

FORT ERIE LIVE RACING CONSORTIUM

Financial Statements
for the Year Ended December 31, 2011
and Independent Auditors' Report to the Board of Directors

FORT ERIE LIVE RACING CONSORTIUM

FINANCIAL STATEMENTS
DECEMBER 31, 2011

CONTENTS

Independent Auditors' Report to the Board of Directors.....	1
Statement of Operations And Surplus.....	2
Statement of Financial Position.....	3
Statement of Cash Flows.....	4
Notes to the Financial Statements.....	5 - 11



CHARTERED ACCOUNTANTS

DURWARD JONES BARKWELL & COMPANY LLP

1264 Garrison Road, Unit #15 (Park Plaza)
Fort Erie, Ontario L2A 1P1

905.871.3565 866.720.2194 Fax 905.871.9232
forterie@djb.com www.djb.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Fort Erie Live Racing Consortium:

We have audited the accompanying financial statements of Fort Erie Live Racing Consortium, which comprise the statement of financial position as at December 31, 2011, and the statements of operations and surplus and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Fort Erie Live Racing Consortium as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter

We draw attention to Note 1 and Note 16 to the financial statements which describes the uncertainty related to the ongoing operations of the Fort Erie Live Racing Consortium. Our opinion is not qualified in respect of this matter.

Durward Jones Barkwell & Company LLP

Durward Jones Barkwell & Company LLP
Licensed Public Accountants

May 1, 2012

FORT ERIE LIVE RACING CONSORTIUM

STATEMENT OF OPERATIONS AND SURPLUS
YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>	<u>2010</u>
REVENUE		
Net proceeds from pari-mutuel wagering (Note 9)	\$ 6,227,181	\$ 6,844,735
Slot machine commissions	8,310,666	8,835,930
Food and beverage	3,144,161	3,546,343
Grant - Town of Fort Erie	650,000	500,000
Grant - HBPA	150,000	-
Other	820,059	798,675
	19,302,067	20,525,683
PURSES		
Generated from pari-mutuel wagering	2,930,034	3,237,470
Generated from slot machine commissions	2,710,666	3,235,930
	5,640,700	6,473,400
REVENUE LESS PURSES	13,661,367	14,052,283
EXPENSES		
Salaries, wages and benefits	7,069,065	7,349,921
Other operating expenses (net of recoveries)	5,562,467	6,423,090
Rent	650,000	100,000
Depreciation	48,768	16,749
	13,330,300	13,889,760
EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	331,067	162,523
SURPLUS, BEGINNING OF YEAR	46,093	-
CHANGE IN NET ASSETS INVESTED IN CAPITAL ASSETS (Note 7)	(75,523)	(116,430)
APPROPRIATION TO ADMINISTRATIVE RESERVE (Note 8)	(300,000)	-
SURPLUS, END OF YEAR	\$ 1,637	\$ 46,093

FORT ERIE LIVE RACING CONSORTIUM

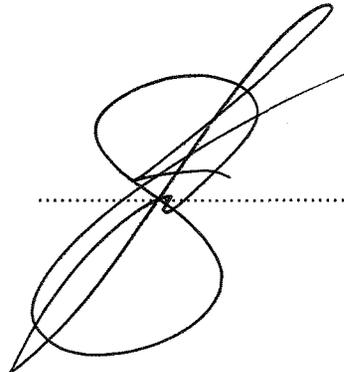
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets		
Cash	\$ 652,775	\$ 781,618
Restricted cash (Note 4)	2,099,288	3,131,238
Accounts receivable	1,383,357	1,707,588
Inventory	80,007	71,286
Prepaid expenses	542,988	120,735
	4,758,415	5,812,465
Capital assets (Note 3)	191,953	116,430
	\$ 4,950,368	\$ 5,928,895
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 4)	\$ 4,056,778	\$ 5,734,372
Advance from related party (Note 5)	400,000	32,000
	4,456,778	5,766,372
Lease commitment (Note 6)		
NET ASSETS		
Investment in capital assets (Note 7)	191,953	116,430
Administrative reserve (Note 8)	300,000	-
Unrestricted	1,637	46,093
	493,590	162,523
	\$ 4,950,368	\$ 5,928,895

Approved by the Board:



..... Director



..... Director

FORT ERIE LIVE RACING CONSORTIUM

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>	<u>2010</u>
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 331,067	\$ 162,523
Depreciation, an item not affecting cash	48,768	16,749
	379,835	179,272
Changes in non-cash operating assets and liabilities		
Restricted cash	1,031,950	(3,131,238)
Accounts receivable	324,231	(1,707,588)
Inventory	(8,721)	(71,286)
Prepaid expenses	(422,253)	(120,735)
Accounts payable and accrued liabilities	(1,677,594)	5,734,372
Advance from related party	368,000	32,000
	(4,552)	914,797
INVESTING ACTIVITY		
Purchase of capital assets	(124,291)	(133,179)
INCREASE (DECREASE) IN CASH	(128,843)	781,618
CASH, BEGINNING OF YEAR	781,618	-
CASH, END OF YEAR	\$ 652,775	\$ 781,618

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

1. GOING CONCERN

These financial statements have been prepared in conformity with Canadian generally accepted accounting principles on going concern basis. They do not give effect to any adjustments to assets and liabilities which might be necessary should the corporation be unable to continue as a going concern business. The continued operations are dependant upon the corporation's ability to negotiate and execute various contracts and agreements that will allow it to continue beyond the end of the 2012 fiscal year. These agreements include:

- i) The lease for premises.
- ii) The operating agreement with the Horsemen's Benevolent and Protective Association ("HBPA").
- iii) Develop additional revenue sources to replace the slot sharing agreement which expires March 31, 2013.

In addition to the above, the corporation will need the continued cooperation and support of the HBPA, the Fort Erie Economic Development and Tourism Corporation and the Town of Fort Erie.

2. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Nature of business

The Fort Erie Live Racing Consortium (The "Corporation") was incorporated on November 26, 2009 as a corporation without share capital as a not-for-profit organization. It was formed to lease and operate the racing and gaming assets, as described below, of Nordic Gaming Corporation ("Nordic") effective January 1, 2010.

The Corporation is a horse racing and Pari-mutuel wagering company and provider of live wagering to the simulcast market. The Corporation leases and operates the Fort Erie racetrack where it conducts live thoroughbred and quarter horse racing, and offers pari-mutuel wagering on these and other races from other North American tracks. In addition, the Corporation is party to an agreement with the Ontario Lottery and Gaming Corporation (the "OLG") whereby the OLG conducts slot machine operations at the Fort Erie racetrack and the Corporation receives a share of these revenues.

Revenue recognition

The Corporation recognizes revenue from commissions on pari-mutuel wagering as races are run.

The Corporation has entered into agreements with the OLG (the "Siteholder Agreements") to host slot machine operations at the Corporation's racetrack. These Siteholder Agreements entitle the Corporation to a fixed amount of \$5,600,000 per year and 10% share of the net win of these machines. The 10% of the net win are required to be contributed to purses. The OLG pays the majority of the direct operating costs of these operations, some of which are purchased from or through the Corporation. The Corporation, which hosts the slot operations at its racetrack, incurs the majority of indirect costs such as building maintenance and property costs, which are then billed to the OLG.

Slot machine commissions are recorded as revenue when the amounts are earned by the OLG. The OLG is responsible for determining the net win and remits the fixed portion and 10% of the net win to the Corporation every week.

The Corporation recognizes revenue on food and beverage, programs and other services as these services are delivered.

The Corporation recognizes grants when received.

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (CONTINUED)

Translation of foreign currency

The accounts of the Corporation denominated in a foreign currency have been translated to Canadian dollars on the following basis:

- a) Monetary assets and liabilities are translated at the rate prevailing at the balance sheet date.
- b) All other assets and liabilities are translated at the rate prevailing at the dates the assets were acquired or the liabilities incurred.
- c) Revenue and expenses are translated at the rate of exchange prevailing when the revenue is earned and the expenses are incurred.

The resulting foreign currency translation gains and losses are included in the determination of net income.

Cash and cash equivalents

Cash and cash equivalents include balances with banks and cash floats. Restricted cash represents funds held by the Ontario Racing Commission primarily for the payment of purses.

Inventory

Inventory, consisting primarily of food and paper products are valued at the lower of cost and net realizable value. Cost is determined based on purchase price net of any refundable taxes.

Capital assets

Capital assets are recorded at acquisition cost and depreciated over their useful lives using the annual rates applied on a straight line basis. The Corporation calculates depreciation monthly and begins depreciation when the asset is put in use. Capital assets consist of buildings and machinery and equipment and are depreciated over a period of 3 to 5 years.

Pension agreements

The Corporation accrues its obligations under its defined benefit plan using the following policies:

- i) The cost of pensions earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, and retirement ages of employees.
 - ii) For the purposes of calculating the expected return on plan assets, those assets are valued at market-related value.
 - iii) All experience gains or losses are fully recognized at the actuarial valuation date.
-

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (CONTINUED)

Financial instruments

The Corporation classifies its cash and short-term investments as financial assets held for trading. Financial assets classified as held for trading are reported at fair value at each balance sheet date, and any change in fair value is recognized in net income in the period during which the change occurs. Accounts receivable are classified as loans and receivables. Accounts payable, accrued liabilities, and purses payable are classified as other liabilities. Financial instruments classified as loans and receivables, and other financial liabilities are carried at amortized cost using the effective interest method. Interest income or expense is included in net income over the expected life of the instrument.

The following policies and assumptions were used to determine the fair value of each class of financial assets and financial liabilities:

Short-term financial instruments (cash, accounts receivable, accounts payable and accrued liabilities and advance from related party) are measured at their carrying amount since it is comparable to their fair value due to the approaching maturity of these financial instruments

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used when accounting for items such as determination of useful life of capital assets, revenue recognition and allowances for accounts receivable. Actual results could differ from management's best estimates, as additional information becomes available in the future.

Administrative reserve

This internally restricted reserve represents an allocation of working capital intended to ensure that funds are available to meet the corporations obligations in the event it is ever unable to continue operations.

Future accounting standards

The CICA's Accounting Standards Board has released new accounting standards for not-for-profit organizations which are effective for years beginning on or after January 1, 2012. Alternatively, not-for-profit organizations may choose International Financial Reporting Standards. Management is currently evaluating the impact of the adoption of these new standards on its financial statements.

3. CAPITAL ASSETS

	<u>2011</u>			<u>2010</u>
	Assets at Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Buildings	\$ 72,117	\$ 10,605	\$ 61,512	\$ -
Machinery and equipment	185,353	54,912	130,441	116,430
	\$ 257,470	\$ 65,517	\$ 191,953	\$ 116,430

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2011</u>	<u>2010</u>
Trade accounts payable and accrued liabilities	\$ 1,444,542	\$ 1,890,266
Horsepeople's deposits	467,946	362,851
Purse account underpayments	2,144,290	3,481,255
	\$ 4,056,778	\$ 5,734,372

Horsepeople's deposits represent funds held on deposit for individual horsepeople and are payable upon demand.

Purse account underpayments will be paid out through future purse distributions. Included in restricted cash is \$2,099,288 (2010 - \$3,031,238) related to the purse account, while the balance received subsequent to the year end is included in accounts receivable.

5. ADVANCE FROM RELATED PARTY

The advance from related party represents a short term, interest free loan from the HBPA, an association of the owners and trainers of thoroughbred racehorses. This association provides representation and services for its members and their employees engaged in thoroughbred horseracing. This loan will repaid in the upcoming year.

6. LEASE COMMITMENT

The Corporation has a future minimum annual facility lease payment of \$450,000 for 2012. The lease agreement expires at the end of 2012.

7. NET ASSETS INVESTED IN CAPITAL ASSETS

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 116,430	\$ -
Additions during the year	124,291	133,179
Depreciation during the year	(48,768)	(16,749)
	\$ 191,953	\$ 116,430

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

8. ADMINISTRATIVE RESERVE

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ -	\$ -
Appropriation by Board of Directors	300,000	-
	\$ 300,000	\$ -
Balance, end of year	\$ 300,000	\$ -

This internally restricted reserve represents an allocation of working capital intended to ensure that funds are available to meet the corporation's obligations in the event it is ever unable to continue operations. Included in these obligations is an accrual for severance obligations, calculated in accordance with the Employment Standards Act, less the severance obligation guaranteed by Nordic Gaming.

9. NET PROCEEDS FROM PARI-MUTUEL WAGERING

Net proceeds from pari-mutuel wagering represents the total wagering less amounts returned as winning wagers, provincial and federal taxes, regulatory funding and host track share for simulcast races. Also included in this amount for the year were commissions from remote wagering of \$1,107,713 (2010 - \$1,349,831).

10. PENSION PLANS

The Corporation maintains a contributory defined benefit pension plan and a contributory defined contribution pension plan, both of which were transferred from Nordic effective June 30, 2010.

The Corporation's expense for the defined contribution pension plan was \$39,840 (2010 - \$40,575).

Prior to assuming the obligation for the defined benefit plan, the Transitional Management Service Agreement with Nordic Gaming required them to fully fund all benefit and other liabilities of the plan on both a solvency and going concern basis as at June 30, 2010. As a result, Nordic Gaming contributed \$185,800 to eliminate the accrued benefit obligation (under the solvency basis) as at June 30, 2010. It is the opinion of management that as a result of this contribution and the Corporation's expense for the defined benefit plan of \$31,721 (2010 - \$32,887) paid in the current year, the plan remains fully funded as at December 31, 2011. The plan assets, which are invested in cash and short term investments, had a market value of \$509,353 (2010 - \$481,696) as at December 31, 2011.

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation for the plan are as follows:

Expected long-term rate of return on plan assets	4.00%
Rate of compensation increase	Implicitly recognized in the interest rate

11. INCOME TAXES

The Corporation is a not-for-profit entity and not subject to income taxes.

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011

12. RISK MANAGEMENT

In the normal course of business, the Corporation is exposed to financial risks that may potentially impact its operating results. The Corporation employs risk management strategies with a view of mitigating these risks on a cost effective basis. The Corporation has exposure to the following risks associated with its financial instruments:

Credit risk

The Corporation is subject to credit risk with respect to its accounts receivable to the extent that debtors do not meet their obligations. At December 31, 2011 balances owing from the OLG represent 47% of accounts receivable however it is management's opinion that this debtor will meet its financial obligation.

Currency risk

The Corporation has purchases and sales which are transacted in US currency and therefore is exposed to currency risk. At December 31, 2011, trade accounts receivable held in US currency were \$289,771 (2010 - \$362,845), US trade accounts payable were \$235,536 (2010 - \$316,407) and cash balances in US were \$118,860 (2010 - \$61,538). The Corporation does not use any derivative instruments to reduce its exposure to interest rate risk.

It is management's opinion that the Corporation is not exposed to significant interest rate or liquidity risks arising from its financial instruments.

13. ECONOMIC DEPENDENCE

The Corporation receives a significant portion of its revenue from operations pursuant to an agreement with the OLG. Should these contributions cease, the Corporation would need to develop different revenue sources or consider radical changes in operations.

14. REMUNERATION OF DIRECTORS

Directors receive no remuneration for their services.

15. CAPITAL MANAGEMENT

The Corporation defines its capital as the amounts included in its net assets.

The Corporation's objective when managing its capital is to safeguard the Corporation's ability to continue as a going concern so that it can continue to provide the appropriate level of benefits and services to its beneficiaries and its stakeholders.

The organization sets the amount of net asset balances in proportion to risk, manages the net asset structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

16. SUBSEQUENT EVENTS

Subsequent to the year end, the OLG announced plans to end the "Slots-at-Racetracks" program as of March 31, 2013 and close or relocate under performing gaming facilities. The OLG closed the slot operations at the Fort Erie Racetrack effective April 30, 2012. The OLG has, however, agreed to continue to fund the Corporation at 2011 levels until March 31, 2013.

17. COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform to the current year's financial statement presentation.
