NORTH COVE ADVISORS

May 15, 2019

Spotted in Vancouver this week. Locals are restless. The government may announce a public inquiry within days, and that's potentially bad news for Great Canadian Gaming, a company that up until now has had a Teflon coating.

Interesting data points, anecdotes, and articles from the past week or so:

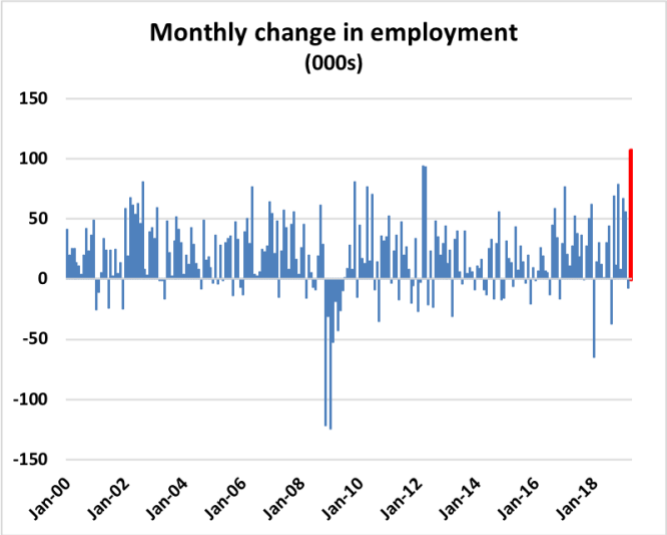
1) **Checking in on Cdn consumers**
   - i) **Wage growth ticks up, but other labour market indicators soften**
   - ii) **Mixed bag from public retailers**
   - iii) **Effective interest rate continues to fall**
   - iv) **Consumers tap RRSP to stay afloat, net mutual fund flows tumble**
   - v) **Consumer confidence slides**
   - vi) **Weak house price gains in April**

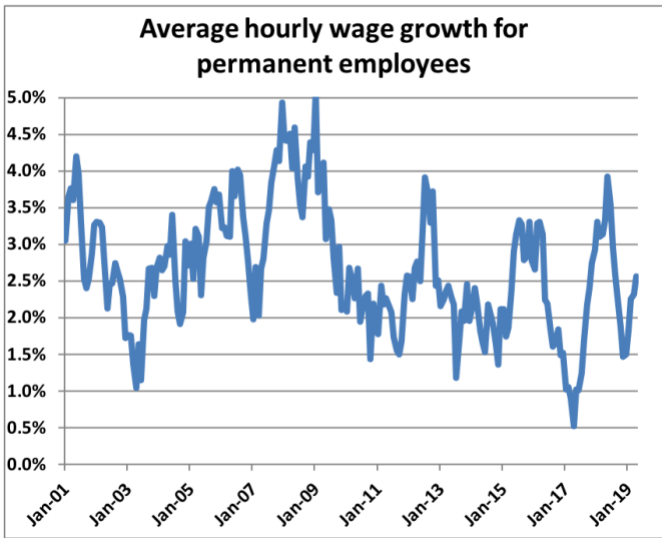
2) **Alberta update and some CWB tidbits**
3) **Focus on Killam Apartment REIT**
4) **Money laundering back in the news as BC prepares to "name names"**

1) Checking in on Cdn consumers

i) Wage growth ticks up, but other labour market indicators soften

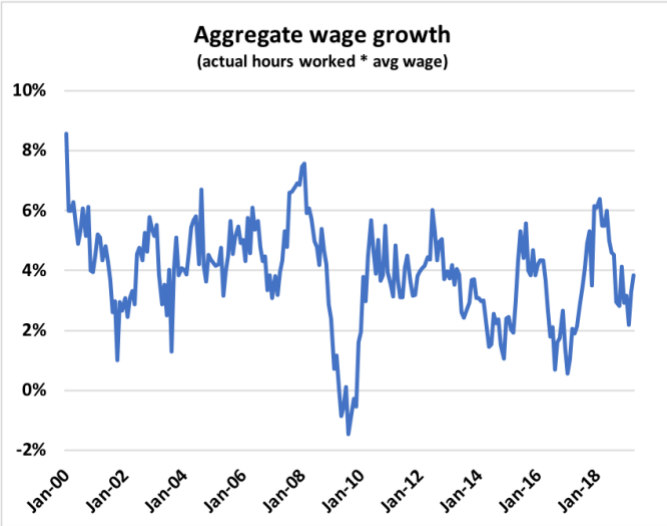
It remains a mystery to this humble scribe how a data set as volatile as the Labour Force Survey can move markets the way it does. The April numbers last week were a perfect example: A record one-month increase in total employment (+107k) and a modest increase in headline wage growth to 2.6% y/y, both of which would appear supportive of consumption to the extent that the data can be trusted.



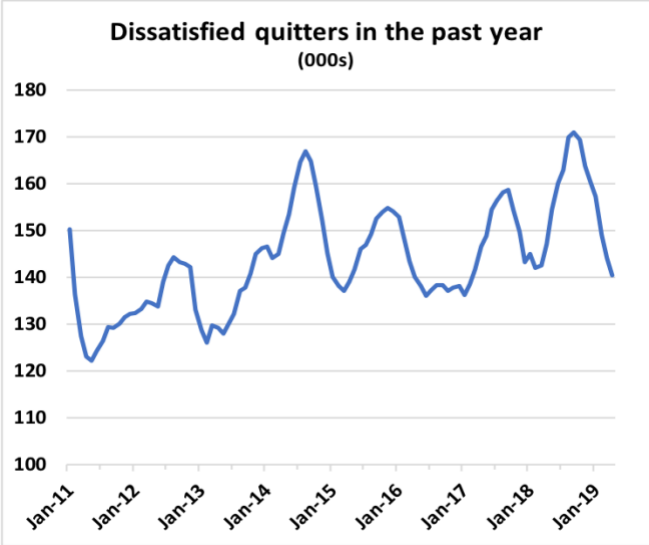


The details all looked pretty solid, but one thing jumped out: a massive 66k m/m increase in part-time employment in the 15-24 year old cohort, which is not remotely believable and looks more like a seasonal adjustment issue perhaps related to college students returning to the work force for the summer.

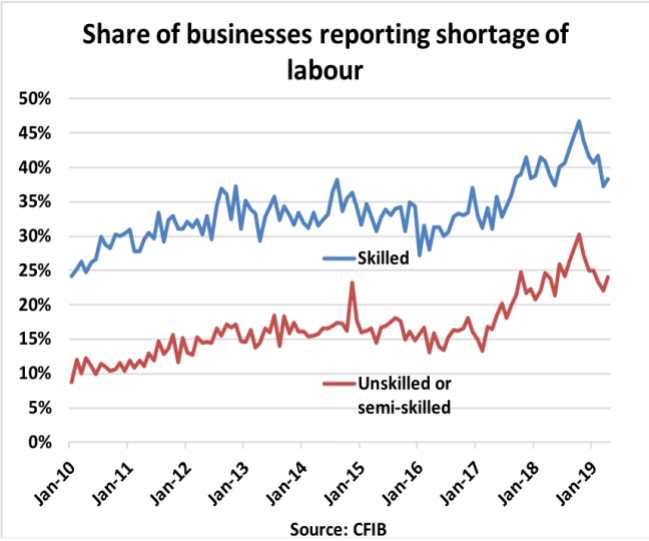
Aggregate wages ticked back up to the 20-yr average of 3.8%:

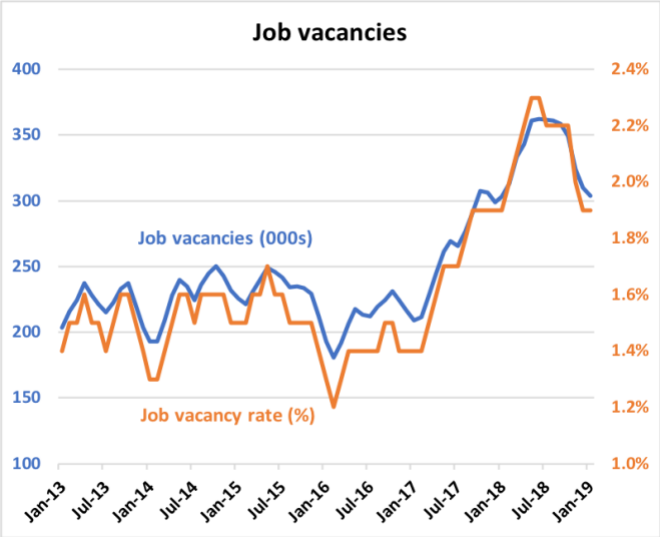


At the same time, other measures of labour market tightness have softened recently, most notably dissatisfied quitters which have fallen to the lowest level since 2017:



Job vacancies and the share of businesses reporting shortages of labour are both still elevated but off the mid-2018 highs:

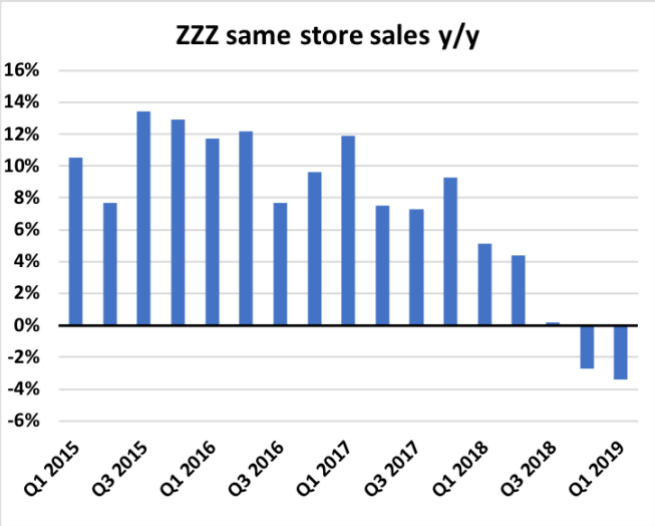


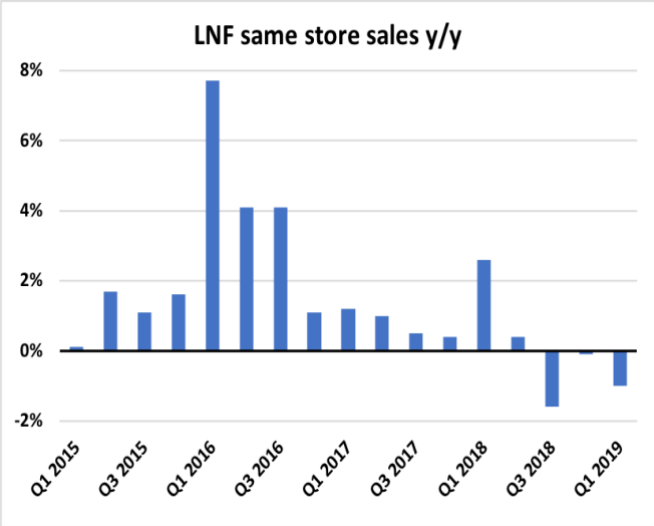


It seems unlikely that we'll see a strong, sustained increase in wages against a backdrop of weakening labour market indicators.

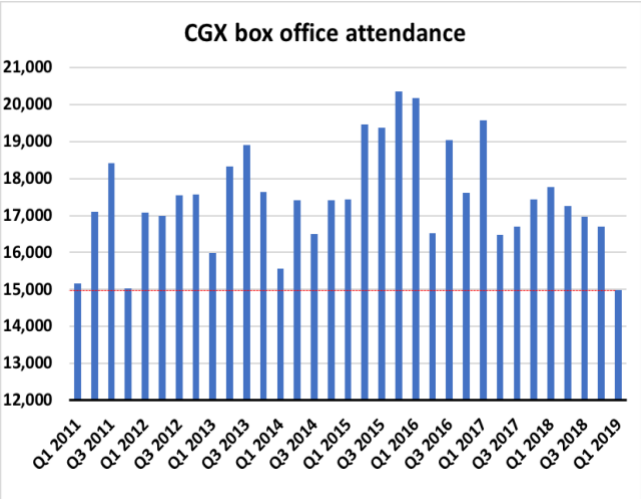
ii) Mixed bag from public retailers

The chart below shows same store sales (SSS) at Sleep Country (ZZZ CN) and Leon's Furniture (LNF CN), both of which reported this week. These are the trends we'd expect to see from brick and mortar retailers with a heavy tilt towards discretionary spending:





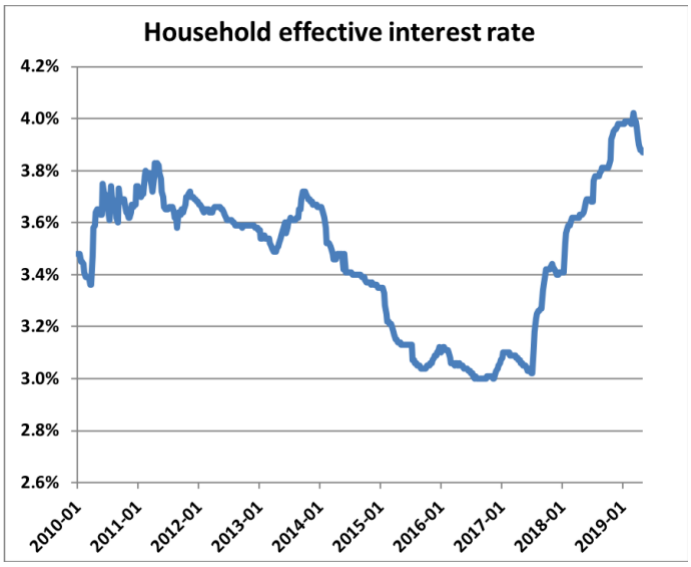
Meanwhile, Cineplex reported weak theatre attendance and box office revenues in Q1 (down 15.6% and 15.2% y/y respectively). Now this was partly due to a strong slate of movie launches last year at this time, but it's worth noting that same-theatre attendance has not been this low for any quarter since at least 2011.
The good news was that revenue per patron was up 2.3% y/y and set a new record for the quarter.



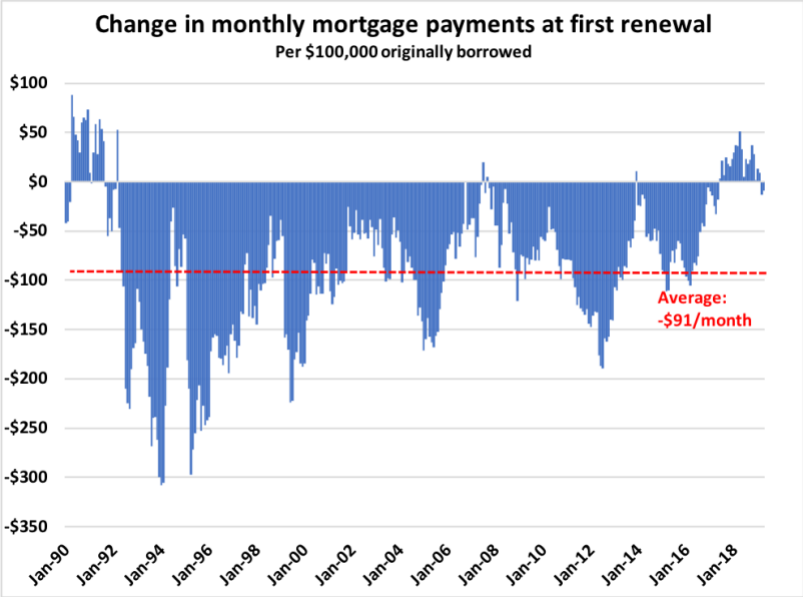
The notable standout was Canadian Tire, which reported very surprising 7.1% SSS growth at their banner stores. This comes on the heels of a disappointing 0.2% SSS print in Q4 which they attributed partly to poor weather. Certainly some "pay back" this quarter, but still a better showing than expected from a company that we continue to think is overly exposed to two trends we're quite bearish on, namely discretionary spending and a poor quality credit card book.

iii) Effective interest rate continues to fall

The effective interest rate paid by households on outstanding debt fell 1bp last week and is now back to the lowest level since October 2018:



The recent decline in mortgage rates is also providing a modest tailwind to consumers. Our estimate of the "mortgage renewal gap" (ie the difference in payment at renewal) is now negative for the second consecutive month for the first time since Q1 2017:



iv) Consumers tap RRSP to stay afloat, net mutual fund flows tumble in 2019

An interesting email here from our good friend, insolvency trustee Doug Hoyes, included here with permission:

Update Inbox ×

Doug Hoyes Fri, May 10, 8:11 AM (4 days ago)

to me, Scott

Hi Ben. I know you are having lunch with Terrio today, so here's a tidbit for you to ponder: I was speaking to a reporter at the Wall Street Journal yesterday, who had just interviewed the CEO of Sun Life, and he told him that they are seeing significantly increased redemptions of RRSP (well before retirement), and it appears the redemptions are so that people can service other debt and living expenses.

Terrio and I are both of the view that we are early in the de-leveraging cycle. Things are good, then I get into trouble so I start liquidating assets (which is where we are now) and then when your assets are depleted you rack up debt, and then you come in to see us, which implies that while we are getting very busy now, we will be stupid busy next year.

I'd be curious if there is a way to find out the level of RRSP redemptions.

The OSB is a week behind schedule in releasing the March insolvency numbers; will be interesting to see if the decline will continue.

That's the update.

Regards,

Douglas Hoyes, BA, CA, CPA, CIRP, LIT, CBV

There are tax implications for those who withdraw from RRSPs (401k equivalents for our US friends), so increased redemptions are usually a sign of stress.

This story seems to square with the data. We know net flows into mutual funds were abysmal in Q1…the lowest in 10 years during the key RRSP season. And since these are net flows (i.e. inflows minus redemptions), the issue is either one of weaker savings or of greater redemptions, neither of which tells a good story about the state of consumers.

From the Globe and Mail:

> https://www.theglobeandmail.com/investing/personal-finance/article-a-lot-of-canadians-seem-to-have-stopped-investing-to-pay-down-their/
>
> […] The financial market analysis firm Strategic Insight Canada is the one connecting the dots between weak sales of investments and debt repayment.
>
> The firm reports that net flows of money into long-term mutual funds and exchange-traded funds (excluding money market funds) fell to $9.8-billion in the first three months of this year, down from $22-billion in the same period of 2018 and about $25-billion in 2017.
>
> Strategic Insight has ruled out a worsening economy as the reason for this decline. […]
>
> […] If people were nervous about the markets, you'd expect them to park money in deposits such as savings accounts and guaranteed investment certificates. But Mr. Cardone said that deposit growth hasn't picked up much in 2019 over previous years.
>
> […] The conclusion drawn by Mr. Cardone from these money trends is that people are paying down debt with money they would otherwise have invested. "If you talk to your average bank or credit union, they will tell you that this is a trend that is taking shape," he said.

v) Consumer confidence slides in April

From Bloomberg[1]:

> Canadians' confidence in the economy continues to hover at depressed levels, suggesting prospects for a strong rebound are dim.
>
> Households are worried about the outlook for growth and their personal finances, the latest telephone polling show. Sentiment, already low, showed signs of further deterioration in the final weeks of April.
>
> […] The polling found that only 13.1 percent of Canadians believe the economy will get stronger over the next six months, near record lows for this question. Households are also reporting concerns about their personal finances, with 29.5 percent claiming their finances have worsened over the past year. On the plus side, Canadians are showing more confidence in the housing market, with readings for this question returning to more average levels for the survey.

And from Nanos[2]:

		This Week	Last Week	4 Weeks Ago	3 Months Ago	1 Year Ago	12 Month High	12 Month Low	12 Month Average
Canada									
	Economic Mood	54.74	54.89	55.78	54.29	58.23	58.23	53.62	55.58
	Pocketbook Index	58.64	59.62	61.91	59.02	60.86	61.91	58.18	60.30
	Expectations Index	50.84	50.16	49.65	49.57	55.60	55.81	47.81	50.87
Economic Mood by Demographic									
Region									
	Atlantic	52.03	53.13	56.67	52.56	54.36	57.36	50.39	54.07
	Quebec	61.04	60.83	61.52	61.52	62.73	63.70	58.06	60.73
	Ontario	57.65	57.47	57.39	54.89	56.36	59.96	54.76	56.90
	Prairies	47.11	46.83	48.10	43.95	53.90	53.90	41.54	48.15
	British Columbia	50.53	51.85	52.75	56.08	62.83	65.62	48.43	55.37
Age	18 to 29	63.37	62.61	61.42	59.34	62.97	64.83	55.85	61.07
	30 to 39	57.88	59.48	60.84	58.02	62.67	63.80	55.34	58.88
	40 to 49	54.33	53.62	53.17	54.75	55.39	58.15	51.44	54.96
	50 to 59	51.26	52.77	54.75	52.16	55.67	55.67	49.98	53.00
	60 plus	49.19	48.75	51.08	49.48	55.83	55.83	48.63	51.86

The Conference Board of Canada also reported that their index of consumer confidence fell 6 points in April to 112 after rising for the 3 previous months.

vi) Weak house price gains in April

From Teranet[3]:

> In April the Teranet–National Bank National Composite House Price Index™ was flat from the previous month. Apart from the 2009 recession period, it was the first April in 21 years of index history in which home prices showed no rise. And the run of months with no rise in the composite index has now extended to eight straight, for a cumulative decline of 1.7%
>
> […] The downtrend of prices has been especially marked in Calgary – 10 consecutive months with no rise, for a cumulative fall of 4.0% – and in Vancouver – nine consecutive months for a cumulative fall of 4.7%.

The 11-city composite index is rising at the slowest rate since 2009:

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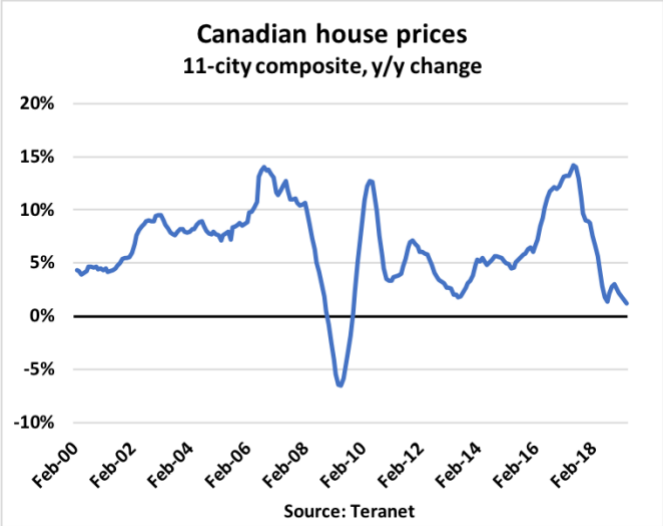
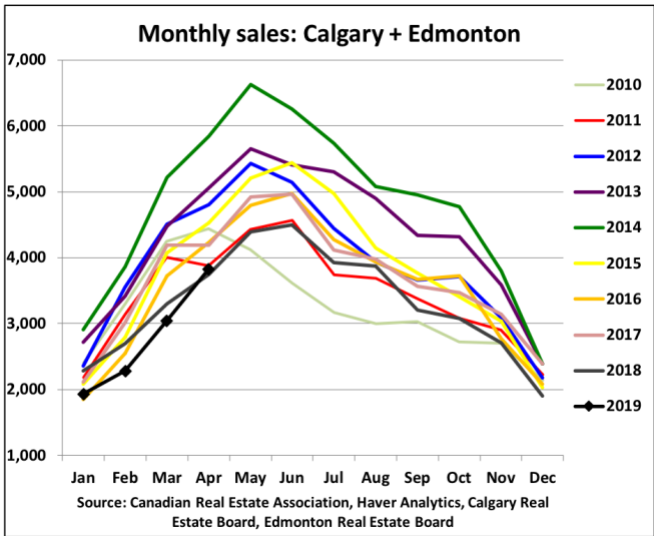
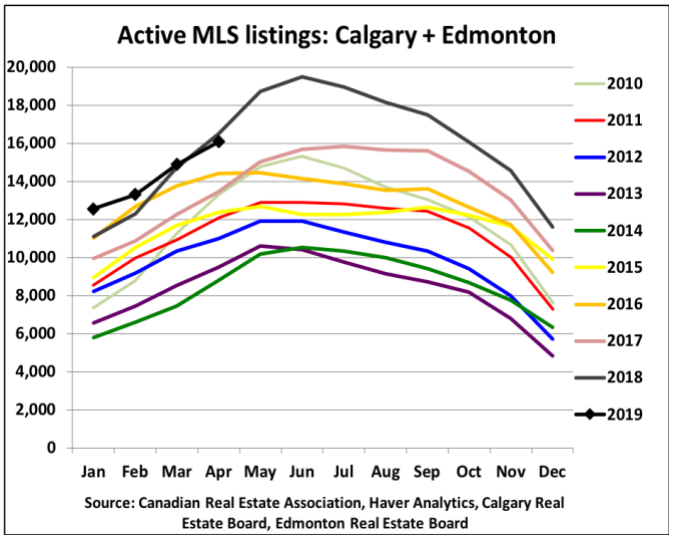
[1] https://www.bloomberg.com/news/articles/2019-05-06/canada-consumer-confidence-slumps-in-april-amid-weak-economy
[2] http://www.nanos.co/wp-content/uploads/2019/05/2019-05-13-Bloomberg-Weekly-Report-Short-Final.pdf
[3] https://housepriceindex.ca/2019/05/april2019/



2) Alberta update and some CWB tidbits

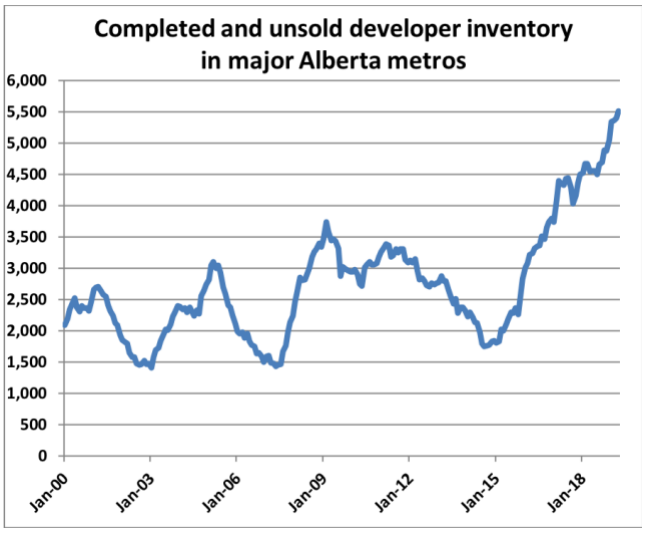
The resale market in Alberta put in a decent month in April, with Edmonton and Calgary combined sales up 2% y/y while active listings fell 2.6%. Still very weak numbers, but we haven't seen the combination of rising sales AND falling inventory since Q1 2017:



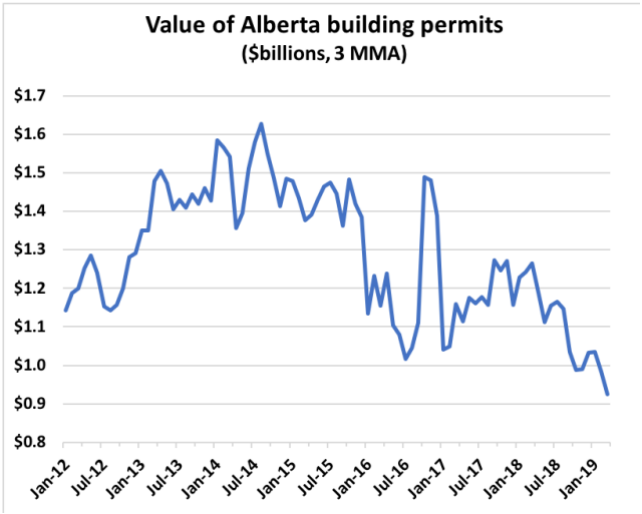


Prices remain under pressure, particularly in Calgary where both the median and benchmark price fell 5% y/y. Teranet's Calgary House Price Index has registered 10 consecutive monthly declines, the longest losing streak since 2009.

Unsold developer inventory hit a new record high in April:



The dollar value of building permits (residential + non-res) hit the lowest level in 8 years last month:



With fully 10% of the labour force still swinging hammers in construction trades, this is one trend that bears watching. That industry has already shrunk by 17k positions since the middle of last year, but it's not hard to envision another 100k being shed before this cycle bottoms and that could have ramifications for lenders like CWB.

Consumer proposals in Alberta just printed a new record in the latest data this week. More on that to come. It remains a bit of a mystery to us how CWB has managed their loan book as well as they have while ATB Financial, akin to a crown corporation that operates exclusively in Alberta (ie CWB's sandbox) had this to say in their latest quarter:

> **Net Income**
>
> For the quarter ended December 31, 2018, ATB earned $51.8 million, a $17.7 million (25.5%) decrease from the previous quarter, and a decrease of $42.2 million (44.9%) compared to the same quarter last year with both driven by higher provision for loan losses and non-interest expenses. Year-to-date net income is $178.5 million, $41.3 million (18.8%) lower than last year, again due to higher provision for loan losses, offset by operating revenue outpacing our non-interest expense growth.

And it's not just CWB's Alberta exposure that we worry about. Last month in Vancouver we saw a number of smaller development projects with "Proudly Financed by CWB" signs out front. The home below is an example of a failed "fix and flip". It was purchased for $2.325MM in 2016.

Sold
R2113819
Board: V, Detached
House/Single Family

4044 W 10TH AVENUE
Vancouver West
Point Grey
V6R 2H1

$2,598,000 (LP)
$2,325,000 (SP)

1 of 20

Days on Market:	**80**	List Date:	**10/3/2016**	Expiry Date:	**2/1/2017**
Previous Price:	**$0**	Original Price:	**$2,598,000**	Sold Date:	**12/22/2016**
Meas. Type:	**Feet**	Frontage (feet):	**33.00**	Approx. Year Built:	**1924**
Depth / Size:	**122**	Frontage (metres):	**10.06**	Age:	**93**
Lot Area (sq.ft.):	**4,026.00**	Bedrooms:	**5**	Zoning:	**RS-1**
Flood Plain:		Bathrooms:	**3**	Gross Taxes:	**$6,887.89**
Council Apprv?:		Full Baths:	**3**	For Tax Year:	**2016**
Rear Yard Exp:	**South**	Half Baths:	**0**	Tax Inc. Utilities?:	**No**
If new, GST/HST inc?:				P.I.D.:	**011-733-195**
View:	**Yes: NORTH SHORE MOUNTAINS**			Tour:	
Complex / Subdiv:	**POINT GREY**				
Services Connected:	**Electricity, Natural Gas, Sanitary Sewer**				
Sewer Type:					

CWB registered a mortgage on the property for…….$2.325MM. Sure looks like 100% LTV financing, but perhaps it was cross collateralized (???). Interestingly, the borrower listed their occupation as "painter".

3. BORROWER(S) (MORTGAGOR(S)): (including postal address(es) and postal code(s))

[redacted], **PAINTER**

#428-2912 WEST BROADWAY
VANCOUVER BRITISH COLUMBIA
V6K 0E9 CANADA

4. LENDER(S) (MORTGAGEE(S)): (including occupation(s), postal address(es) and postal code(s))

CANADIAN WESTERN BANK

3190 West Broadway
Vancouver BRITISH COLUMBIA
CANADA V6K 2H3

5. PAYMENT PROVISIONS:

(a) Principal Amount:	(b) Interest Rate:	(c) Interest Adjustment Date:	Y	M	D
$2,325,000.00	Prime Plus 3.00% Per Annum	N/A			
(d) Interest Calculation Period: Monthly	(e) Payment Dates: Monthly	(f) First Payment Date: N/A			
(g) Amount of each periodic payment: N/A	(h) *Interest Act* (Canada) Statement. The equivalent rate of interest calculated half yearly not in advance is 5.70% % per annum.	(i) Last Payment Date: N/A			
(j) Assignment of Rents which the applicant wants registered ? YES ☑ NO ☐ If YES, page and paragraph number: Page 19 Paragraph 9.02 See MT100107	(k) Place of payment: Same as Item 4	(l) Balance Due Date: On Demand			

The home was extensively renovated at a cost of at least $1MM according to sources and is now back up for sale for $2.85MM, with realtor contacts telling us they'll be lucky to get $2.5:

Active
R2350111
Board: V, Detached
House/Single Family

4048 W 10TH AVENUE
Vancouver West
Point Grey
V6R 2H1

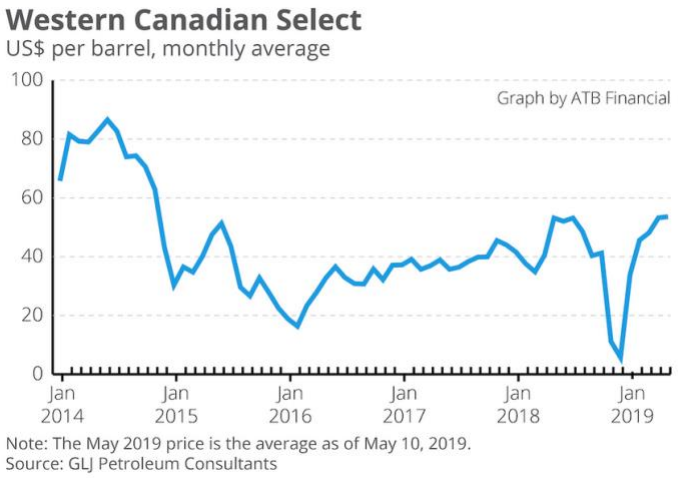
$2,850,000 (LP)
(SP)

4 of 20

Days on Market:	**56**	List Date:	**3/19/2019**	Expiry Date:	**5/31/2019**
Previous Price:	**$2,958,000**	Original Price:	**$2,958,000**	Sold Date:	
Meas. Type:	**Feet**	Frontage (feet):	**33.00**	Approx. Year Built:	**2018**
Depth / Size:	**122**	Frontage (metres):	**10.06**	Age:	**1**
Lot Area (sq.ft.):	**4,026.00**	Bedrooms:	**5**	Zoning:	**RS-1**
Flood Plain:	**No**	Bathrooms:	**4**	Gross Taxes:	**$7,849.24**
Council Apprv?:		Full Baths:	**3**	For Tax Year:	**2018**
Rear Yard Exp:	**South**	Half Baths:	**1**	Tax Inc. Utilities?:	
If new, GST/HST inc?:	**Yes**			P.I.D.:	**011-733-195**
View:	**Yes: MOUNTAIN, WATER AND CITY**			Tour:	
Complex / Subdiv:	**POINT GREY**				
Services Connected:	**Electricity, Natural Gas, Storm Sewer, Water**				
Sewer Type:					

Sure CWB will probably get out whole on this one (the unfortunate painter won't be so lucky), but if they were lending close to 100% LTV to painters to try their hands at speculative flips, we wonder what else is in that book.

Finally, as it relates to Alberta, a reminder from those fine folks at ATB that WCS prices are up over 800% from the lows earlier this year:



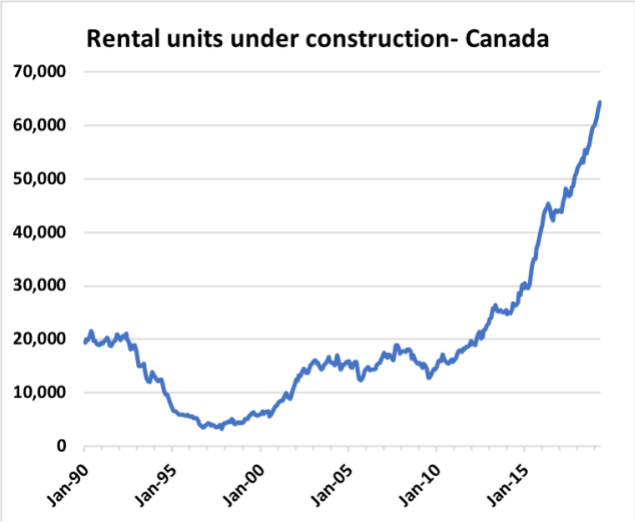
That's a big positive in theory, but the issue is still getting it to market. From Reuters[4]:

> **Western Canadian oil inventories hit record high despite curtailments**
>
> Western Canadian crude oil storage inventories hit a record high of 37.1 million barrels in April, according to data from energy information provider Genscape, as Alberta government production cuts failed to reduce a glut of oil in the province.
>
> Genscape said the build in inventories was due to lower pipeline flows out of Canada's main crude-producing province, while crude-by-rail shipments remain below the high levels they hit late last year.
>
> […] Producers in Canada's energy heartland were limited to producing 3.66 million barrels a day in April. That will rise by 25,000 bpd in May and a further 25,000 bpd in June.
>
> […] Stocks rose 2.5 million barrels between the weeks ending April 5 and April 26, an increase of nearly 117,000 barrels per day.
>
> "Record-high stocks in late April were a clear signal that the province's efforts to control supply had so far been unsuccessful in alleviating the glut," Genscape analysts said in a note.

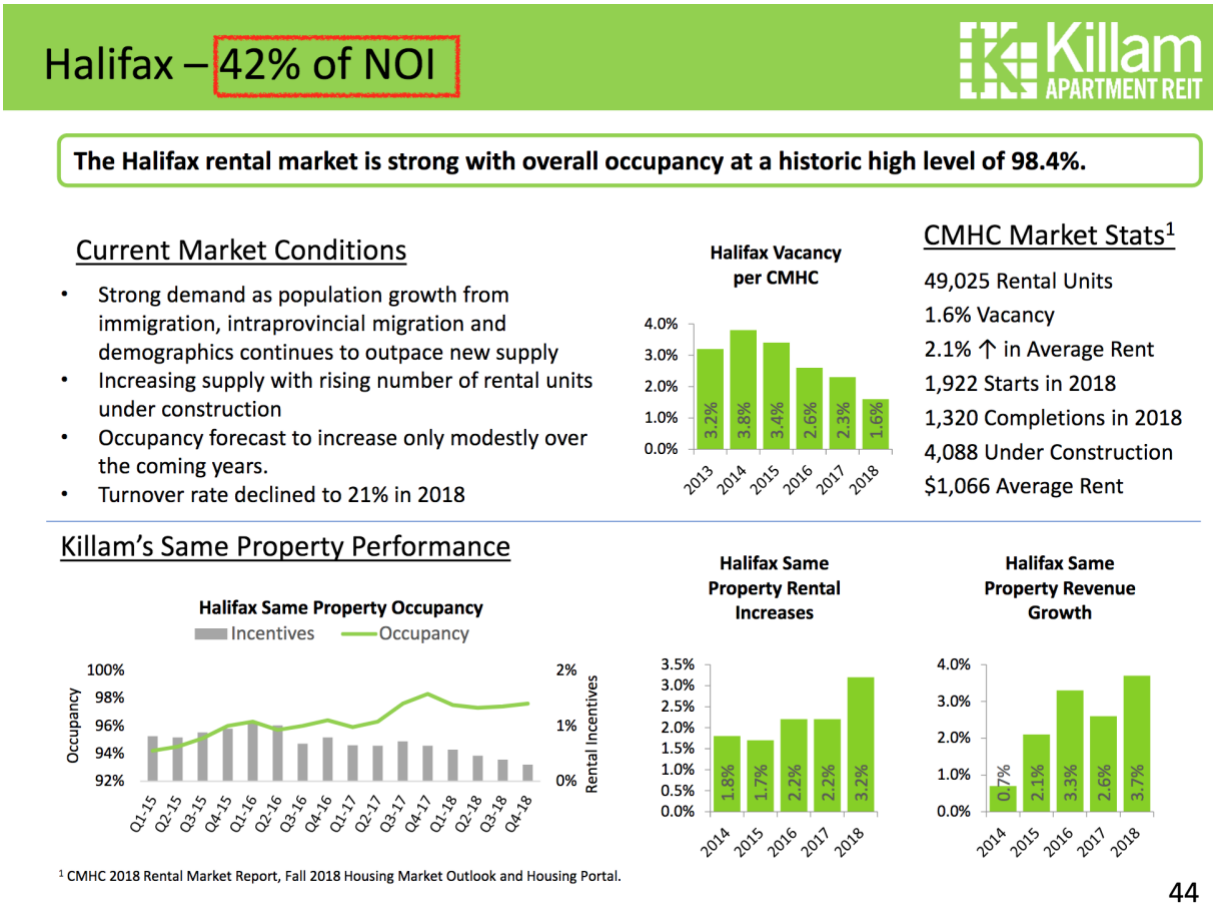
[4] https://ca.reuters.com/article/idUSKCN1SD284

3) Focus on Killam Apartment REIT

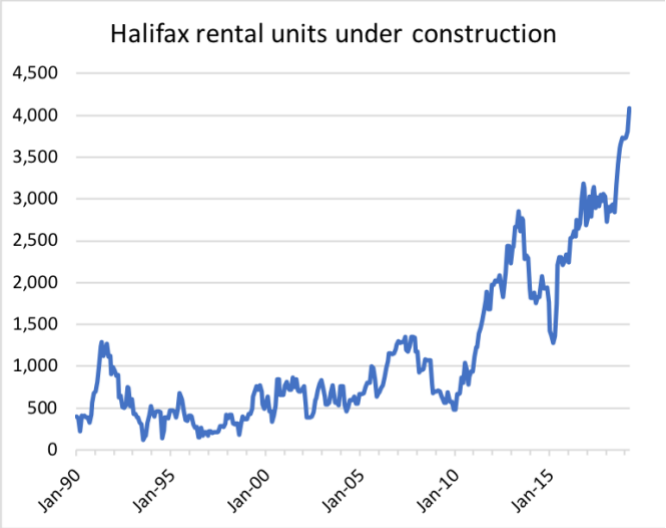
The April data from CMHC shows that rental unit construction in Canada ramped up again last month:



We can't help but think that as these units come online, it has the potential to have a material effect on certain rental markets. As it relates to Killam Apartment REIT (KMP CN), the jump in rental construction in Halifax is a trend worth monitoring since they derive 42% of net operating income from that one metro alone, per their April 2019 investor presentation:



There's no denying that this market has been very kind to Killam in recent years. The concern we have is in what's now in the pipeline:



That's over 4,000 rental units under construction in a city that only grew it's population by 8,500 in the latest annual estimate (and that was by far a record for a city that has historically seen large fluctuations in growth…it was under 1,000 as recently as 2015).

Assuming that's a sustainable level of population growth going forward, and with a generous assumption that half of newcomers are renters at 2.5 people per household, you end up with at best 1,700 units needed annually. We question whether this level of supply can be absorbed without a material deterioration in the rental market. Something to watch!

4) Money laundering back in the news as BC prepares to "name names"

Public outrage is growing after the BC government released two major reports on money laundering last week, the big one being Peter German's second report focusing on money laundering in real estate and luxury vehicles:

https://news.gov.bc.ca/files/Dirty_Money_Report_Part_2.pdf
https://news.gov.bc.ca/files/Combatting_Money_Laundering_Report.pdf

Perhaps THE big takeaway among many is that the province estimates that $5B of laundered money flowed into residential real estate in 2018. Now consider that 2018 was AFTER the foreign buyer tax, the announcement of the Peter German investigation, and discussions of a beneficial ownership registry. We wonder what that figure would have been just a couple years ago.

The report also highlighted vulnerabilities in private lending regulations. From the report:

- Private mortgage entities are a growing segment of the lending market and vulnerable to being used for criminal purposes, including money laundering. They are not reporting entities to FinTRAC. There is no visibility of their beneficial owners, source of funds or lending practices. Currently 90,000, or 9% of residential mortgages, are held by 18,570 private lenders, with 80% of the lenders being corporate entities.

- It is believed that much of the overseas capital used for private mortgages transits through Canadian 'gatekeepers', such as lawyers, thereby skewing any data with respect to overseas investment in real estate.

Not surprisingly, calls are mounting for a public inquiry into the matter, and we may get an announcement on that front as early as this week:

Attorney general wants to name names in a public inquiry on money laundering[5]

> […] "Right now I think we have the information we need to put a real dent in this activity," Eby said. "And so the only piece that would be left on the table is the accountability piece of the people who are involved."
>
> Accountability is a polite way of saying the NDP would like to name and shame those who turned a blind eye to, or through sheer incompetence or negligence allowed, money laundering to proliferate for more than a decade.
>
> […] "The public is outraged this type of activity could be taking place without the former government taking any meaningful action to stop it," he said.
>
> "I believe the public should have access to what the former government knew and when they knew it, an inquiry would assist in getting that information."
>
> The premier's thinking appears to have changed since November when he said a public inquiry could take years, cost millions, be bogged down by esoteric procedural wrangling and ultimately produce a thick report that gathers dust on a shelf.

Even the feds are now taking notice, with Prime Minister Trudeau stating that, "The report that came out of B.C. is extremely alarming, absolutely unacceptable"… This is a real and pressing problem for Canadians … Minister Blair is working in partnership with B.C. and other provinces to make sure we are moving forward in real tangible ways."[6]

Meanwhile, this was the front page of yesterday's Toronto Star. Included in that story is a quote from the president of the Ontario Real Estate Association saying that a beneficial ownership registry in that province is a "no brainer" and "long overdue".

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TORONTO STAR

WEATHER HIGH 13 C | MOSTLY CLOUDY | MAP S8 TUESDAY, MAY 14, 2019

'Dirty money' influx sparks call for land registry

Making owners identify selves 'no-brainer,' Ontario realtors say

MARCO CHOWN OVED
INVESTIGATIVE REPORTER

With billions of dollars in dirty money being laundered through Toronto real estate each year, realtors are questioning why Ontario hasn't taken action to implement the simple reform that's chased criminals out of overheated property markets around the world: requiring the real owners of property to identify themselves.

The U.K. and the U.S. have brought in ownership registries to force those who own property via numbered companies and trust funds to reveal their true identities. British Columbia will soon implement one of its own.

"Ontario realtors don't want to see a single dollar of dirty money coming into the housing market," said Ontario Real Estate Association CEO Tim Hudak. "When criminals hide their money here, it drives the price of real estate out of reach for regular Ontarians."

"We're still asleep at the wheel on this issue."

JAMES COHEN
EXECUTIVE DIRECTOR OF TRANSPARENCY INTERNATIONAL CANADA

Hudak said a beneficial ownership registry for property in Ontario is "well past due."

"Back in the day, there may have been a reason to protect corporate privacy.

"But to think that drug dealers and arms dealers are recycling their cash in our province ... a reform like this is a no-brainer."

Hudak's comments were echoed by the Toronto Real Estate Board.

REAL ESTATE continued on A9

FOR SALE MY EDUCATION

Every Teacher

Onex Corp. to buy WestJe for $3.5 billio

ROSA SABA
STAR CALGARY

CALGARY—From scrappy regio

[5] https://vancouversun.com/news/politics/rob-shaw-attorney-general-wants-to-name-names-in-a-public-inquiry-on-money-laundering

[6] https://vancouversun.com/news/local-news/trudeau-says-b-c-money-laundering-report-is-extremely-alarming

The main takeaways:

- It's becoming politically expedient to be seen as "doing something" on the money laundering file in BC, Ontario and increasingly in Ottawa.
    - Expect Ontario to seriously consider some BC-style measures before year end while Trudeau and company will now be forced to give increasing attention to this issue. Canadians are (finally) starting to get pissed. We don't think this issue is going away soon.

- BC will most likely announce a public inquiry this month. While Great Canadian Gaming has so far dodged arrows from the Peter German report, a public inquiry is a different animal altogether, particularly as it relates to subpoena power and the ability to demand supporting documentation.

  We can't help but wonder if such a commission won't turn up some "bodies in the closet", particularly given Sam Coopers ongoing coverage of that company and some of the alleged shenanigans out of River Rock Casino. The articles below are from the past month:

  https://globalnews.ca/news/5225614/bc-casino-whistleblower-alleged-cooperation-organized-crime/

  A Great Canadian Gaming employee who was concerned about workplace safety informed the company's founder that she felt staff had to "accept doing business year after year with what most certainly appears to be some level of co-operation with organized crime," according to documents obtained by Global News.

  https://globalnews.ca/news/5227422/b-c-casinos-18k-severance-agreement-prevented-public-criticism-about-gangs-former-employee-claims/

  A former B.C. casino employee says she regrets signing an $18,000 "gag order" with Great Canadian Gaming that prevented her from speaking at a public hearing regarding the company's application to open a casino in Coquitlam, B.C.

And while we're on the topic of Great Canadian, we'll end today's note with excerpts from Patrick Brown's memoir:

https://www.amazon.ca/Takedown-Attempted-Political-Assassination-Patrick/dp/0888902913

Long story short, Brown was set to become the next premier of Ontario. His government was rocked by a sex scandal in January 2018 that saw his party take the hasty and highly unusual move of turfing him as leader the very night the news broke. Within a few days, the veracity of the accusations against him came into question, and it now looks like he has a very good shot of winning a defamation suit against the news outlet that aired the report.

Doug Ford was the nomination to lead the Ontario PC party, which won the provincial election just a few months later.

That's the backstory. Below Patrick Brown, in his own words, connects some dots:

you about him." Kaydee Richmond did warn me. She felt he was dangerous.

McKay had warned me. Kyle Seeback, Conservative MP from Brampton West, had warned me, telling me that he didn't want to say anything because he had concerns that his words would make their way back to Velshi. "But Patrick," he said, "I had a conversation with Alykhan in which he was trashing you back when you were an MP. He said he hated your guts, and I couldn't believe you hired him as your chief of staff." I wish I had listened to those who came forward when I was in a position to fire him. Why would my own chief of staff be working against me? He stood to be the chief of staff to the next premier. Was he a plant to get rid of me? Who knows?

In the end, other than a few tidbits, the private investigators really didn't provide much help, even though their work did uncover a few knives from within my own party.

I then wondered whether or not the Great Canadian Gaming (GCG) Corporation, a company that owns casinos, might have been involved. It certainly would have deep pockets, influence and motive to see me removed.

Since 2012 in the province of British Columbia, the police had been investigating allegations involving a money-service bureau, a casino and the proceeds of organized crime. But what that investigation uncovered was much more. The fact that money laundering had been occurring was old news. It was the scale of the operation that startled police. On July 22, 2015, the RCMP contacted an official with the British Columbia Lottery Corporation to inform them that "police officers had been looking for a 'minnow' and found a 'whale.'"

The whale was that since 2012, more than $100 million had been laundered through B.C.'s casinos by loan sharks and VIP gamblers, with direct ties to Chinese organized crime units. A Sam Cooper of Global News reported:

> Criminal syndicates that control chemical factories in China's booming Guangdong province are shipping

narcotics, including fentanyl, to Vancouver, washing the drug sales in British Columbia's casinos and high-priced real estate and transferring laundered funds back to Chinese factories.

As a result of those findings, B.C.'s Attorney General, David Eby, commissioned a report to get to the bottom of how this illegal activity was enabled and to provide recommendations on how to stop it. The report was written by Peter German, a distinguished lawyer who held a number of high-ranking positions and had retired as a member of the RCMP after serving for 31 years.

It was made public in March 2018, a few months after I stepped down as party leader.

The report confirmed the flow of dirty money through certain casinos run by GCG, Gateway Casinos & Entertainment, and Paragon Gaming. This money fuelled B.C.'s opioid crisis and inflated real estate prices. In the report, German confirmed that Chinese organized crime networks with roots in Guangdong, Macau and Hong Kong had laundered at least $100 million through loan sharks and VIP gamblers in B.C. Lottery casinos. He later told Global News that the $100 million figure was likely a low estimate.

The companies had claimed ignorance of these activities. Unfortunately, the report did little to counter those claims. It described these companies as having "unwittingly" permitted the casinos to be used as laundromats for the proceeds of organized crime.

In that one word, "unwittingly," German's report absolved the casinos of any deliberate wrongdoing. Instead, he put the blame squarely on the shoulders of weak regulations. Eby blamed the former Liberal government for using the province's casinos as these "unwitting laundromats."

I'm sorry, but how the hell does $100 million get laundered in B.C., and the corporations that own the casinos are characterized as innocent victims of weak regulations? This didn't sit well with me or members of the press, either.

An independent news outlet, PressProgress, looked into possible political connections and discovered that both GCG and Gateway had made sizable political contributions totalling more than $312,000 to the then-governing Liberals over the two years leading up to the 2017 provincial election. This raised serious questions about just how "unwitting" were the actions of these companies or the government of the day.

After that report was issued, many articles began to appear in print and on electronic media, questioning the ignorance of the corporations which presided over these money-laundering services. Stories were published alleging that GCG had been welcoming and assisting Chinese organized crime units for at least 18 years.

Then another story was posted, reporting that GCG operated the casino aboard a Chinese-owned gambling ship called the China Sea Discovery. The ship was closed down a year after it began its voyages due to reports of gangsters, armed junkets and so on. The man who had allegedly bankrolled the China Sea Discovery was the late Cheng Yu-tung, a Chinese businessman, and prior to his death in 2016, the third richest man in China. As it turned out, he had never registered to participate in a gambling business in B.C. The major infraction was confirmed by Eby.

Eventually, GCG pulled out of the casino cruise business following a number of lawsuits. But according to former GCG staff and witness accounts, the B.C. government essentially dismissed allegations in favour of supporting the company's expanding gambling industry. Remember that the provincial government stands to gain from the revenues of these gambling activities.

In August 2017, and well after all the RCMP allegations were being reported in the media, the Ontario Lottery and Gaming Corporation (OLG) awarded GCG with a very lucrative contract to run the casinos in the Greater Toronto Area.

I remember thinking to myself; *This is the company that Premier Wynne wants to have come to Ontario to run our casinos?* I just couldn't understand why they would be putting a welcome mat under the feet of an

organization that was embroiled in an investigation involving organized crime, money laundering and drugs, something Ontario is struggling with.

God knows that Ontario was absolutely strapped for cash and desperately needed revenues to pay for the many costly projects, contracts and bigger government that the Liberals had concocted over the previous 15 years. I wondered: *Did they care at all about the origins of the revenues being promised by GCG? Could it be that jackpot of dollars that the B.C. Liberal government enjoyed as a result of "unwitting" laundromat activities was simply far too tempting to give up?*

At the time, we noticed that GCG hired powerful Liberals lobbyists Bob Lopinski and Philip Dewan, a former chief of staff for McGuinty. Lopinski had worked for Wynne when she took office and had run her Liberal war room during the election.

Political election war rooms, besides conducting other more straightforward tactical activities, are generally where all the dirt is dug up and the smear campaigns are concocted. Many in the political world refer to these activities as "ratfucking" — a very vulgar term that I have never used, even though I must confess, it does have a way of capturing some of the essence of the job. Lopinski, the lobbyist for GCG, was a top guy at Liberal Ratfucking Inc. I didn't think much of this at the time.

Our PC caucus made a group decision that we would go after the Liberals in the Legislature on this deal. There were some misgivings, particularly Velshi, who wasn't sure about it. The team debated what to do. Sen. Di Nino and Soliman were both favourable to going after them because they felt that they were dirty.

For one week, Fedeli went hard in the House, asking tough questions of Premier Wynne during Question Period. Then, all of a sudden, Velshi advised me to stop going against GCG altogether. He told me that Fedeli would do so outside of the Legislature. This made zero sense to me. In the Legislature, all MPPs are protected from being sued for the things they say and allege. It's referred to as "Legislative Privilege" and enables MPPs to hold the government to account without fearing legal reprisals because of statements made. Our bench suddenly went silent. But Velshi was

absolutely categorical. "Stop it now. Do not go after Great Canadian Gaming."

It just got weird, and I wondered why the about-face? Were people in the PC caucus being threatened? Were they being bought off? I don't know.

In December 2018, Wynne announced again that the OLG had selected GCG for still more contracts. Now it would be the dominant gaming company in Ontario. Shortly after this, I was taken down as PC leader.

As I mentioned in a previous chapter, my friendship with Kepinski, a minority owner of the Fallsview Casino, had put me on a bit of a collision course with GCG. But now, as I reviewed things in my mind, I thought that there might be more here.

I reconsidered the facts: GCG's lobbyist was Lopinski. He was part of the Liberal war room. I would be in his cross hairs. After all, I had heard a few journalists confide to me that very senior Liberal operatives were shopping around sex scandal stories about me. It wasn't too hard to imagine that the Liberal war room had knowledge of this or were directing it.

Now, Lopinski's client was GCG. Certainly, that company would have had an interest in seeing me removed. There is no doubt in my mind that had I become premier — and polling numbers at the time indicated that that was likely to happen — I would not tolerate GCG operating in Ontario on my watch. I believe that they realized that, too. They had something absolutely massive to gain by my removal. Here is how I saw it. GCG controlled the majority of casino interests in the province of Ontario, and my being premier would have really negatively affected their book of business. Gaming companies are all about the books.

Was there a chance that GCG was paying Lopinski to get it the licences *and* take me down? GCG had money and links to China's rich and famous. Activities in at least one of their casinos had been linked to Chinese organized crime and money laundering. Maybe one or both of these accusers had been paid, or maybe the sting operation was paid for by them? I can't prove any of this; however, the coincidences were there, and to this day I wonder.

I picked up my cellphone and called Jennifer Innes, a Caledon, Ont., city councillor and Newstalk 1010 radio guest for the Jerry Agar Show.

Two months before the CTV news story against me broke, Innes had called me to tell me that one of the other panellists on the show had pulled her aside and said, "Promise me you will not tell Patrick, but you need to stay away from him. He's about to go down on a sex scandal." Innes and I had known each other since I was 15 years old. Of course, she would tell me what she heard might be going on. Innes was very upset, almost in tears, as she told me what had transpired. Honestly, I didn't take it too seriously.

"Jen, don't worry, there's no sex scandal. I'm fine. This is crazy talk. I'm *not* going down," I assured her at the time. Deep down, I couldn't think of any story that could possibly surface because none really existed, and I was on good terms with former girlfriends.

After the takedown I called Innes back. "For curiosity sake, Jen, who was the person who told you that I was going down and what company are they with?"

She gave me the name of the panellist and the company: Navigator, which is a well-known lobby and strategy firm. Jaime Watt heads up Navigator and is also a strong supporter of Elliott. However, that was not the angle I was pursuing here.

I followed up. "Jen, could you do me a favour and ask if Navigator has ever done work for a company called Great Canadian Gaming?"

Innes answered, "Patrick, When we talked about the gaming issue on the radio show in November, that panellist couldn't comment and had to declare a conflict because Navigator was doing some work for one of the big casino gaming companies."

Who knows if Navigator did or didn't have a connection to GCG? It never appeared in the Ontario lobbyist registry as a lobbyist for GCG. But was Navigator providing strategic advice to GCG or instead to one of its competitors? How I'd have loved to know.

—

Regards,

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