Financial Suitability Analysis

Sumner County – Kansas Gaming Partners, LLC

Union Gaming Analytics

October 26, 2009

Executive summary

Kansas Gaming Partners, LLC is owned by Lakes Entertainment, CVG Kansas Gaming LP and Kansas Gaming Holdings LLC. The ownership shares are distributed as follows: Lakes Entertainment 17%, CVG Kansas Gaming 33% and Kansas Gaming Holdings 50%. We note that Lakes Entertainment is a publicly traded company (ticker LACO). CVG Kansas Gaming and Kansas Gaming Holdings are both controlled by investment funds that have complete discretion over their respective capital available for investing. CVG Kansas Gaming is comprised of two separate funds of Clairvest Group and Kansas Gaming Holdings is comprised of four separate funds of Och-Ziff Real Estate (both Clairvest Group and Och-Ziff are publicly traded).

Kansas Gaming Partners, LLC intends to fully fund the proposed $150m development of Chisholm Creek Casino Resort with cash. The two funds are well capitalized and have enough cash on hand to fully fund their shares of the project. However, Lakes Entertainment intends to raise funds in the capital markets in order to fulfill its share of the development cost. This is a concern for us given the current state of the capital markets, especially related to gaming, which suggests a transaction is not guaranteed.

Should Lakes Entertainment be unable to fulfill its share of the development cost, it is our understanding that both funds (per the Kansas Gaming Partners, LLC operating agreement) have the right to make contributions to Kansas Gaming Partners to backstop any potential Lakes Entertainment deficiencies. Further, we also believe that both funds have enough liquidity to not only backstop any Lakes Entertainment shortfall, but also to absorb cost overruns (we analyzed a scenario with a 10% budget overrun) and potentially any operating deficiencies.

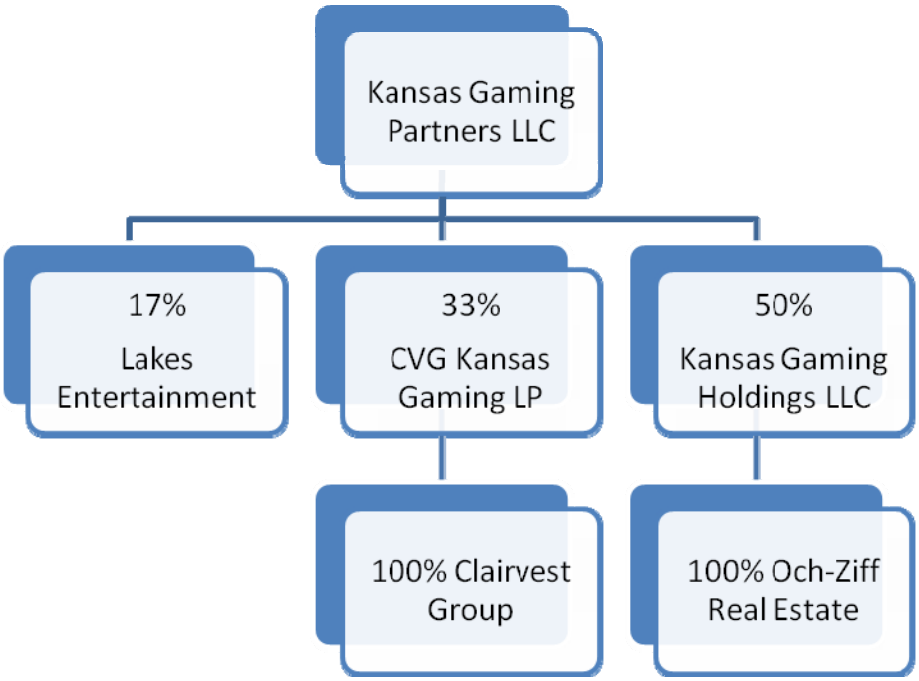
Introduction

We were retained by the State of Kansas to provide a financial suitability analysis of the applicants for licenses in Sumner and Wyandotte counties. Herein, we analyze the parties involved in the proposed "Chisholm Creek Casino Resort" ("CCCR") to be owned by Kansas Gaming Partners, LLC ("Kansas Gaming Partners").

Ownership structure

Kansas Gaming Partners is owned by Lakes Entertainment ("Lakes"), CVG Kansas Gaming LP ("CVG") and Kansas Gaming Holdings LLC ("KGH"). The ownership shares are distributed as follows: Lakes 17%, CVG 33% and KGH 50%. We note that Lakes is a publicly traded company (ticker LACO). CVG and KGH are both investment funds that have complete discretion over their respective capital available for investing. CVG is comprised of two separate funds of Clairvest Group and KGH is comprised of four separate funds of Och-Ziff Real Estate (both Clairvest Group and Och-Ziff are publicly traded).

Figure 1: Ownership structure



Project budget

The total project budget for CCCR, inclusive of land and license fee is $150.0m. The total budget is detailed as follows:

Figure 2: Project budget

Land	$5.755m
Design, development and construction costs	$55.132m
Furniture, fixtures and equipment	$47.987m
Pre-opening, project overhead and contingency	$16.126m
Privilege (license) fee	$25.0m
Total project budget	**$150.0m**

Financing preference

Kansas Gaming Partners intends to finance the project's budget entirely with cash proportionate to each partners' share. CVG and KGH intend to contribute their shares via existing funds available for investment, while Lakes has indicated it intends to pursue a capital markets solution (e.g. equity offering, issuance of debt, bank financing) to raise the capital for its contribution.

Figure 3: Funding allocation

Lakes (via capital markets transaction)	$25m
CVG (via existing funds available)	$50m
KGH (via existing funds available)	$75m
Total funding	**$150m**

In the absence of other capital commitments, the ability for CVG and KGH to meet their requirements to Kansas Gaming Partners is a straight forward analysis. As such, the question then becomes Lakes ability to successfully complete a capital markets transaction and / or the capacity of CVG and KGH to cover any shortfall should Lakes not be successful (in whole or in part) in its capital raise.

Capital markets and the gaming industry: a current snapshot

Over the first nine months of 2009, we estimate that nearly US$9bn in capital markets transactions have occurred in the gaming sector worldwide. This includes roughly $5.4bn in equity transactions (including MGM MIRAGE, Las

Vegas Sands, Melco-Crown, Wynn Macau IPO) and $3.5bn in debt transactions (including Ameristar Casinos, International Game Technology, MGM MIRAGE, Penn National Gaming, Pinnacle Entertainment).

While these transactions seem to indicate that the capital markets are beginning to open up for the gaming industry, we think many or even most of these equity transactions were unique in that they were rescue financing (MGM, Las Vegas Sands) or were related to exposure to Asian /Macau gaming markets (Melco-Crown, Wynn Macau). We haven't seen any notable and recent equity transactions by casino operators that participate in regional (non-Las Vegas) US markets.

There is no guarantee that Lakes will be able to successfully complete a capital markets transaction to cover its share of the project budget. As such, we have conducted our analysis under two assumptions: 1) Lakes is able to successfully complete a capital markets transaction and 2) Lakes is unable to successfully complete a capital markets transaction. In the case of an unsuccessful Lakes capital raise we have allocated Lakes' $25m share to CVG and KGH based on their original investment proportions relative to each other (40% CVG, 60% KGH).

Figure 4: Capital requirements based on success of a Lakes capital raise

Entity	Successful Lakes capital raise	Unsuccessful Lakes capital raise
Lakes	$25m	$0m
CVG	$50m	$60m
KGH	$75m	$90m
Total	**$150m**	**$150m**

Additional thoughts on capital markets: expansions in a better environment

While we have not been privy to any internal discussions by the partners involved in Kansas Gaming Partners, we find it likely that the current scope of the project has been impacted by the current state of the credit markets, not to mention broader macro economic conditions. This is evidenced by the dramatically smaller proposals this year versus the proposals from 2008.

We believe that with improved credit markets and a more stable economy it is possible that Kansas Gaming Partners would revisit the scope of the project with an eye towards upsizing it or adding certain components (e.g. hotel tower) that may have been excluded from current plans.

Financial projections

While we are providing consensus expectations by analysts covering Lakes, it is important to note that the stock is covered by a limited number of analysts and as a result few estimates are available. However, Lakes has noted its free cash flow expectations for 2009 and 2010 of $13.5m and $10.3m, respectively. We have assumed 2011 free

cash flow expectations of $10.3m as well. Finally, we note that the term EBITDA as used in Figure 5 is Earnings Before Interest, Taxes and Depreciation / Amortization.

Figure 5: Lakes Entertainment (LACO) key financial expectations

Year	2009	2010	2011
Revenue ($m)	27	29	na
EBITDA	na	na	na
Adjusted net income	4	na	na
Free cash flow*	13.5	10.3	10.3

Source: Bloomberg
Note: * company and Union Gaming estimate

Liquidity analysis

In this section, we examine current and anticipated liquidity for each parent company over the next few years, which should cover the entire Phase I build-out.

Lakes Entertainment

Lakes currently has $10.8m in cash on hand, as well as $6.0m in excess capacity on its revolving line of credit and another $26.7m in auction rate securities that it can sell at par value to UBS at any point between June 30, 2010 and July 2, 2012. Combined, Lakes' liquidity currently (timing of auction rate securities potential sale notwithstanding) stands at $43.5m.

The company does have financial commitments outside of Kansas. Over the next 24 months, its $8.0m non-revolving line of credit matures (October 2010). If the company were to extend the maturity or refinancing this line of credit, it would result in a notably improved liquidity profile. Also, while we have given the company credit for $26.7m in auction rate securities, the sale of these securities to UBS would automatically trigger the repayment of its $18.0m credit facility. For the purposes of this analysis, we have assumed the sale of the auction rate securities as it results in a net cash positive transaction ($26.7m in proceeds less $18.0m to repay the credit facility).

We believe this represent the significant financial commitments of Lakes, although we also note that the company continues to evaluate a wholly-owned casino development in Vicksburg, MS, which would require substantial amounts of capital should the company move forward. It may also pursue additional Native American casino management agreements, for which we would expect the company to expend some capital as it seeks to bring any transactions to fruition.

In a scenario where Lakes is not able to extend or refinance its non-revolving line of credit, we estimate the company's net liquidity over the next two years to be $17.5m. When combined with the company's estimate for $10.3m in free cash flow in 2010 and our assumption of a similar amount in 2011, the revised net liquidity amount

for the company is $38.1m over the development period. This compares to Lakes' share of Kansas Gaming Partners of $25m.

While our analysis would suggest that Lakes' liquidity is enough to cover its share of Kansas Gaming Partners, we suspect that the company's plans for a capital markets transaction to cover this share could result from 1) a need to keep a certain amount of cash on the balance sheet, 2) uncertainty towards an extension or refinance of its non-revolving line of credit, 3) a need for capital to fund other initiatives (e.g. Vicksburg, MS project, other Native American management agreements) and perhaps most importantly 4) **the uncertainty as to free cash flow generated over the next several years, which could materially impact the company's liquidity.**

Figure 6: Lakes Entertainment liquidity (assumes line of credit matures)

Item	As of 6/28/09
Cash ($m)	10.8
Non-revolving line of credit (excess capacity) *	6.0
Auction Rate Securities	26.7
Total liquidity	**43.5**
Commitments	
Non-revolving line of credit (matures Oct 2010) *	8.0
Credit line (matures July 2010)	18.0
Total commitments	**26.0**
Net liquidity	17.5
Plus free cash flow (2010, 2011)	20.6
Net liquidity plus free cash flow (2010, 2011)	**38.1**
LACO's share of Kansas Gaming Partners	25.0
* Assumes non-revolving line of credit fully drawn	
Cushion (net liquidity less max cash needed)	**13.1**

As noted in an above paragraph, we think Lakes' liquidity position is improved under a scenario where its non-revolving line of credit is either extended or refinanced beyond its current October 2010 maturity. In this scenario, we estimate the company's net liquidity position to be $46.1m relative to its share of Kansas Gaming Partners of $25m. Again, we note that while this amount suggests that Lakes' liquidity is enough to cover its share of Kansas Gaming Partners, we suspect that the company's plans for a capital markets transaction to cover this share could result from 1) a need to keep a certain amount of cash on the balance sheet, 2) uncertainty towards an extension or refinance of its non-revolving line of credit, 3) a need for capital to fund other initiatives (e.g. Vicksburg, MS project, other Native American management agreements) and perhaps most importantly 4) **the uncertainty as to free cash flow generated over the next several years, which could materially impact the company's liquidity.**

Figure 7: Lakes Entertainment liquidity (assumes line of credit is extended or refinanced)

Item	As of 6/28/09
Cash ($m)	10.8
Non-revolving line of credit (excess capacity) *	6.0
Auction Rate Securities	26.7
Total liquidity	**43.5**
Commitments	
Non-revolving line of credit (maturity extended) *	0.0
Credit line (matures July 2010)	18.0
Total commitments	**18.0**
Net liquidity	25.5
Plus free cash flow (2010, 2011)	20.6
Net liquidity plus free cash flow (2010, 2011)	**46.1**
LACO's share of Kansas Gaming Partners	25.0
* Assumes non-revolving line of credit fully drawn	
Cushion (net liquidity less max cash needed)	**21.1**

CVG Kansas Gaming LP

Clairvest Group Inc, the "parent" of CVG Kansas Gaming LP has numerous casino investments in North and South America. CVG Kansas Gaming LP will be funded by two Clairvest funds, CEP IV LP and CEP IV Co-Invest LP, which were established in July 2009. It is our understanding that these funds have made no investments to date and could potentially grow in size as new investors enter the fund.

CVG's commitment to Kansas Gaming Partners ($50m) would represent a small portion of total fund liquidity as of today, even when accounting for potential future commitments outside of Kansas relating to existing or proposed casino investments for which Clairvest is already committed. In fact, the two funds for CVG have C$210m in current capacity, or roughly US$203m based on current exchange rates. Adjusting for the potential commitments for other casinos, net liquidity for CVG is approximately $167m, which compares favorably to its share of Kansas Gaming Partners of $50m. This also compares favorably to what CVG's share of Kansas Gaming Partners might be ($60m) should Lakes not be able to raise its share.

Investors in these funds are not allowed to make redemptions per the limited partnership agreement that controls the funds. Further, the funds' general partner has discretion over distributions.

Figure 8: CVG liquidity

Item	As of 7/24/09
Cash ($m)	
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	
[redacted]	
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	
[redacted]	
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]

Kansas Gaming Holdings LLC

Och-Ziff Real Estate, the "parent" of Kansas Gaming Holdings LLC is comprised of four separate limited partnership funds.[redacted]

[redacted]

[redacted]In either case, the net liquidity compares favorably to KGH's share of Kansas Gaming Partners of $75m. This also compares favorably to what KGH's share of Kansas Gaming Partners might be ($90m) should Lakes not be able to raise its share.

Investors in these funds are not allowed to make redemptions per the limited partnership agreement that controls the funds. Further, the funds' general partner has discretion over distributions.

Figure 9: KGH liquidity (assumes credit facility matures in July 2010)

0

0

Contingency – the impact of cost overruns

We have also considered the possibility of cost overruns for the development. In a scenario with a 10% cost overrun, the new development cost would be $165m.

In a scenario where Lakes is able to successfully complete a capital raise, Lakes' share of the revised budget would be $27.5m, CVG at $55m and KGH at $82.5m. However, in a scenario where Lakes is unable to complete a capital raise, we estimate the revised share of CVG and KGH to be $66m and $99m, respectively.

Figure 11: Potential cash required by each partner with a 10% cost overrun

Entity	Successful Lakes capital raise	Unsuccessful Lakes capital raise
Lakes	$27.5m	$0m
CVG	$55m	$66m
KGH	$82.5m	$99m
Total	**$165m**	**$165m**

Figure 12: Lakes Entertainment historical financial data

Income Statement	FY1 2001	FY1 2002	FY1 2003	FY1 2004	FY1 2005	FY1 2006	FY1 2007	FY1 2008
Sales/Revenue/Turnover	35	2	4	18	18	30	7	24
Operating Income (Losses)	-1	-9	-6	-10	-16	-16	-14	-27
Net Non-Oper Losses(Gains)	4	7	-3	-10	-2	-57	-10	40
Pretax Income	-5	-16	-3	0	-15	31	-5	-69
Income Tax Expenses (Credits)	-2	-4	-1	4	-1	8	2	9
Inc(Loss) bef Extraord Items	-3	-12	-2	-4	-14	23	-8	-78
XO (G)L Net Of Tax	0	0	0	0	0	0	6	8
Net Income/Net Profit (Losses)	-2.866	-11.541	-1.769	-4.041	-11.87	19.84	-13.604	-86.323
Total Cash Preferred Dividends	0	0	0	0	0	0	0	0
Total Cash Common Dividends	0	0	0	0	0	0	0	0
Reinvested Earnings	-3	-12	-2	-4	-12	20	-14	-86
Diluted EPS Cont Ops	0.71	-0.24	-0.04	-0.33	-0.66	1.01	-0.27	-1.17
# Shrs Diluted EPS	21	21	43	22	22	25	24	25

Balance Sheet (Assets)	FY1 2001	FY1 2002	FY1 2003	FY1 2004	FY1 2005	FY1 2006	FY1 2007	FY1 2008
Cash&Near Cash Items	43	14	25	29	10	10	5	6
Mrktable Sec & Other ST Invts	2	0	0	29	27	53	31	0
Accounts & Notes Receivable	4	0	1	2	3	3	1	12
LT Investments	109	129	57	67	98	174	79	81
Net Fixed Assets	6	7	21	22	13	17	15	11
Other Assets/Def Chgs&Oth	20	19	63	58	77	88	93	54
Total Assets	193	177	174	209	231	361	256	165

Balance Sheet (Liabilities)	FY1 2001	FY1 2002	FY1 2003	FY1 2004	FY1 2005	FY1 2006	FY1 2007	FY1 2008
Tot Deposits/Sec Deposits	#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A
ST Borrowings	1	0	0	0	0	0	0	18
Other ST Liabilities	14	16	11	13	19	24	27	21
LT Borrowings	6	0	0	0	10	104	0	2
Other LT Liabilities	0	0	0	0	0	6	7	5
Total Liabilities	21	16	13	14	38	140	35	47
Preferred Equity	0	0	0	0	0	0	0	0
Minority Interest	0	0	0	11	14	17	14	0
Total Common Equity	172	161	162	184	178	205	207	118
Total Shareholders' Equity	172	161	162	195	193	222	221	118
Total Liabilities and Equity	193	177	174	209	231	361	256	165

Cashflow Summary	FY1 2001	FY1 2002	FY1 2003	FY1 2004	FY1 2005	FY1 2006	FY1 2007	FY1 2008
Cash Flow Net Income	-3	-12	-2	-4	-12	20	-14	-86
Depreciation & Amortization	1	0	1	1	0	1	3	7
Other Non-Cash Adjustments	38	7	-2	9	-7	-42	-7	33
Changes in Non-Cash Work Cap	-6	5	-6	2	5	4	1	-2
Cash From Operations	31	1	-9	7	-13	-17	-16	-48
Free Cash Flow/Basic Shr	1.44	0.00	-0.21	0.29	-0.88	-0.97	-0.74	-1.93
Cash Flow per Share	1.44	0.05	-0.21	0.34	-0.58	-0.74	-0.68	-1.92
Dividends Paid	0	0	0	0	0	0	0	0
Inc(Dec) in ST Borrowings	0	0	0	0	0	0	0	0
Increase in LT Borrowings	0	0	0	0	0	129	0	21
Reimbursement of LT Borrowings	-1	-7	0	0	0	-35	-105	0
Increase in Capital Stocks	0	0	1	36	0	8	10	10
Decrease in Capital Stocks	0	0	0	0	0	0	0	0
Other Financing Activities	0	0	0	0	10	-15	115	0
Cash from Financing Activities	-1	-7	1	36	10	86	20	30
Net Changes in Cash	32	-29	11	3	-19	0	-1	1
Disposal of Fixed Assets	0	0	0	0	0	0	9	0
Capital Expenditures/Prop Add	0	-1	0	-1	-7	-5	-1	0
Decrease in Investments	18	0	0	0	0	3	0	0
Increase in Investments	-44	-24	0	0	-1	-42	0	0
Other Investing Activities	29	2	19	-39	-8	-26	-12	19
Cash from Investing Activities	2	-23	19	-40	-16	-70	-4	19

Ratios	FY1 2001	FY1 2002	FY1 2003	FY1 2004	FY1 2005	FY1 2006	FY1 2007	FY1 2008
PE Ratio	4.17	#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A	10.20	#N/A N/A	#N/A N/A
Price/Book	0.37	0.35	1.93	1.88	0.79	1.16	0.82	0.88
Price/Sales	1.81	37.20	73.35	19.59	7.77	7.86	24.53	4.10
Price/Cashflow	2.05	48.21	#N/A N/A	46.44	#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A
Dividend Yield	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Margin	-3.22	-590.61	-137.86	-55.43	-90.30	-54.57	-210.74	-110.44
Profit Margin	-8.22	-768.38	-41.45	-23.02	-65.14	66.42	-201.84	-354.80
ROA	-1.42	-6.24	-1.01	-2.11	-5.40	6.71	-4.41	-40.96
ROE	-1.65	-6.94	-1.10	-2.34	-6.55	10.36	-6.60	-53.07
ROC	#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A	#N/A N/A	11.26	#N/A N/A	#N/A N/A

Source: Bloomberg