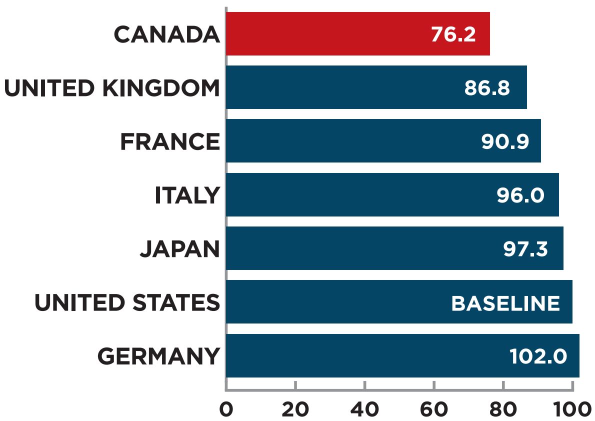
CANADA'S COST AND TAX ADVANTAGES – DIGITAL MEDIA

Canada's video games industry is ranked as the third largest in the world, with 329 game studios and 16,500 full-time employees contributing over $2.3 billion to Canada's GDP in 2012. Along with the size of the industry and a depth of quality talent, a competitive environment for business costs and business taxes in Canada further helps to support this industry.

In its 2014 study of global business locations, *Competitive Alternatives*[1], KPMG found that Canada offers the lowest business cost structure and the lowest business tax burden among the G-7 countries for video game production studios. Details of these findings are presented below, reflecting business costs and taxes for a model mid-sized game development studio.

VIDEO GAME PRODUCTION COST INDEX, G-7 RESULTS (U.S. = 100.0)



CANADA'S COST HIGHLIGHTS

- Video game studios based in Canada benefit from total labour costs that are 12.9 percent lower than equivalent costs in the U.S. Competitive salary levels and lower healthcare costs in Canada contribute to these savings.
- Leasing costs for suburban office space in Canada's major cities are low relative to most G-7 countries, with savings of 17 percent compared to the G-7 average for this facility.
- Power-hungry severs benefit from affordable electricity in Canada, with power costs that are 21 percent below the G-7 average for this video game studio.
- Taxes and incentives represent the final component of Canada's cost advantage, as detailed on the next page.
- Combining all cost factors, Canada has the lowest business cost environment among all G-7 countries, with total business costs 23.8 percent below the U.S.

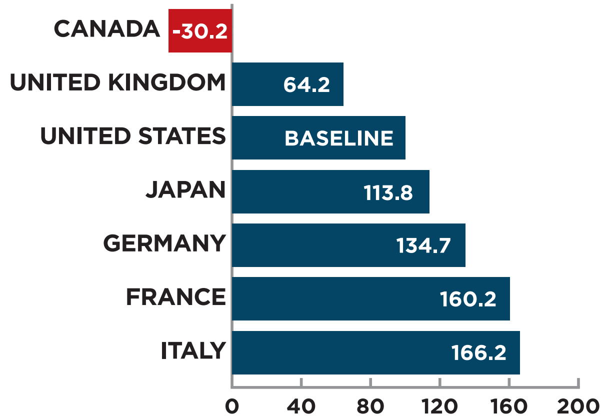
IMPACT OF EXCHANGE RATES

The 2014 edition of *Competitive Alternatives* was released in March 2014. The results from that study, including the results reported here, reflect exchange rates that were in effect in the fourth quarter of 2013. These results are sensitive to exchange rate changes.

During 2014, the U.S. dollar appreciated in value relative to most global currencies, including the Canadian dollar. For the model video game studio, Canada's cost advantage relative to the United States **increases from 23.8 percent to 28.8 percent** at January 2015 exchange rates. The stronger U.S. dollar significantly increases Canada's cost advantage for international digital media firms.

[1] *Competitive Alternatives, KPMG's Guide to International Business Location Costs* and *Competitive Alternatives, Special Report: Focus on Tax.* Available for download from CompetitiveAlternatives.com.

VIDEO GAME PRODUCTION TOTAL TAX INDEX[3], G-7 RESULTS (U.S. = 100.0)



LOW-COST HOT SPOTS

Business cost index of select Canadian cities (U.S. = 100):

A	Niagara Region	73.3
B	City of Québec	74.4
C	Toronto	75.8
D	Montréal	76.5
E	Halifax	80.9
F	Vancouver	84.1

CANADA'S TAX HIGHLIGHTS[2]

- Several of Canada's provinces offer substantial labour rebates that provide financial support to video game producers and other digital media industries. For this model game studio, eligibility for digital media credits results in a negative effective rate of corporate income tax at -12.2 percent, the lowest in the G-7.
- Canada's statutory labour costs are also the lowest in the G-7 and its costs for other corporate taxes are also low, ranking third among the G-7 countries.
- Overall, Canada's total tax index for this video game studio is -30.2 with digital media credits more than offsetting all corporate taxes payable. This gives Canada the lowest net tax position in the G-7, by a wide margin.

SUMMARY OF OPERATING PARAMETERS

BUSINESS OPERATION: VIDEO GAME PRODUCTION	
Facilities requirements	
Class A office space leased (1,881 m²)	20,250 ft²
Workforce	
Management	4
Sales and administration	7
Dedicated product development	87
Other	2
Total employees	100
Other initial investment requirements	
Office equipment – U.S. $'000	$1,600
Equity financing – % of project costs	67%
Energy requirements	
Electricity: monthly consumption	60,000 kWh
Other annual operating characteristics	
Sales at full production – U.S. $'000	$19,000
Operating costs – % of sales	12%
Investment in tax-eligible R & D – % of sales	19%

[2] Calculations by MMK Consulting Inc. based on detailed data from *Competitive Alternatives, Special Report: Focus on Tax* as that report only published sector-level tax results.

[3] Calculations by MMK Consulting Inc. based on detailed data from *Competitive Alternatives, Special Report: Focus on Tax* as that report only published sector-level tax results.