be predicted correctly.

Exhibit 2 shows total historic legal sports wagering in Canada. As shown, wagering has been trending upwards since 2005 and today exceeds \$450.0 million. While win (wagering less prizes) levels vary by province based on consumer choice and established odds, most provinces typically experience win rates of around 40 percent (in other words, an average of 60 percent of wagering is returned to customers in the form of prizes).



This win rate is far greater than the economics of sports wagering in Nevada which typically has a win rate of around 5 percent of wagering. This difference is primarily because of the lower probability of being able to successfully predict the outcome of more than one event in order to win a bet. This difference also explains the greater consumer preference for single-event sports wagering by knowledgeable consumers and their willingness to resort to illegal wagering alternatives in amounts vastly greater than is currently wagered on legal parlay sports products offered in Canada (see further discussion in Section 2.4).

Exhibit 2
Total Legal Sports Wagering in Canada



Source: HLT Advisory Inc. based on data from provincial lottery corporation's Annual Reports.

2.3 EXISTING LEGAL SPORTS WAGERING IN THE UNITED STATES

In 1992, the US federal government passed a law, the Professional and Amateur Sports Protection Act (PASPA), which prohibited sports wagering sponsored by a state. Only those states that had sports wagering type (lottery) products between January 1, 1976 and August 31, 1990 could continue to offer "lottery based" sports wagering. These lottery-based products did not include single-event wagering. Oregon, Montana and Delaware were the only three states that qualified for this exemption. Oregon however withdrew its two sport lottery products (parlay-based) in 2007. Total sales (wagering) in 2007 were about \$14.5 million. Montana's sport lottery product (fantasy-based product that must return 74% of sales as prizes to customers) is minor (less than \$2.0 million in sales in FY2010). Delaware launched parlay sports betting on pro-football in FY2010. By year end, total sales were just below \$11.0 million.

Over the years, a number of States (e.g. New Jersey in 2010) have attempted to overturn PASPA. None of these challengers have been successful and it is unlikely that any further attempts will be successful in the near future.

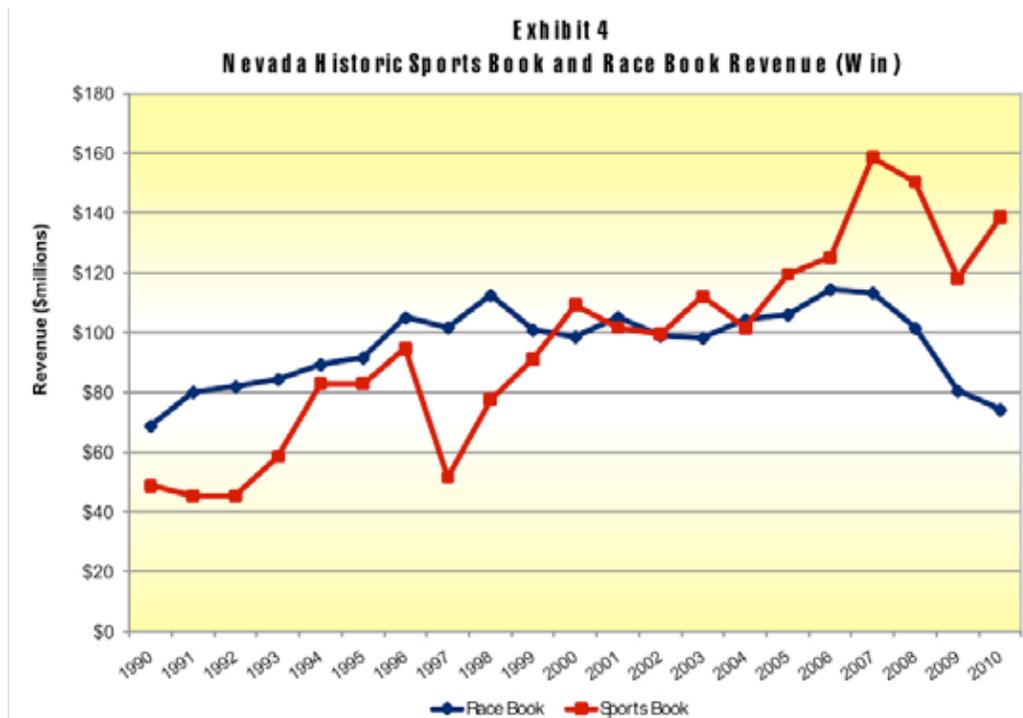
Nevada was also exempt, but under another clause of the Act as its sports wagering was not "lottery based", but rather was offered in a "sports book" format in casinos. A "sports book" can be simply defined as a physical area of a casino where customers can place a variety of wagers (e.g. single-event, parlay, etc.) on sporting events. Typical components of a sports book would include an "odds board", betting windows and/or terminals, numerous big screen televisions and seating areas with food and beverage service (see Exhibit 3).



Exhibit 3: Example of a Las Vegas Sports Book (Caesars)



There are currently about 185 sports books operating in Nevada casinos. These casinos typically integrate a horse racing book with the sports book offering. *Exhibit 4* shows revenues (or win) for all Nevada casinos from the race and sports book (broken out separately) between the years 1990 to 2010. In 2010, revenue (win) from all sports books in Nevada totalled \$138.6 million. From a wagering perspective, this equates to about \$2.8 billion (HLT estimate based on average win rate of 5% of wagering). In 2007, total wagering amounted to \$3.2 billion, the highest level in the past 20 years.



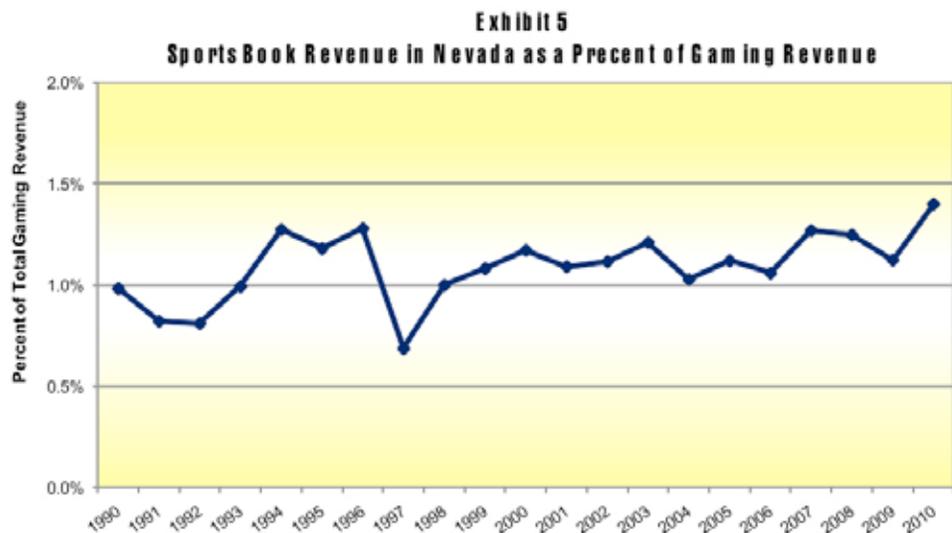
Source: HLT Advisory Inc. based on data from Nevada Gaming Abstract.



From 1990 to 2005, revenues from horse racing remained reasonably stable, but since 2005 there has been a marked decline. While sports book revenue has experienced a couple of significant annual changes over the past 20 years, it has generally trended upwards.

Casino operators have been reinvesting in their sports books in recent years. Part of this reinvestment has been in the physical sports book space while some has been in the area of enhanced technology, including hand held devices and mobile phone applications. These devices/applications have provided greater ease and convenience of betting and have provided for the “real time” ability to place wagers on activities occurring within a sporting event, known as proposition betting. For example, bets can be placed on whether a batter will reach base, or whether a football team will convert a first down, etc.

When compared to all gaming revenue, sports book revenue in 2010 (\$138.6 million) for the State of Nevada as a whole accounted for approximately 1.3% of total gaming revenue of \$9.9 billion (the same relationship exists on the Las Vegas strip). From 1990 to 2010, sports book revenue as a percentage of total gaming revenue has remained reasonably consistent for the State of Nevada as shown in *Exhibit 5*. Hence, the growth in sports book revenue over the 20 year period has been closely aligned with the growth rate of total gaming revenues.



Source: HLT Advisory Inc. based on data from the Nevada Gaming Abstract.

It must be acknowledged that revenues from sports books are insignificant when compared to revenues and associated operating margins from a casino’s core gaming operations (i.e. table games and slots), but casino operators in Nevada have long taken the position that the true value of having a sports book amenity in a casino is the benefit it confers upon the entire casino complex. For example, a sports book:

- Provides an additional amenity to the casino;
- is a prospecting tool to attract new casino customers;
- enhances the “atmosphere” of the casino complex through the excitement of events;
- provides for the additional “bankroll” of customers from winnings at sports book to be distributed in other areas of the casino complex;
- enhances the ability to host events on game day such as the Super Bowl (e.g. Super Bowl weekend represents one of the busiest weekends of the year in Nevada, over



\$87.0 million was wagered on the 2011 event. The Las Vegas Convention and Visitors Authority estimates that the Super Bowl annually attracts around 250,000 additional visitors who generate non-gaming economic impacts equal to or greater than the amount wagered on the game.);

- increases the duration of a customer visit and associated spending for those who place a wager on a particular event and remain to watch the outcome; and
- casinos traditionally have used “sports” as a marketing vehicle given the similar profiles of the sport’s enthusiast and the casino table games customer (e.g. male, age 20-60).

In 2010, of the 23 casinos located in the Las Vegas strip area that had generated over \$72.0 million in gaming revenue (all of the largest casinos), all had a sports book. The average size of the sports book space was about 6,500 square feet and the average win was \$2.9 million or about \$57.0 million in wagering (HLT wagering estimate).

2.4 ILLEGAL SPORTS WAGERING IN CANADA AND THE UNITED STATES

Illegal sports wagering includes both illegal bookmakers and illegal internet betting companies operating within North America.

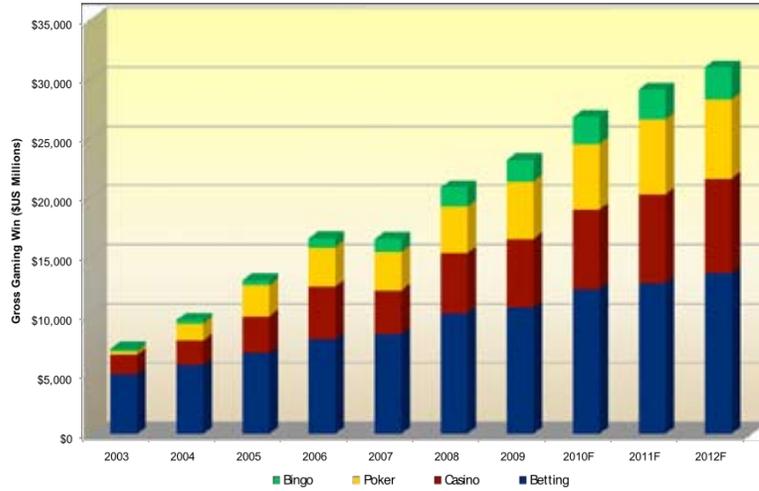
While the exact size of the illegal bookmaking market is unknown, a review of published reports by government and law enforcement officials can shed some light on the topic.

- The 1999 US National Gambling Impact Study Commission stated that “estimates of the scope of illegal sports betting in the United States range anywhere from \$80 billion to \$380 billion annually” (page 2-14). The Commission was established by the 104th Congress of the United States for a two year period to conduct a comprehensive legal and factual study of the social and economic impacts of gambling on federal, state, local and Native American tribal governments.
- Based on a review of the annual reports of Criminal Intelligence Services Canada (“CISC”), “bookmaking” exists in every region of Canada. Illegal gaming profits provide revenue to organized crime groups to fund their illegal and legal activities. While the size of the illegal bookmaking market in Canada is unknown, it is thought to be significant. If the range of illegal sports betting in the US (as quoted in the US National Gambling Impact Study) is accurate, it would not be unreasonable to assume that the range in Canada is between \$10.0 billion and \$40.0 billion. It should be recognized that illegal gaming is not a current priority of major law enforcement agencies in Canada due to a lack of funding and priority focus on other crimes (i.e., violent and drug-related crimes).

Internet gaming when not “conducted and managed” by a province is also an illegal form of gaming in Canada. It is completely illegal in the United States. With that said, it is legal in many other countries around the world. It is estimated that the total global internet gaming win will exceed \$30.0 billion by 2012, up from a 2003 estimate of \$7.0 billion (*see Exhibit 6*). The largest component of win is from “betting” which includes both sports and horse racing. Based on past discussions with industry officials, sports wagering accounts for about half of the total betting win.



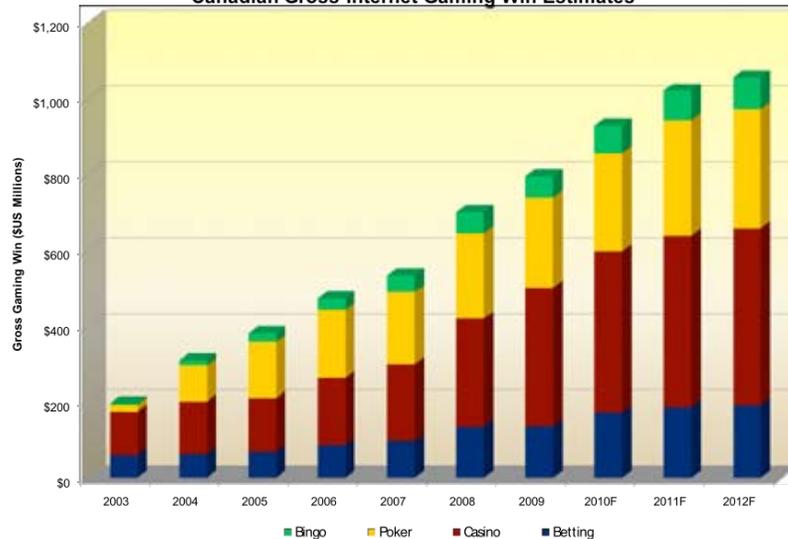
Exhibit 6
Global Gross Internet Gaming Win Estimates



Source: HLT Advisory Inc. based on data from H2 Gambling Capital (H2GC) November 2009.

Canada's growth rate in the area of internet wagering has matched that of the global growth rate, since 2003. It is estimated internet gaming revenues in Canada will exceed \$1.0 billion by 2012, of which "betting" ranks third in terms of size, behind traditional casino activity and poker. Unlike the global betting total, sport is thought to represent the largest component of the estimated Canadian betting total of close to \$190.0 million of win. The win from sports betting on the internet in Canada is in the same range as the total win from the legal sports products offered by all Canadian provincial gaming corporations. Given that the win rate for sports betting on the internet is likely in line with Nevada (5%) compared to about 40 percent for products legally offered by a provincial gaming corporation, total illegal internet sports wagering is likely in the \$2.0 to \$4.0 billion range compared to about \$450.0 million for legal products currently available.

Exhibit 7
Canadian Gross Internet Gaming Win Estimates



Source: HLT Advisory Inc. based on data from H2 Gambling Capital (H2GC) November 2009.

3. ONTARIO'S BORDER COMMERCIAL CASINOS

In the early 1990's, the Ontario government decided to implement commercial casino gaming in the Province. Key elements of the casino strategy were to locate a few large facilities in those markets that could generate out-of-province visitation. Two key markets identified were Windsor (serving the larger Detroit market) and Niagara Falls (serving the larger Buffalo market). At the time, casinos were not permitted in either the Detroit or Buffalo markets. Besides casinos in Windsor and Niagara Falls, a third commercial casino (Casino Rama) was established in the First Nation community of Rama located outside of Orillia. This latter casino was developed for the purpose of generating revenue and employment opportunities for all Ontario First Nations.

The Province of Ontario holds the "conduct and manage" responsibility for all of the commercial casinos through its owned gaming corporation (Ontario Lottery and Gaming Corporation or "OLG"). The day to day operation of each property is carried out by private sector service suppliers. The Province also owns the casino buildings in Windsor and Niagara Falls.





3.1 ONTARIO COMMERCIAL CASINOS – HISTORIC DEVELOPMENT

The original Casino Windsor opened in May 1994 as the first casino in Ontario. The Casino was housed in the retro-fitted Windsor Art Gallery and contained 50,000 square feet of gaming space. In order to increase gaming space to meet extensive US-based market demand, a Louisiana style riverboat (the Northern Belle Casino) was purchased and permanently moored on the Windsor riverfront on the Detroit River. These two casino facilities remained in operation until July 1998, when the permanent Casino Windsor was opened. In 2005, OLG announced a further \$400 million investment in Casino Windsor, primarily in the form of an additional hotel tower and an entertainment facility. In 2008, Casino Windsor was rebranded as Caesars Windsor in order to align its operation with one of the strongest brand names in the industry (part of the Harrah’s portfolio of casinos).

In July 1996 Casino Rama opened to the public. The original facility was meant to serve as an interim facility, with a permanent facility to be constructed on the shores of Lake Couchiching, subject to certain economic and environment considerations. It was ultimately determined by the Rama First Nation community and agreed to by all Ontario First Nations that in lieu of constructing a permanent facility, expansion and upgrades would be carried out on the existing site in order to create a permanent casino. The expansion was completed in phases in the early 2000’s. In addition to extensive upgrades, a 300-room hotel tower and 5,000-seat entertainment centre were added to the property.

In December 1996, Casino Niagara opened as an interim facility in a converted retail complex in Niagara Falls. The intention was for Casino Niagara to serve as an interim facility until such time as a permanent facility could be constructed. In June 2004, Niagara Fallsview Casino Resort opened as the permanent casino, and a decision was made to maintain the operation of Casino Niagara.

Exhibit 8 provides a summary account of property features at each of Ontario’s commercial casinos.

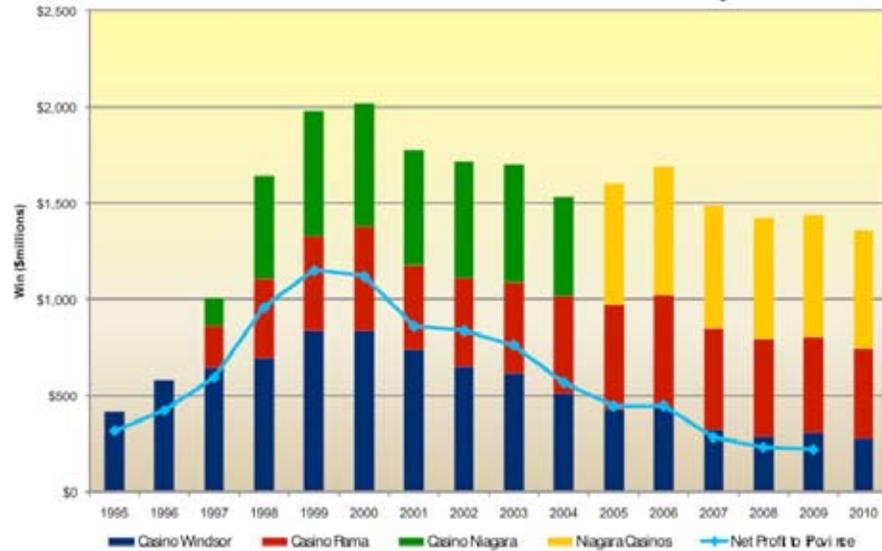
Exhibit 8 Ontario Commercial Casino Property Features								
	Slots	Tables	Entertainment Centre Capacity	Hotel Rooms	Spa	Food and Beverage Outlets	Retail Y/N	Meeting Space (sq. ft.)
Casino Niagara	1,500	52	n/a	n/a	N	4	N	n/a
Niagara Fallsview Casino Resort	3,155	121	1,511	374	Y	19*	Y	35,000
Caesars Windsor	2,330	84	5,000	758	Y	6	Y	100,000
Casino Rama	2,488	118	5,000	300	Y	11	N	16,000

n/a- not applicable
**Includes third party Food and Beverage onsite.*
 Source: HLT Advisory Inc. based on various casino websites.

Exhibit 9 shows commercial casino gaming win in total and by property since opening (it should be noted that with the opening of Niagara Fallsview Casino Resort, the revenues of Niagara Fallsview Casino Resort and Casino Niagara are shown on a consolidated basis and not by property. This is due to the fact the operations are in close proximity, and operate with the objective of maximizing consolidated results of each property). In addition, total Net Profit to the Province is also shown (Net Profit to Province is defined as Net Income plus Win Contribution as per OLG annual reports).



**Exhibit 9
Ontario Commercial Casino Win and Profit History**



* Niagara Casinos includes both Niagara Fallsview Casino Resort and Casino Niagara.
Source: HLT Advisory Inc. based on OLG Annual Reports

Total win and net profit peaked in 1999/2000 at just over \$2.0 billion and \$1.0 billion respectively. Since, both win and net profit levels have eroded. Today total win is below \$1.4 billion and net profit is around \$200.0 million. Competition, mainly based in New York State (greater Buffalo area) and Michigan (greater Detroit area), was the most significant factor that led to the win and profit erosion.

3.2 WINDSOR/DETROIT COMPETITIVE MARKET

As the only casino in its market area, at the outset Casino Windsor experienced significant financial success. At the time of opening, 90% of Casino Windsor’s revenues were derived from US customers and Casino Windsor was considered one of the most profitable casinos per square foot in the world. In response, State of Michigan voters agreed in 1996 to permit licenses for three commercial casinos in the City of Detroit to provide tax revenues for the State. In 2000, these three casinos were opened in Detroit.

Exhibit 10 provides current property characteristics of Caesars Windsor compared to the three Detroit casinos.

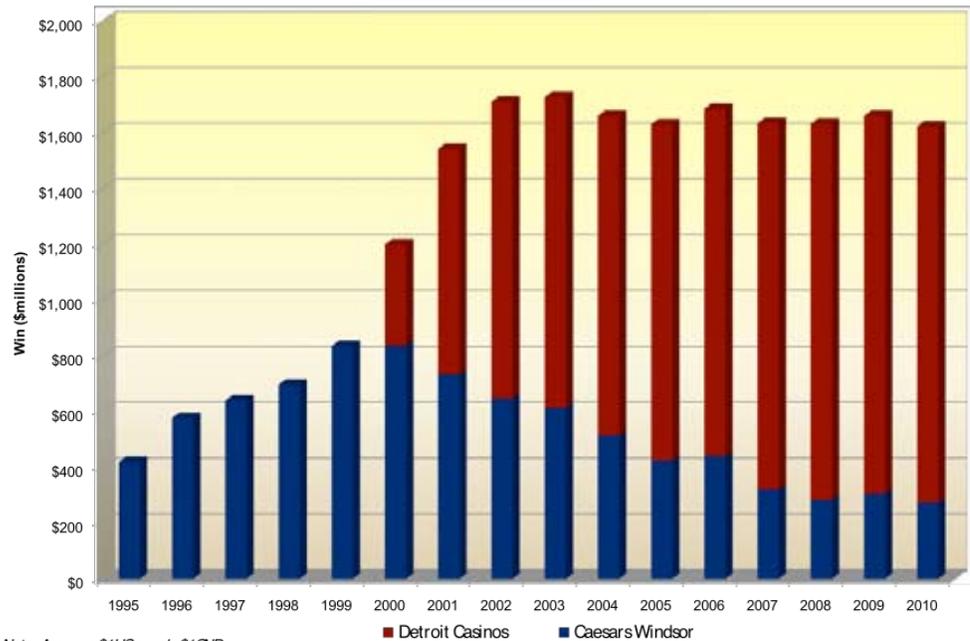
	Slots	Tables	Entertainment Centre Capacity	Hotel Rooms	Spa	Food and Beverage Outlets	Retail Y/N	Meeting Space (sq. ft.)
MGM Grand Detroit	4,000	90	n/a	400	Y	5	Y	30,000
Motorcity Casino	2,800	57	1,500	400	Y	4	Y	67,000
Greektown Casino	2,500	67	n/a	400	N	3	N	25,000
Total Detroit	9,300	214	1,500	1,200		12		122,000
Caesars Windsor	2,330	84	5,000	758	Y	6	Y	100,000

n/a- not applicable
Source: HLT Advisory Inc. based on various casino websites.



Exhibit 11 shows total gaming win for the total Windsor/Detroit market broken out between Caesars Windsor and the three Detroit casinos. As shown, total market gaming win has been stable since 2002 at around \$1.6 billion, but Caesars Windsor’s share of the market has decreased almost every year since the Detroit casinos opened and currently (2010) stands at about 17 percent.

Exhibit 11
Windsor, Detroit Market Area Casino Win



Note: Assumes \$1US equals \$1CAD
Source: HLT Advisory Inc. based on company annual reports

3.3 NIAGARA/BUFFALO COMPETITIVE MARKET

Similar to Casino Windsor, Casino Niagara opened as the only casino in its broader market area and experienced early financial success. In its early years Casino Niagara welcomed in excess of 10 million guests annually, and became known as “Canada’s number 1 commercial tourist destination”. At the outset, up to 50% of Casino Niagara’s revenues were from US customers. In an effort to capitalize on its own revenue opportunities, the Seneca Nation of Indians signed a gaming contract with the State of New York to establish a casino in Niagara Falls, New York. In January 2003, Seneca Gaming Corporation opened a full-scale commercial casino, the Seneca Niagara Casino.

Further, in 2005 Seneca Gaming Corporation purchased a parcel of land in Buffalo with the intent of constructing The Seneca Buffalo Creek Casino and Hotel, which was planned to include approximately 90,000 square feet of gaming space (2,000 slot machines, 45 table games), a 22-story all-suite hotel, multiple food and beverage outlets and other amenities. Total cost of the project was estimated at just over \$330.0 million. While construction started, it has since been suspended. Seneca Gaming Corporation cited “weak economic conditions, adverse credit markets and an uncertain economic outlook” as the reason for the construction stoppage. As of the date of this report it is uncertain whether the full development of the commercial casino will occur. They have, however, established an interim (temporary) Buffalo Creek Casino, with 495 slot machines.

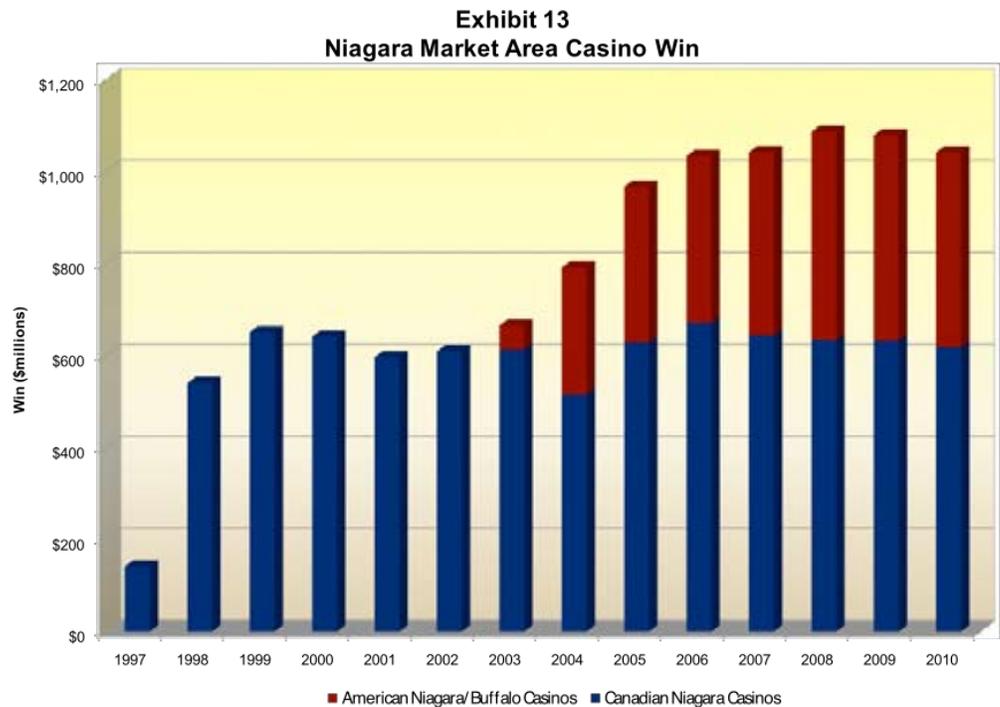


Exhibit 12 provides property characteristics of the US (Niagara Falls/Buffalo) casinos, compared to those of the Niagara Casinos.

Exhibit 12 Niagara Market Area Casino Facility Features								
	Slots	Tables	Entertainment Centre Capacity	Hotel Rooms	Spa	Food and Beverage Outlets	Retail Y/N	Meeting Space (sq. ft.)
Seneca Niagara Casino	4,289	99	2,200	594	Y	6	Y	30,000
Seneca Buffalo Casino	445	n/a	n/a	n/a	N	1	N	n/a
Total Niagara/Buffalo US casinos	4,734	99	2,200	594		7		30,000
Casino Niagara	1,700	52	n/a	n/a	N	4	N	n/a
Fallsview Casino	2,955	121	1,511	374	Y	19*	Y	35,000
Total Niagara Ontario Casinos	4,655	173	1,511	374		23		35,000

n/a- not applicable
**Includes third party Food and Beverage onsite.*
 Source: HLT Advisory Inc. based on various casino websites.

Exhibit 13 presents total gaming win for the Niagara/Buffalo market broken out between Niagara Casinos and properties owned by Seneca Gaming Corporation. As shown in Exhibit 13, total win grew with the opening of the US casinos and has generally averaged just above \$1.0 billion. The Niagara Casinos have continued (except in 2004) to generate win in excess of \$600.0 million, even with a significant reduction in the number of US visitors. Unlike Windsor, Niagara Casinos had the ability (due to proximity) to replace US-based customers with customers from the Greater Toronto Area during this time period. With that said, Niagara Casino win levels have been generally eroding annually since 2006 likely due to increased competition in Ontario. From a provincial perspective, any future penetration back into the US market would be a direct benefit to the province.



Note: Assumes \$1US equals \$1CND
 Source: HLT Advisory Inc. based on OLG Annual Reports and Seneca Gaming Corporation SEC Filings.



3.4 ECONOMIC RISK OF US CUSTOMER BASE

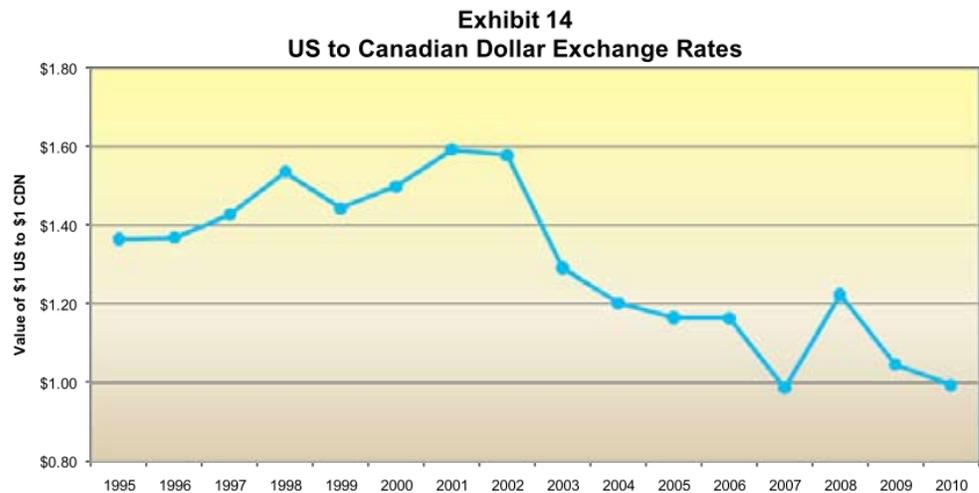
Consistent with the rationale behind selecting the Cities of Windsor and Niagara Falls as commercial casino sites, a significant portion of their respective businesses has been derived from US customers.

At the time of opening, Casino Windsor's and Casino Niagara's revenues were approximately 90 percent and 50 percent from US customers respectively. The total adult population base of the market area that is within a one hour drive from Caesar's Windsor is 3.8 million, of which 92 percent resides in the United States. The total adult population base that is within a one hour drive of the Niagara Casinos is 1.9 million, of which 52 percent resides in the United States.

This dependency on a US customer base has significant economic risk associated with it, most notably related to currency fluctuation and changes to international border policies. Both of these situations have changed dramatically since 2000 and have negatively impacted Ontario's border commercial casino results.

Strengthening Canadian Dollar

Exhibit 14 illustrates the value of the Canadian dollar versus the US dollar (stated in terms of US dollars) since the opening of Caesars Windsor in 1995. As shown, the Canadian dollar has increased in value over the past decade and is now generally on par with the US dollar.



Source: HLT Advisory Inc. based on Bank of Canada year-end exchange rates as of December 31 each year.

A changing Canadian dollar impacts US based gaming revenues in two ways:

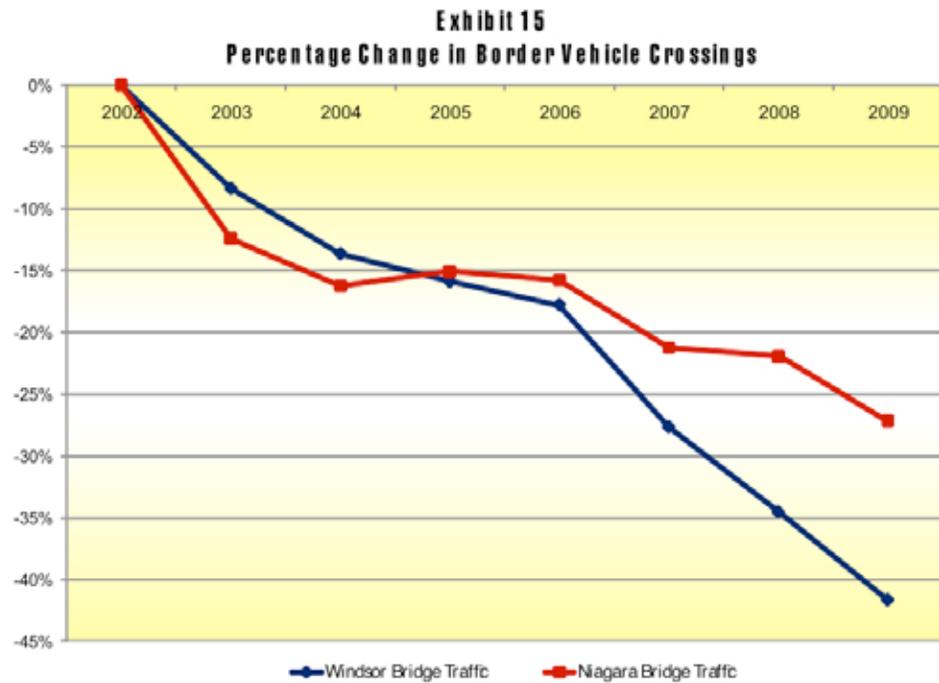
- In a period where the Canadian dollar is strengthening, this results in fewer dollars available for US customers after converting currency. For example, when the US dollar was worth approximately CAD\$1.59 in 2001, USD\$100 would convert to a customer bankroll of CAD\$159. In 2010, where the US and Canadian dollar were effectively at par, that same USD\$100 would be valued at CAD\$100 in terms of a customer bankroll.
- The declining value of the bankroll influences the customer's decision as to which casino to visit and how often.



In other words, since 2002, Ontario’s border casinos have been losing their competitive advantage of a favourable exchange rate, making it increasingly difficult to convince US customers to visit their casinos. Furthermore, even if successful in convincing US customers to visit, the effective value of the US customer’s bankroll declined in relation to previous years. In other words even if Caesars Windsor and Niagara Casinos could have retained their US customer base, that base had “less” money to spend at the casino.

US/Canada Border Restrictions

September 11, 2001 resulted in tightened security measures at all international border crossings. These tightened security measures, along with The Western Hemisphere Travel Initiative (i.e. passports required to cross borders) that came into effect June 1, 2009, also negatively affected Ontario’s border casinos. The decline in border traffic since 2002 for both the Niagara and Windsor border crossings is shown in *Exhibit 15*.



Note: The graph uses a base year of 2002 and compares every subsequent year to the base year. (e.g. 2005 total reflects % change in bridge traffic between 2002 and 2005.)
Source: HLT Advisory Inc. based on data from Public Border Operators Association (PBOA).

Between 2001 and 2002 (fiscal year ending March 31) gaming win at Casino Windsor declined by about 12 percent while Niagara Casinos remained stable. Between 2009 and 2010 (fiscal year ending March 31) gaming win at Caesars Windsor declined by about 11 percent while Niagara Casinos declined by about 2 percent.

3.5 NON-SMOKING LEGISLATION

On May 1, 2006 the Province of Ontario enacted the Smoke-Free Ontario Act which prohibited smoking in all enclosed workplaces and enclosed public places. By complying with the legislation, Caesars Windsor and the Niagara Casinos have operated at a competitive disadvantage in relation to both the Detroit and Niagara Falls/Buffalo casinos where smoking is still permitted. Between 2006 and 2007 (fiscal year ending March 31) gaming win at the Niagara Casinos declined by about 4 percent and Caesars Windsor declined by over 27 percent.



3.6 STRENGTHS AND WEAKNESSES ASSESSMENT – ONTARIO BORDER COMMERCIAL CASINOS

With the decline in revenues and associated profits from US markets, both Caesars Windsor and the Niagara Casinos require strategies to “re-connect” with the US market. In other words, they must find competitive advantages that can offset the competitive disadvantages that they have been forced to operate with. The following provides a summary assessment of current strengths and weaknesses of both Caesars Windsor and the Niagara Casinos, relative to their US-based competition:

Caesars Windsor	
Strengths	Weaknesses
<ul style="list-style-type: none"> • “Tax-free” winnings in Canada • Clean and safe facility • Strong “brand” name in Caesars • Strong loyalty program • 5000-seat entertainment facility 	<ul style="list-style-type: none"> • Non-smoking vs. smoking in US • Border restrictions • Strong Canadian dollar • Complimentary alcohol offered in US
Niagara Casinos	
Strengths	Weaknesses
<ul style="list-style-type: none"> • “Dual” commercial casino proposition • Attractive tourist destination • Significant inventory of hotel rooms (<i>external</i>) • “Tax-free” winnings in Canada 	<ul style="list-style-type: none"> • Non-smoking vs. smoking in US • Border restrictions • Strong Canadian dollar • Complimentary alcohol offered in US

OLG and the private sector casino service providers that operate Caesars Windsor and the Niagara Casinos have explored a wide range of initiatives that could be used to effectively compete with US casinos.

One such initiative was the creation of a sports book based on the current sports wagering lottery product (Pro-Line) available in Ontario. No sports-based wagering is currently permitted in New York State or in Michigan. Given that sports wagering falls under federal jurisdiction, it is unlikely that either New York or Michigan could introduce single event sports wagering in the near future.

In 2005, OLG modified its existing sports-based lottery product (called Casino Pro-Line) to enhance its attractiveness to US customers and offer this product in the “Sports Section” at Casino Niagara and subsequently in the “Legends Sports Bar” at Caesars Windsor. Casino Pro-Line is distinct from the lottery-based Pro-Line in that it offers the wider ability for customers to wager on two sporting events as opposed to the traditional three events, has higher wagering limits, and customer odds are favourable compared to those offered through regular Pro-Line.

This product however experienced limited success. Customer criticism stems from unfavourable odds when compared to those offered in Las Vegas and online, but more pronounced is the inability to place a wager on a single sporting event.

4. POTENTIAL BENEFITS OF A SPORTS BOOK

This section of the report presents HLT estimates of the potential incremental revenue that could be generated at Caesars Windsor and Niagara Casinos if the Canadian Criminal Code was amended to permit single-event sports wagering and consequently sports book offerings were introduced. As already stated (*see Section 1.2: Research Report Focus*) this report does not attempt to assess the potential benefits that could be generated in the entire Ontario market or in any other province. If single-event sports wagering were permitted, Ontario, like every other province, would determine how it would utilize the enhanced product in its own marketplace.





4.1 APPROACH

To complete the estimate of potential benefits, HLT relied on its understanding of the current financial performance of casino sports books in Las Vegas and the rest of Nevada gained through reviewing public documents (e.g. Nevada Gaming Abstracts), discussions with industry officials (sports book operators) and industry publications. In addition, HLT relied on its past experience related to market performance of Ontario's border casinos. HLT assumed that a sports book would only be developed at one of the Niagara Casinos.

The revenue estimates presented here are for a stabilized year of operations. A stabilized year of operations for the sports book is herein defined as the first full year of operations during which the sports book maximizes its penetration into the available gaming market and eliminates operational inefficiencies related to start-up and competition. This may occur almost immediately or may take several years, depending on such factors as the extent of pre-opening publicity, advertising and marketing and the ability of the regional infrastructure and the sports book and casino itself to accommodate the market driven demand for gaming.

4.2 REVENUE POTENTIAL OF CASINO SPORTS BOOKS

HLT believes that both the greater Detroit and Buffalo market areas are strong sports markets. Both markets have long established professional football and hockey teams. Detroit also has long established professional baseball and basketball teams as well as major universities that compete annually in key sports such as football and basketball (University of Michigan and Michigan State). The Canadian portion of Niagara's market area is also Canada's largest professional hockey market. The success (as compared to US lottery sports products) of the existing Canadian sports wagering gaming products (e.g. Pro-Line) is to a great extent based on the popularity of hockey in Canada. The Ontario market accounts for over half the national sales of the existing sports gaming products.

HLT's estimate of potential sports book revenue is based on the following assumptions:

- A sports book at Caesars Windsor and Niagara Casinos will be the only sports book in their respective market areas (specifically, no sports book offering single-event sports wagering will be developed in the US portion of each market in the near future).
- The operation of each sports book will be competitive with both Las Vegas and major internet gaming operations in terms of odds setting and marketing practices. In addition, the quality of the sports book space and operation will be appealing/attractive to the target market and fully integrated in the overall casino complex operations.
- The primary target market is assumed to be males aged 19 to 62 from within a one-hour drive from the sports book. The US portion of Windsor's defined market accounts for 92 percent of the market area population, and 52 percent for Niagara. From this primary target market HLT applied an estimated penetration rate and average number of visits to estimate total annual visits. The average wager per visit is estimated to be similar to the average casino win per visit currently experienced at both casinos. The average win rate is based on HLT's understanding of the typical average rate experienced in Nevada sports books.

As summarized in *Exhibit 16*, HLT estimates that a competitive sports book could potentially generate just over \$70.0 million in wagering in Windsor and about \$35.0 million in Niagara. Obviously, the potential size of the sports book in Niagara would be greater as the majority of the Greater Toronto Area lies beyond a one hour drive from



Niagara. As stated earlier in the report, based on publicly available data, the average sports book in the largest casinos in Las Vegas currently generates an average of \$60.0 million in annual wagering in a very competitive market. All of the major casinos in Las Vegas (both on and off the strip) offer a sports book.

From a win perspective, the \$70.0 million wagering total could generate about \$3.6 million in win (gaming revenue) for Windsor and the \$35.0 million wagering total could generate about \$1.7 million in win (gaming revenue) for Niagara. The average \$60.0 million in wagering at the largest casinos in Las Vegas generates about \$3.0 million in win (gaming revenue).

Exhibit 16		
Potential Sports Book Revenue		
	Windsor	Niagara
Adult Population Base*	3,785,444	1,890,338
Male Adults Aged 19-62 <i>as % of Total Adult Population</i>	1,484,667 39.2%	702,157 37.1%
Penetration Rate of Adult Males	10%	10%
Total Sports Book Visitors	148,467	70,216
Average Number of Visits	7	7
Total Visits	1,039,267	491,510
Wager per Visit	\$70	\$70
Total Wagering	\$72,748,675	\$34,405,706
Sports Book Win Rate	5%	5%
Sports Book Win	\$3,637,434	\$1,720,285

**Population reflects 2009 totals within a 60 minute drive time of gaming facilities in Niagara and the Detroit-Windsor Market Areas.
Source: HLT Advisory Inc. Estimates*

4.3 INCREMENTAL GAMING AND ANCILLARY REVENUE OF A CASINO SPORTS BOOK

In addition to sports book win, the casinos also have the potential to generate incremental gaming win (i.e. table win and/or slot machine win) and ancillary revenue (e.g. food and beverage, hotel, entertainment).

To estimate these potential incremental revenues, HLT assumed that sports book visits would be generated from both existing casino visitors and new casino visitors (i.e. gaming customers who currently do not visit the casino). Of the new casino visitors, HLT has assumed that a portion of these are sports book only customers. In terms of the total estimated sports book visits, HLT assumed that one half would be from existing casino customers, one quarter to one third would be from new customers who would also participate in other gaming activity at the casino and the remainder would be from sports book only gaming customers.



Hence, incremental gaming win could be generated from new customer visits and incremental ancillary revenue could be generated from both new customer visits and sports book only visits. As summarized in *Exhibit 17*, if one quarter to one third of the sports book visits were from new casino customers and their average spend per visit was the same as current casino customers, between \$18.0 and \$24.0 million in incremental gaming win could be generated at Windsor and between \$9.0 and \$12.0 million could be generated at Niagara.

Exhibit 17 Incremental Gaming Win				
	Windsor		Niagara	
Total Sports Book Visits	1,039,267		491,510	
Incremental Casino Penetration Rate Range	25%	33%	25%	33%
Total Incremental Casino Visits Range	259,817	346,422	122,877	168,837
Spend per Visit	\$70	\$70	\$70	\$70
Total Incremental Casino Win Range	\$18,187,190	\$24,249,540	\$8,601,390	\$11,818,590

Source: HLT Advisory Inc. estimates.

As summarized in *Exhibit 18*, the casinos have the potential to generate incremental non-gaming or ancillary revenue (e.g. food and beverage, hotel, entertainment) from both new casino customers and sports book only customers. The two customer groups are estimated to generate one half to two thirds of the total sports book visits. If these customers spent on average \$10 per visit, between \$5.0 and \$7.0 million could be generated in Windsor and about \$3.0 million in Niagara. Of course the range in actual expenditure levels will vary greatly from those coming just to place a wager to those staying to watch an entire event and possibly stay longer.

Exhibit 18 Incremental Ancillary Revenue				
	Windsor		Niagara	
Total Sports Book Visits	1,039,267		491,510	
Incremental Visits Range	50%	66%	50%	66%
Total Incremental Visits Range	519,633	692,845	245,755	327,673
Ancillary Spend per Visit	\$10.00	\$10.00	\$10.00	\$10.00
Total Incremental Ancillary Revenue Range	\$5,196,330	\$6,928,450	\$2,457,550	\$3,276,730

Source: HLT Advisory Inc. estimates.

4.4 TOTAL INCREMENTAL IMPACT OF A CASINO SPORTS BOOK IN WINDSOR AND NIAGARA

In total, it is estimated that a sports book offering single-event sports wagering could potentially generate incremental revenue of between \$27.0 and \$35.0 million in Windsor and between \$13.0 and \$17.0 million in Niagara.



Exhibit 19				
Total Potential Incremental Benefit				
	Windsor		Niagara	
Sports Book Win	\$3,637,434	\$3,637,434	\$1,720,285	\$1,720,285
Incremental Casino Win Range	\$18,187,190	\$24,249,540	\$8,601,390	\$11,818,590
Incremental Ancillary Revenue Range	\$5,196,330	\$6,928,450	\$2,457,550	\$3,276,730
Total	\$27,020,954	\$34,815,424	\$12,779,225	\$16,815,605

Source: HLT Advisory Inc. estimates.

Given that both casinos currently have operational capacity to handle the potential business increases estimated in this report, the addition of a sports book offering single-event wagering would help to maintain a significant number of existing jobs.

Utilizing the results of the 2010 Economic Impact of the Canadian Gaming Industry Study (which utilized the Statistics Canada Input-Output Model) this incremental business generated by a sports book offering single-event wagering could sustain up to 150 jobs (full-time equivalent) in Windsor and up to 100 jobs (full-time equivalent) in Niagara.

APPENDIX A BIBLIOGRAPHY





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