

**PRELIMINARY PROSPECTUS OF MI VENTURE (CANADA) INC. AND
AMENDED PRELIMINARY PROSPECTUS OF MI ENTERTAINMENT CORP.
DATED JANUARY 14, 2000**

This prospectus does not constitute a public offering of any securities. No securities commission or similar authority has in any way passed upon any information contained herein and any representation to the contrary is an offence.

Non-Offering Prospectus

MI ENTERTAINMENT CORP.

CLASS A SUBORDINATE VOTING STOCK

AND MI VENTURE (CANADA) INC. EXCHANGEABLE SHARES

No securities are being offered pursuant to this Prospectus. This Prospectus is being filed with certain provincial securities commissions in Canada to enable each of MI Entertainment Corp. (“MIEC”) and MI Venture (Canada) Inc. (“Exchangeco”) to become reporting issuers pursuant to applicable securities legislation in such provinces, notwithstanding that no sale of any securities is contemplated herein. Since no securities are being offered pursuant to this Prospectus, no proceeds will be raised and all expenses in connection with the preparation and filing of this Prospectus will be paid by our parent company, Magna International Inc. (“Magna”) from its general funds.

We are filing this Prospectus to become reporting issuers to prepare for the distribution of approximately 20% of the equity of MIEC held by Magna in the form of shares of MIEC Class A Subordinate Voting Stock and Exchangeable Shares of Exchangeco. On or about ●, Magna will distribute to holders of its Class A Subordinate Voting Shares and Class B Shares of record on ●, by way of special dividend, approximately 15.7 million shares comprised of our Class A Subordinate Voting Stock and Exchangeable Shares. Magna shareholders resident in Canada may elect to receive Exchangeable Shares of Exchangeco in satisfaction of their entitlement to receive shares of Class A Subordinate Voting Stock of MIEC. Each Exchangeable Share may be exchanged by the holder at any time for, and is intended to be economically equivalent to, a share of Class A Subordinate Voting Stock of MIEC. See “Description of the Exchangeable Shares”. It is expected that the Exchangeable Shares will be “qualified investments” under the *Income Tax Act* (Canada) for certain investors and will not be “foreign property” under the *Income Tax Act* (Canada). Registered holders of Magna shares resident in Canada will be deemed to have elected to receive Exchangeable Shares in satisfaction of their entitlement to receive shares of Class A Subordinate Voting Stock of MIEC unless they specifically advise Magna to the contrary prior to ●, 2000 by following the instructions for doing so enclosed with this prospectus. As a result of the special dividend, Magna shareholders will receive one-fifth of one share of MIEC Class A Subordinate Voting Stock or one-fifth of one Exchangeable Share for every one Class A Subordinate Voting Share or Class B Share of Magna that they hold on the record date, provided that no registered holder will be entitled to receive any fractional interests in Class A Subordinate Voting Stock of MIEC or in Exchangeable Shares. Magna will make a cash payment to such registered holders equal to the fair market value of such fractional interests. Magna will concurrently distribute to those holders its regular quarterly cash dividend of \$ ● per share. In this Prospectus, we refer to the special dividend and the concurrent regular quarterly cash dividend as the distribution. If you are a holder of record of Magna Class A Subordinate Voting Shares or Magna Class B Shares on the record date, you will receive shares of MIEC Class A Subordinate Voting Stock of MIEC or Exchangeable Shares held by Magna automatically on the distribution date. You do not need to take any further action. If you are the beneficial owner of Magna Class A Subordinate Voting Shares or Class B Shares, you will automatically become the beneficial owner of MIEC Class A Subordinate Voting Stock or Exchangeable Shares received by the record holder of your Magna Class A Subordinate Voting Shares or Class B Shares on the distribution date, unless you have specifically agreed otherwise with the record holder. If you are a beneficial holder of Magna shares and are resident in Canada, you should advise the record holder of your shares prior to ● if you do not wish to receive Exchangeable Shares in lieu of the shares of Class A Subordinate Voting Stock.

The capital stock of MIEC consists of two classes – Class A Subordinate Voting Stock and Class B Stock. Holders of the MIEC Class A Subordinate Voting Stock are entitled to one vote per share, holders of the MIEC Class B Stock are entitled to 20 votes per share and all holders vote together as a single class, except where separate class votes are required by law or by the Certificate of Incorporation of MIEC. Upon completion of the distribution, Magna will own certain Exchangeable Shares and all the MIEC Class B Stock, but none of the

Class A Subordinate Voting Stock of MIEC, which means that Magna will be entitled to exercise approximately 99% of the total votes attached to all outstanding MIEC stock. Magna will therefore continue to be able to elect all directors of MIEC and continue to control MIEC.

MIEC has applied to The Nasdaq Stock Market, Inc. to approve its Class A Subordinate Voting Stock for quotation and trading on the Nasdaq National Market under the symbol “ ● ” and has applied for approval to list its Class A Subordinate Voting Stock on The Toronto Stock Exchange (the “TSE”) under the symbol “ ● ”. Exchangeco intends to apply for approval to list its Exchangeable Shares on the TSE. Magna has advised us that it will not complete the distribution until we receive these approvals.

IN REVIEWING THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE MATTERS AFFECTING THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF MIEC AND THE VALUE OF MIEC CLASS A SUBORDINATE VOTING STOCK THAT THIS PROSPECTUS DESCRIBES IN DETAIL UNDER THE HEADING “RISK FACTORS” BEGINNING ON PAGE 17.

SHAREHOLDER APPROVAL IS NOT REQUIRED FOR THE DISTRIBUTION OR ANY OF THE OTHER TRANSACTIONS THAT THIS PROSPECTUS DESCRIBES. WE ARE NOT ASKING YOU FOR A PROXY AND WE REQUEST THAT YOU NOT SEND ONE TO US.

In this prospectus, the terms “we” and “our” are used to refer to MIEC as the disclosure contained in this prospectus principally relates to the business and affairs of MIEC.

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SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements included herein constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate in the circumstances. However, whether actual results and developments will conform with our expectations and predictions is subject to a number of risks and uncertainties, including but not limited to those described below under “Risk Factors”. Consequently, all the forward-looking statements made in this prospectus are fully qualified by this special note, and there can be no assurance that the actual results or developments anticipated by us will be realized, or even if realized, that they will have the expected consequences to, or effects on, us. See “Risk Factors” below.

QUESTIONS AND ANSWERS ABOUT THE DISTRIBUTION

Q: WHAT IS THE PURPOSE OF THE DISTRIBUTION?

A: Magna International Inc. is separating its non-automotive businesses from its automotive businesses in a series of transactions. Magna has completed a reorganization in which it transferred its North American and European non-automotive assets to us in exchange for our Class B Stock. Magna also holds Exchangeable Shares. On or about ● , Magna will distribute to holders of its Class A Subordinate Voting Shares and Class B Shares of record on ● , by way of special dividend, approximately 15.7 million shares comprised of our Class A Subordinate Voting Stock and Exchangeable Shares. Subject to certain withholding requirements in respect of shareholders not resident in Canada, Magna will concurrently distribute to its shareholders its regular quarterly cash dividend of \$ ● per share of Magna. Magna will not continue to hold any of our Class A Subordinate Voting Stock, but may continue to hold Exchangeable Shares.

Upon completion of these transactions, you will own stock in two separately traded public companies, Magna International Inc. (NYSE: MGA; TSE: MG.A, MG.B) and either MI Entertainment Corp. (NASDAQ: ● ; TSE: ●) or Exchangeco (TSE: ●).

Q: WHAT WILL I RECEIVE WHEN THE SPECIAL DIVIDEND IS DISTRIBUTED?

A: Subject to certain withholding requirements in respect of shareholders not resident in Canada, you will receive one-fifth of one share of our Class A Subordinate Voting Stock for every one of Magna's Class A Subordinate Voting Shares and Magna's Class B Shares that you own of record on ● , rounded down to the nearest whole share, plus an amount of cash equal to the value of any fractional interest. If you are a Magna shareholder resident in Canada, you will, unless you elect otherwise, receive one-fifth of one Exchangeable Share for every one of Magna's Class A Subordinate Voting Shares and Magna's Class B Shares that you own of record on ● , rounded down to the nearest whole share, plus an amount of cash equal to the value of any fractional interest. The distribution will not change the number of Class A Subordinate Voting Shares or Class B Shares of Magna that you own.

Q: WHAT WILL YOUR BUSINESS BE AFTER THE DISTRIBUTION?

A: We will continue to acquire, develop and operate horse racetracks and related pari-mutuel wagering operations. As a complement to our horse racing business, we will explore the development of media sports wagering operations, including telephone account, interactive television and Internet-based wagering, as well as certain leisure and retail-based real estate projects on the excess land around certain of our racetracks, possibly in conjunction with business partners and subject to regulatory requirements. In addition, we will continue to own a real estate portfolio which includes a "gated" residential community currently under development, one operational golf course and related recreational facilities, a golf course under development and other real estate. We are currently considering a variety of options with respect to such golf courses, including direct operation or leasing to third party operators, as well as sale and leaseback transactions or outright sale. We intend gradually to sell the balance of our real estate portfolio in order to provide capital to be used in our business; accordingly, we will take steps such as servicing such land and obtaining zoning approval to enhance the value of such properties and increase the revenues from resale.

Q: WHAT WILL MAGNA'S BUSINESS BE AFTER THE DISTRIBUTION?

A: Magna will continue to be the largest Canadian, and one of the largest global, independent suppliers of technologically advanced automotive components, systems and complete modules. Magna will continue to design, engineer and manufacture a complete range of these vehicle systems and engineer and assemble low volume niche vehicles primarily for North American and European original equipment manufacturers.

Q: WHY IS MAGNA DISTRIBUTING SHARES OF YOUR CLASS A SUBORDINATE VOTING STOCK?

A: Magna's board of directors and management has determined that, because our business is not one of Magna's core businesses, we and Magna will be better able to develop and grow our respective businesses after we become a separate public company.

Q: WHAT WILL BE THE IMPACT OF THE DISTRIBUTION ON MAGNA'S SHARE PRICE?

A: The prices of Magna Class A Subordinate Voting Shares and Magna Class B Shares may decline upon completion of the distribution to the extent that the value of shares of our Class A Subordinate Voting Stock and the Exchangeable Shares that Magna is distributing to its shareholders has not already been factored into the prices of Magna's shares. However, since the separation will permit Magna to focus on its core automotive business, Magna has advised us that its management expects prices of Magna's shares to improve gradually over a period of time.

Q: WHAT DO I HAVE TO DO TO PARTICIPATE IN THE DISTRIBUTION?

A: If you are a registered or beneficial shareholder of Magna resident in the United States, you do not need to do anything to participate in the distribution. No proxy or vote is required to participate in the distribution. You do not need to, and should not, mail in any certificates representing Magna Class A Subordinate Voting Shares or Magna Class B Shares in order to receive our Class A Subordinate Voting Stock in the distribution. If you are a registered or beneficial shareholder of Magna resident in Canada and you wish to receive Exchangeable Shares you do not need to do anything to participate in the distribution. If you are a registered shareholder of Magna resident in Canada and you do not wish to receive Exchangeable Shares instead of shares of our Class A Subordinate Voting Stock, please let Magna know by following the instructions for doing so enclosed with this prospectus no later than ● , 2000. If you are a beneficial shareholder of Magna resident in Canada and you do not wish to receive Exchangeable Shares instead of Class A Subordinate Voting Stock, you should advise the registered holder of your Magna shares no later than ● , 2000.

Q: HOW WILL MAGNA DISTRIBUTE YOUR CLASS A SUBORDINATE VOTING STOCK TO ME?

A: If you are a registered holder of Magna Class A Subordinate Voting Shares or Magna Class B Shares as of the close of business on the record date for the distribution, Magna's distribution agent will automatically credit the number of shares of our Class A Subordinate Voting Stock or Exchangeable Shares to a book-entry account established to hold such stock for you, subject to certain withholding requirements in respect of shareholders not resident in Canada. This credit will occur on the distribution date. After the distribution date, the distribution agent will mail you a statement of your ownership of our Class A Subordinate Voting Stock or the Exchangeable Shares. Following the distribution, you may retain your shares of our Class A Subordinate Voting Stock or the Exchangeable Shares in your book-entry account, sell them or transfer them to a brokerage or other account.

You will not receive any new stock certificates in the distribution. However, if you are a registered holder, you may request a physical stock certificate after you receive the statement of ownership of our Class A Subordinate Voting Stock or the Exchangeable Shares from the distribution agent. The statement of ownership will contain instructions on how to do this.

Q: WHAT IF I HOLD MY MAGNA SHARES THROUGH MY STOCKBROKER, A BANK OR OTHER NOMINEE?

A: If you hold your Magna Class A Subordinate Voting Shares or Magna Class B Shares through a stockbroker, bank or other nominee, you are probably not a registered shareholder of record and the

manner in which you receive our Class A Subordinate Voting Stock or the Exchangeable Shares depends on your arrangements with the stockbroker, bank or other nominee that holds your Magna Class A Subordinate Voting Shares or Magna Class B Shares for you. We expect that stockbrokers and banks generally will credit their customers' accounts with our stock on or after the distribution date, but you will have to confirm that with your stockbroker, bank or other nominee.

After the distribution, you may instruct your stockbroker, bank or other nominee, subject to any arrangement you may have with that person, to transfer your Class A Subordinate Voting Stock or Exchangeable Shares into your own name to be held in book-entry form.

Q: WHAT ABOUT FRACTIONAL SHARES?

A: If you are the registered holder of a number of Magna Class A Subordinate Voting Shares or Magna Class B Shares not evenly divisible by five, you will receive cash equal to the fair market value (as determined by Magna) of the fractional share of our Class A Subordinate Voting Stock or the Exchangeable Shares you would have otherwise been entitled to receive in addition to any whole shares of such Class A Subordinate Voting Stock or Exchangeable Shares you are entitled to receive. Magna will determine the fair market value of such fractional shares on the basis of the 10-day weighted average trading price of our Class A Subordinate Voting Stock in the "if, as and when issued" market prior to the distribution date.

Q: ON WHICH STOCK EXCHANGE WILL SHARES OF YOUR CLASS A SUBORDINATE VOTING STOCK AND THE EXCHANGEABLE SHARES TRADE?

A: We have applied to The Nasdaq Stock Market, Inc. to approve our Class A Subordinate Voting Stock for quotation and listing on the Nasdaq National Market ("NASDAQ") under the trading symbol "●". In addition, we have also applied for approval to list our Class A Subordinate Voting Stock on The Toronto Stock Exchange (the "TSE") under the trading symbol "●" and will apply for approval to list the Exchangeable Shares under the symbol "●". Magna has advised us that it will not complete the distribution until we receive these approvals.

Q: WHEN WILL I BE ABLE TO BUY AND SELL YOUR CLASS A SUBORDINATE VOTING STOCK AND THE EXCHANGEABLE SHARES?

A: Regular trading of our Class A Subordinate Voting Stock is expected to begin on NASDAQ and the TSE on the distribution date. Prior to that, our Class A Subordinate Voting Stock is expected to trade on NASDAQ on an if, as and when issued basis, beginning on the date that is two trading days before the record date. Regular trading of the Exchangeable Shares is expected to begin on the TSE on the distribution date. The Exchangeable Shares and our Class A Subordinate Voting Stock will not trade on an if, as and when issued basis on the TSE.

Q: HOW WILL I BE ABLE TO BUY AND SELL MAGNA CLASS A SUBORDINATE VOTING SHARES BEFORE THE DISTRIBUTION DATE?

A: Magna has advised us that its Class A Subordinate Voting Shares will continue to trade on The New York Stock Exchange (the "NYSE") on a regular basis through the distribution date and that its Class A Subordinate Voting Shares and Class B Shares will trade on the TSE on an "ex-dividend" basis beginning on the date that is two trading days before the record date. Any Magna Class A Subordinate Voting Share sold on a regular basis on the NYSE beginning on the date that is two trading days before the record date and ending on the distribution date (i.e., between ● and ●) will be accompanied by an attached "due bill" representing your shares of our Class A Subordinate Voting Stock to be distributed in the distribution.

Q: WILL MY DIVIDENDS CHANGE AS A RESULT OF THE DISTRIBUTION?

A: Before the distribution, Magna was paying a quarterly dividend of \$0.25 per Magna Class A Subordinate Voting Share and Magna Class B Share, which is equivalent to an annual rate of \$1.00 per Magna Class A Subordinate Voting Share and Magna Class B Share. The board of directors of Magna will be responsible for determining Magna's dividend rate and policy after the distribution, subject to the terms of Magna's Corporate Constitution.

We do not anticipate paying any dividends until our fiscal year commencing January 1, 2004. Our Corporate Constitution, which is set forth in our Certificate of Incorporation, provides that holders of our Class A Subordinate Voting Stock and Class B Stock will be entitled to receive dividends at least equal to 10% of our after-tax profits for our fiscal years commencing January 1, 2004 and 2005. In respect of each fiscal year thereafter, holders of our Class A Subordinate Voting Stock and Class B Stock will be entitled to receive dividends at least equal to the greater of (i) 10% of our after-tax profits, and (ii) 20% of the average of our after-tax profits for such fiscal year and the two immediately preceding fiscal years. Our board of directors will be responsible for determining our dividend rate and policy after the distribution, subject to the terms of our Corporate Constitution.

Q: WILL I BE TAXED AS A RESULT OF THE DISTRIBUTION?

A: Yes. The distribution of shares of our Class A Subordinate Voting Stock will be treated as a taxable dividend for purposes of Canadian and United States federal income taxation. Canadian resident shareholders will be subject to tax on the fair market value of the distribution (which will include the fair market value of the shares of our Class A Subordinate Voting Stock or Exchangeable Shares, as the case may be, the amount of cash in lieu of fractional shares and the amount of the regular quarterly cash dividend). Accordingly, Canadian resident shareholders may be liable for tax under the *Income Tax Act* (Canada) without having received a cash payment sufficient to satisfy that tax liability.

The distribution paid to non-residents of Canada will be subject to Canadian withholding tax on its fair market value, at the time the distribution is paid. If you are a United States resident shareholder of Magna, the rate of Canadian withholding tax should generally be 15%, which, subject to certain limitations, may be claimed as a credit or deduction on your United States income tax return. This withholding tax will be satisfied by Magna withholding the required amount from the regular quarterly cash dividend and, if necessary, withholding some portion of the shares of our Class A Subordinate Voting Stock otherwise distributable.

Q: WHAT WILL THE RELATIONSHIP BETWEEN YOU AND MAGNA BE AFTER THE DISTRIBUTION?

A: Upon completion of the distribution, Magna will own all our Class B Stock (and none of our Class A Subordinate Voting Stock), which means that Magna will be entitled to exercise approximately 99% of the total votes attached to all our outstanding stock. Magna will therefore continue to be able to elect all our directors and continue to control us. Magna has informed us that it intends to convert some shares of our Class B Stock to shares of our Class A Subordinate Voting Stock and dispose of such shares of our Class A Subordinate Voting Stock when market conditions for doing so are favorable, with the ultimate intention of retaining only a minority equity position. This may occur through a combination of: (i) secondary sales by Magna of such stock held by it; and/or (ii) the dilution of its interest through the issuance of Class A Subordinate Voting Stock by us in connection with capital market transactions, acquisitions and/or other investments by business partners in us.

Magna has made a commitment to its shareholders that for a period of seven years ending May 31, 2006, it will not without the prior consent of the holders of a majority of Magna's Class A Subordinate Voting

Shares: (i) make any further debt or equity investment in us or any of our subsidiaries; or (ii) invest in any non-automotive-related businesses or assets other than through its investment in us.

Magna is currently paying us an access fee to access our Fontana Sports golf course and related recreational facilities for Magna-sponsored corporate and charitable events and business development purposes. Upon completion of our Aurora Downs golf course, Magna will pay us an annual access fee for similar purposes. We have also granted Magna a right of first refusal to purchase these two golf courses if we decide to sell them.

Q: WHY ARE YOU OFFERING CANADIAN SHAREHOLDERS THE ALTERNATIVE OF RECEIVING EXCHANGEABLE SHARES OF YOUR CANADIAN SUBSIDIARY?

A: Certain Canadian resident shareholders of Magna are subject to restrictions on their ability to hold “foreign property” under the *Income Tax Act* (Canada), and may not wish to receive such shares in the distribution. By providing Canadian holders with the alternative of receiving Exchangeable Shares issued by one of our Canadian subsidiaries, they will have the opportunity of receiving shares of a Canadian issuer that are not “foreign property” under the *Income Tax Act* (Canada), provided the Exchangeable Shares are listed on a prescribed stock exchange in Canada, which includes the TSE. The Exchangeable Shares, together with ancillary rights, are intended to be economically equivalent to shares of our Class A Subordinate Voting Stock. If not previously converted by the holders, such Exchangeable Shares may be redeemed by Exchangeco for an equal number of shares of our Class A Subordinate Voting Stock on October 1, 2001 (or earlier in certain circumstances) unless extended by us.

Q: WHOM SHOULD I CONTACT FOR FURTHER INFORMATION ON THE DISTRIBUTION?

A: If you have questions about the distribution or if you would like additional copies of this prospectus or any other document to which this prospectus refers, you should contact the Secretary of Magna at 337 Magna Drive, Aurora, Ontario, Canada L4G 7K1, telephone: (905) 726-2462. This prospectus is also available through the Internet on the Electronic Data Gathering, Analysis and Retrieval (EDGAR) system, which can be accessed at www.sec.gov/edgarhp.htm for U.S. shareholders, and on the System for Electronic Document Analysis and Retrieval (SEDAR), which can be accessed at www.sedar.com for Canadian shareholders.

SUMMARY

The following information is a summary only and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information and financial statements appearing elsewhere in this prospectus. In this prospectus, all references to “dollars”, “\$” or “U.S.\$” are to United States dollars and references to “Cdn.\$” or “Canadian dollars” are to Canadian dollars.

The Company

We acquire, develop and operate horse racetracks and related pari-mutuel wagering operations. As a complement to our horse racing business, we are exploring the development of media sports wagering operations, including telephone account, interactive television and Internet-based wagering, as well as certain leisure and retail-based real estate projects on the excess land around certain of our racetracks, possibly in conjunction with business partners and subject to regulatory requirements. In addition, we own a real estate portfolio which includes a “gated” residential community currently under development, one operational golf course and related recreational facilities, a golf course under development and other real estate. We are currently considering a variety of options with respect to such golf courses, including direct operation or leasing to third party operators, as well as sale and leaseback transactions or outright sale. We intend gradually to sell the balance of our real estate portfolio in order to provide capital to be used in our business; accordingly, we will take steps such as servicing such land and obtaining zoning approval to enhance the value of such properties and increase the revenues from resale.

Pari-mutuel wagering on horse racing is pooled betting in which individuals bet against each other as to what the outcome of a horse race will be. The applicable racetrack operator has no interest in the order of finish in any given race and therefore has no risk in the outcome. A percentage of the pooled wagers is retained by the operator of the wagering facility, a portion is paid to the applicable regulatory or taxing authorities and a portion is paid to the racetrack’s horsemen in the form of “purses” which encourage owners and trainers to enter their horses in that track’s live races. The balance of the pooled wagers is paid to bettors as winnings. Pari-mutuel wagering on horse racing occurs at horse racetracks on the races being conducted at such tracks as well as at such racetracks on televised racing signals (“simulcasts”) received or “imported” by the simulcast wagering facilities located at such tracks (collectively, “on-track wagering”). Pari-mutuel wagering on horse racing also occurs at wagering establishments on horse races being conducted at tracks elsewhere (“off-track wagering”). Horse racetracks generally have simulcast wagering facilities to complement their live horse racing by enabling their patrons to wager on horse races being held at other racetracks when there is no live racing occurring at their tracks.

We operate five horse racetracks and have entered into a definitive agreement to acquire one further racetrack. Each of these racetracks includes a facility that accepts wagers on races conducted at other racetracks, the live television broadcasts (or “simulcasts”) of which are shown at our facilities. We also broadcast, or “export”, simulcasts of our races to a number of locations across the United States, Canada, Mexico, the Caribbean region and Australia. Our horse racing and related wagering operations include Santa Anita Park near Los Angeles, California, Gulfstream Park near Miami, Florida, Golden Gate Fields near San Francisco, California, Thistledown Racetrack near Cleveland, Ohio and Remington Park in Oklahoma City. We also own San Luis Rey Downs, a horse training track located outside of San Diego, California. We have acquired all these racetracks since December 1998. We have also entered into a definitive agreement to buy the assets of Great Lakes Downs racetrack in Muskegon, Michigan, subject to obtaining the necessary regulatory and other approvals. We expect to complete this acquisition in January 2000.

We own and operate some of the premier horse racing facilities in North America and one of the horse racing industry’s best simulcast products. For example, Santa Anita Park has hosted the Breeders’ Cup

Championship twice since the inception of the Breeders' Cup in 1984 and Gulfstream Park has hosted it three times, the most recent being on November 6, 1999. Furthermore, by many standard industry measures such as total "handle" (or total amount wagered), average daily attendance, average daily handle, average daily on-track handle and average daily off-track handle, we believe that Santa Anita Park and Gulfstream Park are two of the top ten racetracks in North America. With the recent acquisition of Golden Gate Fields, we believe that we own and operate three of the top ten racetracks in North America in terms of total handle. See "Our Business".

Our Strategy

There are four related components of our corporate strategy: (1) continuing our consolidation of racetracks and enhancing the facilities at some of these racetracks; (2) "bundling", or combining, our simulcast horse racing products and marketing the signal under our own brand name; (3) leveraging our competitive position in the horse racing industry and, ultimately, our brand name, in expanding our distribution channels and range of sports wagering products; and (4) developing total entertainment destinations centered on some of our racetracks.

- 1. Continuing our consolidation and enhancement of racetracks**—Through our acquisitions of Santa Anita Park, Gulfstream Park, Golden Gate Fields, Thistledown Racetrack and Remington Park, and the acquisition of Great Lakes Downs currently in progress, we have become one of the leading consolidators of premier horse racetracks in North America. Being an industry consolidator means that we have acquired multiple racetracks with the objective of maximizing administrative and cost efficiencies at those tracks. We expect to acquire other high-quality, geographically diverse racetracks which would increase the number of racing days we offer, distribute the races we offer over more days in each year, expand our simulcasting content and enhance the value of our simulcast product. In addition we have made certain enhancements to the facilities at some of our racetracks and are also examining further upgrades at some of our racetracks which are intended to increase live attendance, strengthen our ability to consistently attract some of the top horses, trainers and jockeys in North America, increase the market for our simulcast product, improve racing conditions and help to generate additional revenues.
- 2. Bundling our simulcast horse racing products and marketing the signal under our own brand name**—As a result of our racetrack consolidation strategy, we believe that we offer one of horse racing's leading simulcast products and we expect our position to strengthen further through future acquisitions. The 1999 racing schedule of our racetracks consisted of 293 race days and the 2000 racing schedule of our racetracks will consist of approximately 326 race days broadcast from six racetracks including three of the top ten U.S. racetracks, in terms of total "handle" or total amount wagered. Over the next few years, we intend to "bundle", or combine, the signals from our racetracks, and possibly also signals from racetracks not owned by us, and market this bundled simulcast product through a single signal marketed under our own brand name.
- 3. Using our competitive position in the horse racing industry and our brand name in expanding our distribution channels and range of sports wagering products**—We intend to use our competitive position in the horse racing industry and build on the brand name recognition we expect to develop, in order to expand the distribution channels for our simulcast product and, ultimately, expand the range of sports wagering products we offer, possibly in conjunction with business partners and subject to regulatory requirements. As part of our strategy, we intend to increase the market for our existing simulcast product by establishing telephone account, interactive television and Internet-based wagering operations as distribution channels for our simulcast product. We also intend to explore the expansion of our sports wagering products to sports other than horse racing, both in North America and in Europe, subject to regulatory requirements.

4. **Developing total entertainment destinations centered on some of our racetracks**—We are considering developing leisure and retail-based real estate development projects on the excess land around some of our racetracks, possibly in conjunction with business partners. Such developments could include multiplex theaters, retail shopping, restaurants, hotels and entertainment themed developments and may involve the integration of other gaming options.

See “Our Strategy” below for a more detailed discussion of our strategy. There are a number of risks inherent in our strategy, which will take at least several years to implement fully. See “Risk Factors” for a discussion of these and other risks.

The Distribution

The following is a brief description of the principal terms of the distribution.

Distributing Company Magna will make the distribution of shares of our Class A Subordinate Voting Stock and the Exchangeable Shares to holders of its Class A Subordinate Voting Shares and Class B Shares. The Class A Subordinate Voting Shares of Magna trade on the NYSE under the symbol “MGA” and on the TSE under the symbol “MG.A”. The Class B Shares of Magna trade on the TSE under the symbol “MG.B”.

Reasons for the Special Dividend The board of directors and management of our parent company, Magna, have determined that it is in the best interests of its shareholders to separate our non-automotive assets and operations from Magna’s automotive assets and operations by distributing our Class A Subordinate Voting Stock and Exchangeable Shares to Magna’s shareholders by way of a special dividend. Magna has advised us that, in reaching its decision, its board of directors and management considered a number of factors, including that:

- the separation will permit Magna to focus on its core automotive business;
- the separation will permit investors to choose whether to invest in the automotive industry by retaining or purchasing Magna shares, invest in the sports gaming industry by retaining or purchasing our stock, or both;
- establishing our business as a separately traded public company will enable us to respond better to the opportunities and challenges of the sports gaming industry;
- in light of Magna’s commitment to its shareholders not to make any further debt or equity investment in us or any of our subsidiaries for a period of seven years ending May 31, 2006, establishing our business as a separately traded public company will facilitate our future access to capital and will allow us to acquire further racetracks through the issuance of our publicly-traded stock; and
- as a public company, we will be better able to develop profit-based compensation programs for our management and employees.

Securities and Cash to be

Distributed On or about ● , Magna will distribute to holders of its Class A Subordinate Voting Shares and Class B Shares of record on ● , approximately 15.7 million shares comprised of our Class A Subordinate Voting Stock and Exchangeable Shares. Subject to certain withholding requirements in respect of shareholders not resident in Canada Magna will concurrently distribute to those holders its regular quarterly cash dividend of \$ ● per Magna share. Canadian shareholders will be entitled to receive Exchangeable Shares in satisfaction of their right to receive shares of our Class A Subordinate Voting Stock, and will be deemed to have elected this alternative unless they notify Magna (or the registered shareholder, in the case of shares held beneficially and not of record) of their desire to the contrary.

Distribution Ratio You will receive one-fifth of one share of our Class A Subordinate Voting Stock or Exchangeable Share for each Magna Class A Subordinate Voting Share or Magna Class B Share that you own of record as of the close of business on the record date, provided that no fractional interests are to be distributed to any shareholder of record. If you are the registered holder of a number of Magna Class A Subordinate Voting Shares or Magna Class B Shares not evenly divisible by five, you will receive cash equal to the fair market value (as determined by Magna) of the fractional share of our Class A Subordinate Voting Stock you would have otherwise been entitled to receive in addition to any whole shares of Class A Subordinate Voting Stock you are entitled to receive.

Record Date ● (5:00 p.m., New York time).

Distribution Date ● (4:59 p.m., New York time). On the distribution date, Magna’s distribution agent will credit the whole shares of our Class A Subordinate Voting Stock or Exchangeable Shares that you receive in the distribution to your new book-entry account or to your stockbroker, bank or other nominee if you are not a registered holder of record, but are a beneficial owner, of Magna Class A Subordinate Voting Shares or Magna Class B Shares on the record date.

Distribution Agent Before the distribution, Magna will appoint Montreal Trust Company of Canada as its distribution agent for the distribution.

Trading Market and Symbol . . . There has been no market for our Class A Subordinate Voting Stock or the Exchangeable Shares. We have applied to NASDAQ to approve our Class A Subordinate Voting Stock for quotation and trading under the symbol “ ● ”. We have also applied for approval to list our Class A Subordinate Voting Stock on the TSE under the symbol “ ● ” and will apply for approval to list the Exchangeable Shares under the symbol “ ● ”. Magna has advised us that it will not complete the distribution until we receive these approvals.

Certain Income Tax

Considerations You should carefully read the information under the heading “Certain Income Tax Considerations” which qualifies the information set out below.

Canadian residents: The distribution will be treated for Canadian tax purposes as a taxable dividend received from a taxable Canadian corporation. The amount of the dividend will be the fair market value of the Class A Subordinate Voting Stock or Exchangeable Shares, as the case may be, at the time the distribution is made, the amount of cash in lieu of fractional shares and the amount of the regular quarterly cash dividend. Magna will make a determination of such fair market value as of the distribution date.

Accordingly, Canadian resident shareholders may be liable for tax under the *Income Tax Act* (Canada) without having received a cash payment sufficient to satisfy that tax liability. If a shareholder sells Class A Subordinate Voting Stock or Exchangeable Shares, as the case may be, in order to satisfy such liability, there is no assurance that the shareholder will realize the price per share at which the Class A Subordinate Voting Stock or Exchangeable Shares, as the case may be, are valued for the purposes of calculating the amount of the special dividend for tax purposes.

Non-residents of Canada: The distribution will be treated as a dividend for Canadian and United States federal income tax purposes. A non-resident of Canada who receives the distribution will be subject to Canadian withholding tax at a rate of 25% on the fair market value of the special distribution and 25% of the cash dividend at the time the distribution is paid, subject to reduction by an applicable tax treaty, which, in the case of the *Canada-United States Income Tax Convention*, generally results in a reduction to 15%, which amount, subject to certain limitations, may be claimed as a credit or deduction on your United States federal income tax return. Such withholding tax liability will be satisfied by Magna withholding the appropriate amount from the concurrent Magna quarterly cash dividend otherwise payable and, if necessary, withholding some portion of the shares of our Class A Subordinate Voting Stock otherwise distributable.

Physical Share Certificate If you are a registered holder of Magna Class A Subordinate Voting Shares or Magna Class B Shares, you may request a physical stock certificate for the shares of our Class A Subordinate Voting Stock or Exchangeable Shares that you receive in the distribution after you receive your statement of stock ownership from the distribution agent.

Risk Factors You should carefully consider the matters discussed under the heading “Risk Factors” beginning on page 17 of this prospectus.

Relationship with Magna After the Distribution Upon completion of the distribution, Magna will own all our Class B Stock and certain Exchangeable Shares, but none of our Class A Subordinate Voting Stock, which means that Magna will be entitled to exercise approximately 99% of the total votes attached to all our outstanding stock. Magna will therefore continue to be able to elect all our directors and continue to control us. Magna has informed us that it

intends to convert some shares of our Class B Stock to shares of our Class A Subordinate Voting Stock and dispose of such shares of our Class A Subordinate Voting Stock when market conditions for doing so are favorable, with the ultimate intention of retaining only a minority equity position. This may occur through a combination of: (i) secondary sales by Magna of such stock held by it; and/or (ii) the dilution of its interest through the issuance of Class A Subordinate Voting Stock by us in connection with capital market transactions, acquisitions and/or other investments by business partners in us.

Magna has made a commitment to its shareholders that for a period of seven years ending May 31, 2006, it will not without the prior consent of the holders of a majority of Magna's Class A Subordinate Voting Shares: (i) make any further debt or equity investment in us or any of our subsidiaries; or (ii) invest in any non-automotive-related businesses or assets other than through its investment in us.

Magna is currently paying us an access fee to access our Fontana Sports golf course and related recreational facilities for Magna-sponsored corporate and charitable events and business development purposes. Upon completion of our Aurora Downs golf course, Magna will pay us an annual access fee for similar purposes. We have also granted Magna a right of first refusal to purchase these two golf courses if we decide to sell them.

Selected Financial and Operating Information

The following table sets forth certain of our consolidated and pro forma consolidated financial data as at and for the periods indicated. The selected consolidated financial data as at and for the nine months ended September 30, 1999 have been derived from our Unaudited Consolidated Financial Statements as at and for the nine months ended September 30, 1999, which, in the opinion of management, include all adjustments (consisting of normal recurring accruals) necessary to present fairly the information set forth therein. Results for the nine months ended September 30, 1999 are not necessarily indicative of the results that may be expected for the full year. The selected consolidated financial data as at and for the three years ended July 31, 1998 and the five month period ended December 31, 1998 have been derived from and should be read in conjunction with our Audited Consolidated Financial Statements for the three-year period ended July 31, 1998 and the five-month period ended December 31, 1998. The pro forma selected consolidated financial data for the year ended December 31, 1998 and nine months ended September 30, 1999 have been derived from and should be read in conjunction with our Pro Forma Consolidated Financial Statements as at and for the nine months ended September 30, 1999 and the year ended December 31, 1998. The selected financial and operating information should also be read in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Operating Results" included in this prospectus.

Income Statement Data(1)

	Pro Forma Nine Months Ended September 30, 1999	Pro Forma Year Ended December 31, 1998	Nine Months Ended September 30, 1999	Five Months Ended December 31, 1998	Years Ended July 31,				
					1998	1997	1996	1995	1994
(in thousands of U.S. dollars, except per share amounts)									
Revenue									
Racetrack	\$127,584	\$149,585	\$58,954	\$ 3,952	\$ —	\$ —	\$ —	\$ —	\$ —
Real estate	12,167	21,239	12,167	6,597	20,486	15,276	2,460	1,166	121
Total revenue	139,751	170,824	71,121	10,549	20,486	15,276	2,460	1,166	121
Costs and Expenses									
Racetrack costs and expenses	98,451	126,278	46,292	3,625	—	—	—	—	—
Real estate costs and expenses	12,496	27,355	12,496	8,462	25,864	13,879	4,613	2,713	277
Depreciation and amortization	12,912	18,852	4,676	1,649	1,852	1,824	330	21	22
Interest expense (income), net	717	1,615	264	1,221	1,380	955	(59)	(26)	156
Income (loss) before income taxes	15,175	(3,276)	7,393	(4,408)	(8,610)	(1,382)	(2,424)	(1,542)	(334)
Net income (loss)	\$ 7,621	\$ (5,739)	\$ 3,000	\$(4,231)	\$(8,610)	\$(1,382)	\$(2,424)	\$(1,542)	(334)
Earnings (loss) per share of Class A Subordinate Voting, Class B and Exchangeable Stock									
Basic and diluted(2)	\$ 0.10	\$ (0.07)	\$ 0.04	\$ (0.05)	\$ (0.11)	\$ (0.02)	\$ (0.03)	\$ (0.02)	\$ (0.00)
Average number of shares Class A Subordinate Voting, Class B and Exchangeable Stock outstanding during the period (in thousands):									
Basic and diluted(2)	80,198	80,198	78,535	78,535	78,535	78,535	78,535	78,535	78,535

(1) We prepare our financial statements in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") which differ in certain respects from accounting principles generally accepted in Canada ("Canadian GAAP"). For a discussion of the principal

differences between U.S. GAAP and Canadian GAAP, see Note 15, "Canadian Generally Accepted Accounting Principles", to our Audited Consolidated Financial Statements.

- (2) On December 30, 1999, Magna completed the reorganization described in this prospectus. As part of the reorganization, our capital structure was established creating Class A Subordinate Voting Stock with one vote per share and Class B Stock with 20 votes per share. As of December 30, 1999, 63,712,141 shares of our Class B Stock, 1,662,890 shares of our Class A Subordinate Voting Stock and 14,823,187 Exchangeable Shares were issued and outstanding. Our historical basic and diluted earnings (loss) per share has been calculated assuming that 78,535,328 shares of our Class B Stock and Exchangeable Shares and none of our Class A Subordinate Voting Stock were issued and outstanding at the beginning of the periods presented. Our pro forma basic and diluted earnings (loss) per share has been calculated assuming that 63,712,141 shares of our Class B Stock, plus 14,823,187 Exchangeable Shares exchangeable into 14,823,187 shares of our Class A Stock and 1,662,890 shares of our Class A Subordinate Voting Stock (issued in connection with the acquisitions of the Thistledown and Golden Gate Fields racetracks) were issued and outstanding at the beginning of the periods presented.

Balance Sheet Data(1)

	Pro Forma	September 30, 1999	December 31, 1998	July 31,				
	September 30, 1999			1998	1997	1996	1995	1994
	(in thousands of U.S. dollars)							
Cash and cash equivalents	\$ 63,158	\$ 23,544	\$ 17,503	\$ 295	\$ 220	\$ 133	\$ 521	\$ 1,338
Note receivable from Magna	—	146,862	—	—	—	—	—	—
Total assets	736,716	693,455	364,142	184,802	113,175	76,219	51,636	28,770
Total debt(2)	47,423	65,333	32,335	19,495	18,938	22,614	12	—
Magna's net investment/shareholder's equity	553,570	545,888	302,502	158,275	87,917	49,985	48,166	27,226

- (1) We prepare our financial statements in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") which differ in certain respects from accounting principles generally accepted in Canada ("Canadian GAAP"). For a discussion of the principal differences between U.S. GAAP and Canadian GAAP, see Note 15, "Canadian Generally Accepted Accounting Principles", to our Audited Consolidated Financial Statements.
- (2) Total debt includes Bank indebtedness, Long-term debt (including Long-term debt due within one year) and Note payable to Magna.

The matters discussed under the heading "Reorganization" below may materially affect the comparability of some of the foregoing selected financial data. Accordingly, please refer to such section for details of the terms of the Reorganization.

RISK FACTORS

In reviewing this prospectus, you should carefully consider the following factors. The most significant risks and uncertainties we face are described below, but other risks and uncertainties that are not known to us or that we currently believe are not material or that are similar to those faced by other companies in our industry may also have a material adverse effect on our financial condition or results of operations. In addition, our actual results could differ materially from those anticipated in forward-looking statements contained in this prospectus as a result of various risks, including those discussed below and elsewhere in this prospectus. Please refer to “Special Note Regarding Forward-Looking Information” on page 2 of this prospectus.

If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected. In this case, the trading price of shares of our Class A Subordinate Voting Stock and the Exchangeable Shares could decline substantially, and you may lose all or part of the value of the shares of our Class A Subordinate Voting Stock or the Exchangeable Shares being distributed to you.

General risks regarding our business

We have a history of losses and we anticipate losses in the near future on certain of the racetracks we are in the process of acquiring

We have experienced cumulative consolidated net losses since inception totaling approximately \$14.8 million for periods up to September 30, 1999. Certain of the racetracks we have acquired or are in the process of acquiring have historically operated at a loss and may do so in the future.

We have not been in existence for long and do not plan to pay dividends until fiscal year 2004, if at all

We have only recently been incorporated and we have a very short history of operations and earnings. See “Selected Financial and Operating Information” and our Pro Forma Consolidated Financial Statements and Consolidated Financial Statements, together with the notes thereto, appearing elsewhere in this prospectus. We have not paid any dividends to date, we do not plan to pay any dividends until our fiscal year commencing January 1, 2004 and we cannot give any assurance that we will be in a position to pay dividends then, or thereafter. See “Description of Our Securities—Corporate Constitution”.

We depend on our new members of senior management and other key personnel

We will be highly dependent on the services of members of our senior management, most of whom have only recently been hired by us and therefore have not established a track record of working together successfully. We also depend on the local management of our racetracks and other operating units. The loss of the services of any of these individuals could have a material adverse effect on our business, financial condition and results of operations.

Our stock price may be volatile

Shares of our Class A Subordinate Voting Stock and the Exchangeable Shares have not previously traded. The price of shares of our Class A Subordinate Voting Stock and the Exchangeable Shares may be volatile in the future, particularly shortly after the distribution, when some of Magna’s institutional shareholders may sell their holdings of our stock because they:

- are prohibited from investing in a company with a significantly smaller market capitalization;
- cannot hold stock of a gaming company; or
- do not want to hold our stock for any other reason.

In addition, the following factors may have a significant effect on the market price of our Class A Subordinate Voting Stock and Exchangeable Shares: fluctuations in our operating profits; the announcement of new wagering and gaming opportunities by us or our competitors; the passage of legislation affecting horse racing or gaming; developments affecting the horse racing or gaming industries generally; sales of substantial amounts of our Class A Subordinate Voting Stock or Exchangeable Shares; and sales by Magna of our Class A Subordinate Voting Stock held by it, as a result of its stated intention to reduce its majority equity position in us. Moreover, publicly-held horse racing and gaming companies have experienced price and trading volume fluctuations that are often unrelated to such companies' financial condition and results of operations. A shift away from investor interest in gaming companies in general could have a material adverse effect on the market price of our Class A Subordinate Voting Stock and the Exchangeable Shares, regardless of our financial condition and results of operations.

We may not be able to obtain financing or may only be able to obtain it on unfavorable terms

We may require additional financing in order to expand our operations. It is possible that such financing will not be available or, if available, will not be available on terms which are favorable to us. In addition, Magna has made a commitment to its shareholders that it will not, for a period of seven years ending May 31, 2006, without the prior consent of the holders of a majority of Magna's Class A Subordinate Voting Shares, make any further debt or equity investment in us or any of our subsidiaries. See "Certain Relationships and Related Transactions—Relationship with Magna".

Our relationship with Magna is not at "arm's length"

Our relationship with Magna is not at arm's length. Upon completion of the distribution, Magna will own all our Class B Stock and certain Exchangeable Shares, but none of our Class A Subordinate Voting Stock which means that Magna will be entitled to exercise approximately 99% of the total votes attached to all our outstanding stock. Magna will therefore continue to be able to elect all our directors and will continue to control us. Therefore, Magna will continue to be able to cause us to effect certain corporate transactions without your consent, subject to applicable law. In addition, Magna will continue to be able to cause or prevent a change in our control. In some cases, the interests of Magna may not be the same as those of other stockholders, and conflicts of interest may arise after the completion of the distribution that may be resolved in a manner detrimental to us.

For example, Magna has entered into arrangements with us so as to ensure their access to the Fontana Sports and Aurora Downs golf courses and related recreational facilities in return for an agreed upon fee. These access arrangements are scheduled to expire five years after their effective dates. These arrangements may not be renewed by Magna after their expiration or could be amended or terminated prematurely by Magna. The early termination, amendment or non-renewal of these access arrangements could have a material adverse effect on our financial condition and results of operations. We have also granted Magna a right of first refusal to purchase these golf courses if we decide to sell them. We are currently considering a variety of options with respect to such golf courses, including direct operation or leasing to third party operators, as well as sale and leaseback transactions (which would require that Magna not exercise its right of first refusal) or outright sale.

Gaming Risks

Our gaming activities are extensively regulated and this could adversely affect our growth prospects

Our existing live racing, pari-mutuel wagering and other operations are contingent upon the continued governmental approval of such operations as forms of legalized gaming. All our current and proposed operations are subject to extensive regulations which are described in more detail under "Industry Overview—Key Characteristics of the Industry—Government Regulation", and could be subjected at any time to additional or more restrictive regulations, or banned entirely.

As of the date of this prospectus, we have obtained all governmental licenses, registrations, permits and approvals necessary for the operation of our gaming facilities. However, we may be unable to maintain our existing licenses. The loss of our licenses, registrations, permits or approvals may materially limit the number of races we conduct and could have a material adverse effect on our financial condition and results of operations. In addition, we currently devote significant financial and management resources to complying with the various governmental regulations to which our operations are subject. Any significant increase in governmental regulation could materially adversely affect our financial condition and results of operations.

Moreover, any future expansion of our gaming operations will likely require additional licenses, registrations, permits and approvals. The licensing process can be both lengthy and costly and there is no assurance of success. For example, we recently entered into an agreement to acquire the assets of Great Lakes Downs. This acquisition is subject to a number of regulatory proceedings, including licensing approvals from the Office of the Racing Commissioner of the Michigan Department of Agriculture. Although we anticipate obtaining all required regulatory approvals in late January 2000, we cannot assure you that all such regulatory approvals will be obtained and therefore that this acquisition will be successfully completed.

The high degree of regulation in the gaming industry is a significant obstacle to our growth strategy, especially with respect to telephone account, interactive television and Internet-based sports betting. Telephone account and interactive television-based betting from home may currently be conducted only through “hubs” located in eight states (although the Los Angeles County District Attorney has recently challenged the ability of California residents to conduct account wagering through such hubs). Our expansion opportunities in this area may be limited unless more states change their laws to permit telephone account and interactive television-based betting. Wagering over the Internet is also subject to extensive legal restriction. The United States Congress is currently considering enacting the Internet Gambling Prohibition Act, also known as the “Kyl Bill”, which would amend the Interstate Wire Act to make it clear that persons engaged in the United States in the business of betting or wagering through the Internet as well as casual bettors who knowingly use a communication facility for betting or gambling over the Internet can be fined or imprisoned. Internet service providers would be required to block-out gambling sites and would be subject to state and federal authority. The Kyl Bill would permit telephone account, interactive television and Internet-based account wagering on horse racing, but not other sports. A similar piece of legislation was recently introduced in the House of Representatives by Rep. Bob Goodlatte (R. Va.). We cannot predict the final disposition of either such piece of legislation.

Implementation of some of the recommendations of the National Gambling Impact Study Commission could adversely affect our growth prospects and the gambling industry in general

In August 1996, the United States Congress established the National Gambling Impact Study Commission (the “NGISC”) to conduct a comprehensive study of the social and economic effects of the gambling industry in the United States, to review existing federal, state and local policy and practices with respect to the legalization or prohibition of gambling activities, to formulate and propose changes in such policies and practices and to recommend legislation and administrative actions for such changes. The NGISC issued its report containing its findings and conclusions, together with recommendations for legislation and administrative actions, on June 18, 1999. Some of the recommendations issued by the NGISC include:

- prohibiting Internet gambling which is not already authorized within the United States or among parties in the United States and any foreign jurisdiction;
- limiting the expansion of gambling into homes through such mediums as account wagering;
- banning betting on collegiate and amateur athletic events where currently legal; and
- refusing the introduction of casino-style gambling into pari-mutuel facilities for the primary purpose of saving a pari-mutuel facility that the market has determined no longer serves the community or for the purpose of competing with other forms of gaming.

The recommendations made by the NGISC could result in the enactment of new laws and/or the adoption of new regulations which would materially adversely impact the gambling industry in general and thus would materially adversely affect our growth prospects. We are unable at this time to determine the ultimate disposition of the NGISC's recommendations.

We face significant competition from operators of other racetracks and other forms of gaming

We face significant competition in each of the jurisdictions in which we have gaming operations and this competition is expected to intensify as new gaming operators enter our markets and existing competitors expand their operations and consolidate management of multiple racetracks. Several of our competitors, including Churchill Downs Inc., have substantially greater name recognition, management and financial resources. We also compete for customers with other sports, entertainment and gaming operators, including such competitors as Caesars World, Inc., which operates numerous casinos, as well as state governments and native American groups. Competition in the gaming industry is expected to increase due to limited opportunities for future growth in new markets. If we lose customers for any reason, including the factors discussed below, our financial condition or results of operations may be materially adversely affected.

In addition, Florida tax laws currently discourage the three Miami-area racetracks from scheduling concurrent races. We expect that a new tax structure will eliminate this deterrent in 2001. As a result, Gulfstream Park racetrack may face direct competition from other Miami-area racetracks in the future. Such competition could have a material adverse effect on our financial condition and results of operations.

State and provincial lotteries benefit from numerous distribution channels, including supermarkets and convenience stores, as well as from frequent and extensive advertising campaigns. We do not have the same access to the gaming public or the advertising resources available to state and provincial lotteries.

Declining on-track attendance and increasing competition in simulcasting may adversely affect our financial results

There has been a general decline in the number of people attending and wagering at live horse races at North American racetracks due to a number of factors, including increased competition from other forms of gaming, unwillingness of customers to travel a significant distance to racetracks, the increasing availability of off-track wagering and other factors. The declining attendance at live horse racing events has prompted racetracks to increasingly rely on revenues from simulcasting and off-track wagering. The industry-wide focus on simulcasting and off-track wagering has increased competition among racetracks for outlets to simulcast their live races. A decline in consumer interest in horse racing, a continued decrease in attendance and on-track wagering or increased competition in the simulcast wagering market could have a material adverse effect on our financial condition and results of operations.

We currently face significant competition from Internet and on-line wagering

Although we currently do not operate any Internet or online gaming services, we currently face significant competition from operators of those gaming services. Internet and online gaming services allow their customers to wager on a wide variety of sporting events from home. Unlike Internet and on-line gaming operators, our business requires significant and on-going capital expenditures in order to continue operations and in order to expand. We currently cannot offer the diverse gaming options offered by Internet and on-line gaming operators and face significantly greater costs in operating our business. Our inability to compete successfully with these operators could materially adversely affect our financial condition and results of operations.

Expansion of gaming conducted by California native American tribes may have a material adverse effect on us

In November 1998, California voters passed Proposition 5, a ballot initiative that would have allowed native American tribes to conduct various gaming activities including pari-mutuel wagering, gambling, banked card games, and lotteries. On August 23, 1999, the California Supreme Court overturned Proposition 5 on the basis that the initiative violated the state constitution. The California state government recently reached agreements with California native American tribes to permit a doubling of the number of gaming machines currently operated by such tribes, as well as the introduction of slot machines and poker and blackjack tables on California native reserves. The governor of California, the state legislature and these native American tribes will jointly sponsor a constitutional amendment which California voters will vote on in March 2000. The expansion of gaming conducted by California native American tribes may have a material adverse effect on our financial condition and results of operations.

If a U.S. federal gaming tax is introduced, our financial results may be adversely affected

From time to time, U.S. legislators have proposed the imposition of a U.S. federal tax on gross gambling revenues. The imposition of any such tax could have a material adverse effect on our financial condition and results of operations.

Our profitability may be adversely affected if we are unable to integrate recent racetrack acquisitions, which comprise all our horse racing operations, and to complete and integrate future acquisitions

Our racetrack operations have been acquired very recently. The acquisition of Santa Anita Park was completed in December 1998 and the acquisition of Gulfstream Park was completed in September 1999. The acquisition of Remington Park and Thistledown Racetrack was completed in November 1999 and the acquisition of Golden Gate Fields was completed in December 1999. In addition, we expect to complete the acquisition of Great Lakes Downs in late January 2000. These operations have been operating independently in the past under different management. Integrating these recently acquired businesses into our operations will require a significant dedication of management resources and an expansion of our information systems. This dedication may distract us from our day-to-day operations which could result in less efficient and more costly operations as well as a failure of our management to focus on other important issues.

We also plan to continue pursuing acquisition opportunities and we may issue our Class A Subordinate Voting Stock as full or partial consideration in connection with such acquisitions. Our future profitability will depend to some degree upon the ability of our management to identify, complete and integrate commercially viable acquisitions. We cannot give any assurance to you that we will successfully complete and integrate any such acquisitions. Furthermore, to the extent that we issue any shares of our Class A Subordinate Voting Stock in connection with any such acquisitions, the percentage of our voting stock that you own will decrease.

Some of our employees are unionized and one of the collective agreements governing some of our employees is subject to renewal in 2000

As of October 31, 1999, we employed approximately 839 employees, approximately 294 of whom are represented by a union. Our contract with the Service Employees International Union, Local 280, which represents approximately 400 pari-mutuel employees at Santa Anita Park during our racing season, will expire on July 24, 2000. Although we expect that we will be able to negotiate a new union contract with Local 280 through the collective bargaining process, we cannot guarantee that we will be able to negotiate a satisfactory contract. If we are unable to negotiate a satisfactory union contract, some of our employees may commence a strike and any such strike, if commenced, may have a material adverse effect on our financial condition and results of operations.

Our operating results may be impacted by inclement weather and may fluctuate seasonally

We experience significant fluctuations in quarterly and annual operating results due to seasonality and other factors. We have a limited number of live racing days at each of our racetracks and the number of live

racing days varies from year to year. The number of live racing days we have directly affects our operating results. A significant decrease in the number of live races could have a material adverse effect on our financial condition and results of operations. Our live racing schedule also dictates that we will earn a substantial portion of our net earnings in the first quarter of each year which is when The Santa Anita Meet and the annual meet at Gulfstream Park occur, as well as the fourth quarter of each year, which is when The Oak Tree Meet and one of the two annual meets at Golden Gate Fields occur.

Since horse racing is conducted outdoors, unfavorable weather conditions, including excessive heat, coolness or rain, may cause races to be canceled or may reduce attendance. Since a substantial portion of our gaming expenses are fixed, the loss of scheduled racing days could have a material adverse effect on our financial condition or results of operations.

Our primary horse racetrack assets are concentrated in California and are subject to earthquake risks

Two of our primary assets, Santa Anita Park and Golden Gate Fields, are located in California and are therefore subject to earthquake risks. Since the structures at our California racetracks are low-rise buildings, the risk of earthquake damage is not considered to be high and, as a result, we do not maintain earthquake insurance on such structures. We currently maintain fire insurance for fire risks, including those resulting from earthquakes, subject to certain policy limits and deductibles. There can be no assurance that earthquakes or the fires often caused by earthquakes will not seriously damage our California racetracks and related properties or that the recoverable amount of insurance proceeds will be sufficient to cover reconstruction costs and other losses suffered fully. If an uninsured or underinsured loss occurs, we could lose anticipated income and cash flows from our California racetracks.

Real Estate Ownership and Development Risks

Owning and developing real estate subjects us to a variety of risks inherent in the industry

All real estate investments are subject to risks such as general economic conditions (including the availability and cost of financing), local real estate conditions (such as an over-supply of residential, office, retail space or warehousing or a reduction in demand for real estate in the area), governmental regulation (such as taxation of property and environmental legislation) and the attractiveness of properties to potential purchasers or tenants. Each segment of the real estate industry is capital intensive and therefore sensitive to interest rates. Further significant expenditures, including property taxes, mortgage payments, maintenance costs, insurance costs and related charges, must be made throughout the period of ownership of real property and during the period of making improvements to the property. Further, governments can, under eminent domain laws, take real property. Such taking may be for less compensation than the owner of the property believes it is worth.

We may not be able to sell some of our real estate when we need to or at the price we want

At times, it may be difficult for us to dispose of certain types of real estate. The costs of holding real estate are high and, during a recession, we may be faced with ongoing expenditures with little prospect of earning revenue on our real estate properties. If we have inadequate cash reserves, we may have to dispose of properties at prices which are substantially below the price we desire, and in some cases, below the price we originally paid for the properties.

We require government approvals for some of our properties which may take a long time to obtain or which may not be granted

Some of our properties will require zoning and other approvals from local government agencies. For example, our applications for re-zoning land in Aurora, Canada and Ebreichsdorf, Austria are currently being considered. The process of obtaining such approvals may take many months and there can be no assurance that

we will obtain the necessary approvals for either of those lands or any other lands. Holding costs accrue while regulatory approvals are being sought and delays can render a project economically unfeasible. Furthermore, in the case of the land held by us in Aurora, Canada, the transfer of such land to us is conditional on obtaining certain severance and other approvals. We cannot give any assurance that we will obtain such approvals and thus we cannot give any assurance that we will ultimately acquire such land.

We may not be able to complete expansion projects successfully

We intend to develop our racetracks further and possibly expand our gaming activities. Numerous factors, including regulatory and financial constraints, could cause us to alter, delay or abandon our existing plans. If we proceed to develop new facilities or enhance our existing facilities, we face numerous risks that could require substantial changes to our plans, including time frames or projected budgets. These risks include the inability to secure all required permits and the failure to resolve potential land use issues, as well as risks typically associated with any construction project, including possible shortages of materials or skilled labor, unforeseen engineering or environmental problems, delays and work stoppages, weather interference and unanticipated cost overruns. For example, Santa Anita Park recently completed upgrades to its facilities and is considering more upgrades in the future. See “Our Business—Horse Racing and Pari-Mutuel Wagering—Santa Anita Park”. The disruption caused by these upgrades has reduced the amount of wagering at Santa Anita Park’s simulcast wagering facilities and attendance at the 1999 Oak Tree Meet. Even if completed, our expansion projects may not be successful, which could have a material adverse effect on our financial condition and results of operations.

We face strict environmental regulation and may be subject to liability for environmental damage that we did not cause

Various environmental laws and regulations in the United States, Canada and Europe impose liability on us as a current or previous owner and manager of real property, for the cost of maintenance, removal and remediation of certain hazardous materials released or deposited on or in properties now or previously owned or managed by us or disposed of in other locations. Our ability to sell properties with contamination or hazardous or toxic substances or borrow using such property as collateral may also be adversely affected. We cannot give you any assurance that all circumstances giving rise to exposure under environmental laws are currently known to us. Changes to environmental laws and regulations, resulting in more stringent terms of compliance, could have a material adverse impact on our results of operations and financial condition.

Year 2000 Readiness

The Year 2000 issue could affect our operations and financial results

Certain computer software and microprocessors use two digits rather than four digits to define the applicable year. Any computer programs that have date-sensitive software and microprocessors may recognize a date using “00” as a year other than the year 2000. This phenomenon (the “Year 2000 Issue”) could cause a disruption of our operations, including among other things, interruptions in pari-mutuel wagering.

We believe that every reasonable effort has been made to resolve the Year 2000 Issue and to mitigate its potential effects on our business. Based on our current assessment, we believe that the Year 2000 Issue has not, and will not have a material adverse impact on our results of operations and financial condition but, given the inherent complexities of the issue, there can be no assurance of this.

DISTRIBUTING COMPANY

Our parent company, Magna, is one of the most diversified automotive suppliers in the world and designs, develops and manufactures automotive systems, assemblies and components and engineers and assembles complete vehicles, primarily for sale to original equipment manufacturers of cars and light trucks in North America, Europe, Mexico, South America and Asia. Magna's products include:

- exterior decorative systems;
- interior products including complete seats, instrument and door panel systems and sound insulation;
- formed and welded metal parts and assemblies;
- sunroofs;
- mirrors;
- latching systems and window regulator systems;
- electro-mechanical devices and assemblies and navigation systems;
- a variety of plastic parts, including body panels and fascias through Decoma International Inc.;
- various engine, powertrain and fueling and cooling components through Tesma International Inc.; and
- a variety of drivetrain components and complete vehicle engineering and assembly.

Magna has over 54,000 employees in 164 manufacturing operations and 30 product development and engineering centres in 19 countries.

THE SPECIAL DIVIDEND

Background and Reasons for the Special Dividend

The board of directors and management of our parent company, Magna, have determined that it is in the best interests of its shareholders to separate our non-automotive assets and operations from Magna's automotive assets and operations by distributing our Class A Subordinate Voting Stock and Exchangeable Shares to Magna's shareholders by way of a special dividend. Magna has advised us that, in reaching its decision, its board of directors and management considered a number of factors, including that:

- the separation will permit Magna to focus on its core automotive business;
- the separation will permit investors to choose whether to invest in the automotive industry by retaining or purchasing Magna shares, invest in the sports gaming industry by retaining or purchasing our stock, or both;
- establishing our business as a separately traded public company will enable us to respond better to the opportunities and challenges of the sports gaming industry;
- in light of Magna's commitment to its shareholders not to make any further debt or equity investment in us or any of our subsidiaries for a period of seven years ending May 31, 2006, establishing our business as a separately traded public company will facilitate future access to capital and will allow us to acquire further racetracks through the issuance of our publicly-traded stock; and
- as a public company, we will be better able to develop profit-based compensation programs for our management and employees.

Description of the Special Dividend

Magna publicly indicated to its shareholders that it would distribute a portion of our stock to its shareholders. Magna intends to declare on or about ● to holders of Magna's Class A Subordinate Voting Shares and Class B Shares of record on ●, a special dividend payable in our Class A Subordinate Voting Stock or Exchangeable Share, on the basis of one-fifth of one share of our Class A Subordinate Voting Stock or Exchangeable Shares for each Magna Class A Subordinate Voting Share or Magna Class B Share held.

Magna expects to distribute approximately 15.7 million shares comprised of our Class A Subordinate Voting Stock and Exchangeable Shares. Subject to certain withholding requirements in respect of shareholders not resident in Canada, Magna will concurrently distribute to those holders its regular quarterly cash dividend of \$ ● per share of Magna.

As part of the distribution, we will be adopting a book-entry stock transfer and registration system for our Class A Subordinate Voting Stock and the Exchangeable Shares. Magna's distribution agent will credit the shares of our Class A Subordinate Voting Stock and Exchangeable Shares distributed on the distribution date to book-entry accounts established for all record holders of our Class A Subordinate Voting Stock and the Exchangeable Shares. Following the distribution, the distribution agent will mail an account statement to each such holder stating the number of shares of our Class A Subordinate Voting Stock or Exchangeable Shares distributed to that holder in the distribution. After the distribution, registered holders of our Class A Subordinate Voting Stock or Exchangeable Shares may request a transfer of their stock to a brokerage or other account or physical stock certificates for their stock, which will no longer be maintained in a book-entry account.

If you hold your Magna Class A Subordinate Voting Shares or Class B Shares through a stockbroker, bank or other nominee, the distribution agent will transfer our Class A Subordinate Voting Stock or Exchangeable Shares to the registered holders of record whom we expect will make arrangements to credit your account with shares of our Class A Subordinate Voting Stock or Exchangeable Shares. Magna anticipates that stockbrokers and banks generally will credit their customers' accounts with shares of our Class A Subordinate Voting Stock or Exchangeable Shares on the distribution date.

Subject to certain withholding requirements in respect of non-residents of Canada, you will receive one-fifth of one share of our Class A Subordinate Voting Stock or Exchangeable Share for each Magna Class A Subordinate Voting Share or Magna Class B Share that you own of record as of the close of business on the record date, provided that no fractional interests are to be distributed to any shareholder of record. If you are the registered holder of a number of Magna Class A Subordinate Voting Shares or Magna Class B Shares not evenly divisible by five, you will receive cash equal to the fair market value (as determined by Magna) of the fractional share of our Class A Subordinate Voting Stock you would have otherwise been entitled to receive in addition to any whole shares of Class A Subordinate Voting Stock you are entitled to receive. Magna will determine the fair market value of such fractional shares on the basis of the 10-day weighted average trading price of our Class A Subordinate Voting Stock in the "if, as and when issued" market prior to the distribution date.

Magna shareholders resident in Canada may elect to receive Exchangeable Shares of Exchangeco in satisfaction of their entitlement to receive shares of our Class A Subordinate Voting Stock. Each Exchangeable Share may be exchanged by the holder at any time for, and, together with certain ancillary rights, is intended to be the economic equivalent of, a share of our Class A Subordinate Voting Stock. See "Description of the Exchangeable Shares". Registered holders of Magna shares resident in Canada will be deemed to have elected to receive Exchangeable Shares in satisfaction of their entitlement to receive shares of our Class A Subordinate Voting Stock unless they specifically advise Magna to the contrary prior to ● , 2000 by following the instructions for doing so enclosed with this prospectus.

Withholding Tax Liability of Non-Residents of Canada

A non-resident of Canada, for purposes of the *Income Tax Act* (Canada), will be subject to Canadian withholding tax on the fair market value of the distribution. (See "Certain Income Tax Considerations— Certain Canadian Federal Income Tax Considerations"). The fair market value of the distribution will include the fair market value of the shares of our Class A Subordinate Voting Stock, the amount of cash in lieu of fractional shares and the amount of the regular quarterly cash dividend. Magna will determine the fair market value of our Class A Subordinate Voting Stock at the time of distribution on the basis of the 10-day weighted average trading price in the "if, as and when issued" market prior to the distribution date. In order to satisfy

this withholding tax liability, Magna will withhold from non-residents of Canada the appropriate amount of the regular quarterly cash dividend otherwise payable which it intends to pay concurrently with the special dividend and, if necessary, will also withhold some portion of the shares of our Class A Subordinate Voting Stock otherwise distributable. That portion of the shares of our Class A Subordinate Voting Stock that will be withheld (the “Withheld Shares”) will be that number of shares having a fair market value at the time the distribution is paid, as determined by Magna in the manner described above, equal to any shortfall in the amount that Magna is required to remit to Revenue Canada in respect of its withholding tax obligation relating to the distribution, after taking into account the amount of cash withheld from the regular quarterly cash dividend otherwise payable. In any event, the number of Withheld Shares will not exceed 25% of the shares of our Class A Subordinate Voting Stock that would otherwise be distributed to a non-resident holder. Magna will remit to Revenue Canada, on behalf of such non-resident holder, the appropriate amount of cash withheld from the regular quarterly cash dividend together with an amount of cash equal to the fair market value of any Withheld Shares.

OUR BUSINESS

We acquire, develop and operate horse racetracks and related pari-mutuel wagering operations. As a complement to our horse racing business, we are exploring the development of media sports wagering operations, including telephone account, interactive television and Internet-based wagering, as well as certain leisure and real estate projects on the excess land around certain of our racetracks, possibly in conjunction with business partners and subject to regulatory requirements. In addition, we own a real estate portfolio which includes a “gated” residential project under development, one operational golf course and related recreational facilities, one golf course under development and other real estate. We are currently considering a variety of options with respect to such golf courses, including direct operation or leasing to third party operators, as well as sale and leaseback transactions (which would require that Magna not exercise its right of first refusal) or outright sale. We intend gradually to sell the balance of our real estate portfolio in order to provide capital to be used in our business; accordingly, we will take steps such as servicing our land and obtaining zoning approval to enhance the value of such properties and increase the revenues from resale. A brief description of our horse racing business and real estate portfolio follows. In addition, please refer to the Pro Forma Consolidated Financial Statements and Consolidated Financial Statements, and the notes thereto, found below in this prospectus.

Pari-mutuel wagering on horse racing is pooled betting in which individuals bet against each other as to what the outcome of a horse race will be. The racetrack operator has no interest in the order of finish in any given race and therefore has no risk in the outcome. A percentage of the pooled wagers is retained by the operator of the wagering facility, a portion is paid to the regulatory or taxing authorities and a portion is paid to the racetrack’s horsemen in the form of “purses” which encourage owners and trainers to enter their horses in that track’s live races. The balance of the pooled wagers is paid to bettors as winnings. Pari-mutuel wagering on horse racing occurs at horse racetracks on the races being conducted there as well as at those racetracks on televised racing signals (“simulcasts”) received or “imported” by the simulcast wagering facilities located at the tracks (collectively, “on-track wagering”). Pari-mutuel wagering on horse racing also occurs at wagering establishments on horse races being conducted at tracks elsewhere (“off-track wagering”). Horse racetracks generally have simulcast wagering facilities to complement their live horse racing by enabling their patrons to wager on horse races being held at other racetracks.

Horse Racing and Pari-Mutuel Wagering

We operate five horse racetracks and have entered into a definitive agreement to acquire one further racetrack. Each of these racetracks includes a facility that accepts wagers on races conducted at other racetracks, the live television signals (or “simulcasts”) of which are shown at our facilities. We also broadcast, or “export”, simulcasts of our races to a number of locations across the United States, Canada, Mexico, the Caribbean region and Australia. Our horse racing and related wagering operations include Santa Anita Park near Los Angeles, California, Gulfstream Park near Miami, Florida, Golden Gate Fields, near San Francisco, California, Thistledown Racetrack near Cleveland, Ohio and Remington Park in Oklahoma City, Oklahoma. We also own San Luis Rey Downs, a horse training track located outside of San Diego, California. We have acquired all these racetracks since December 1998. We have also entered into a definitive agreement to buy the assets and assume certain liabilities of Great Lakes Downs, Inc. and Great Lakes Downs Café, Inc., which operate the Great Lakes Downs racetrack in Muskegon, Michigan, subject to obtaining the necessary regulatory and other approvals. We expect to complete this acquisition in late January 2000.

We own and operate some of the premier horse racing facilities in North America and one of the horse racing industry’s best simulcast products. For example, Santa Anita Park has hosted the Breeders’ Cup twice since the inception of the Breeders’ Cup in 1984 and Gulfstream Park has hosted it three times, the most recent being on November 6, 1999. Furthermore, by many standard industry measures such as total “handle” (or total amount wagered), average daily attendance, average daily handle, average daily on-track handle and average daily off-track handle, we believe that Santa Anita Park and Gulfstream Park are two of the top ten racetracks

in North America. With the recent acquisition of Golden Gate Fields, we believe that we own and operate three of the top ten racetracks in North America in terms of total handle.

Santa Anita Park

Santa Anita Park is one of the premier horse racetracks in North America. Santa Anita Park was the site of the Breeders' Cup in both 1986 and 1993. Santa Anita Park is situated on approximately 300 acres of land, located in the City of Arcadia, California, approximately 14 miles northeast of Los Angeles. Over 10 million people are located within a 30 mile radius of Santa Anita Park, providing us with one of North America's largest target populations for live and simulcast horse racing. Santa Anita Park was opened for thoroughbred horse racing in 1934 and The Santa Anita Meet has been held at Santa Anita Park each year since its founding, except for three years during World War II. The Santa Anita Meet runs through the prime winter racing season, commencing December 26 and running into late April each year. In addition, we lease Santa Anita Park to Oak Tree Racing Association which hosts The Oak Tree Meet from the end of September through early November of each year. As a result, Santa Anita Park has one of the longest racing schedules of the top North American tracks, totaling approximately 115 days each year. There are generally eight races scheduled per live racing day during the week and nine or ten races per live racing day on the weekends. Santa Anita Park's average daily attendance in 1998 was approximately 12,000 patrons per live racing day, representing one of the highest average daily attendance figures of all North American racetracks during that year.

Santa Anita Park had one of the highest total handles of all North American racetracks in 1998, generating approximately \$1.1 billion in wagers in such year. In addition, Santa Anita Park's simulcast program generates significant demand from other racetracks and off-track wagering establishments, generating an average of approximately \$7.0 million in off-track handle during each racing day in 1998. Santa Anita Park exports its simulcast signal to approximately 1,000 off-track wagering facilities in 23 countries, including the United States, Canada and Mexico. During periods in which there is no live racing, Santa Anita Park operates as an off-track wagering facility where customers can attend and wager on races via television from other California racetracks as well as two racing programs from either New York, Florida, Kentucky or New Orleans.

Santa Anita Park's facilities currently include a large art deco style grandstand structure with seating for approximately 19,000 patrons as well as standing room for additional patrons, a one-mile oval dirt track as well as a natural turf course, stalls for approximately 2,000 horses and parking facilities sufficient to accommodate approximately 20,000 cars. The grandstand facilities include a clubhouse, a general admission area, and food and beverage facilities, which range from fast food stands to restaurants, both at outdoor terrace tables and indoor dining areas. The grounds surrounding the grandstand are extensively landscaped and contain a European-style paddock and infield accommodations, including picnic facilities for special groups and the general public.

In December 1999, we completed an extensive capital renovation program at Santa Anita Park in order to enhance our patrons' entertainment experience. The improvements to Santa Anita Park include: the construction of a fully enclosed 750 seat restaurant and bar that will be used for racing and group functions throughout the year; the installation of a large format light emitting diode (LED) screen in the infield track area for racing patrons and for use by the restaurant and bar to promote non-racing events, such as the Super Bowl, the World Cup and other similar events; improvements to the Winners' Circle and trackside apron to provide patrons with better views of the track; upgrades to the grandstand to current seismic code requirements; completion of fire safety installations as required by the Fire Marshall; and the initiation of improvements to the entrance way and parking lot of the racetrack. These renovations cost approximately \$45.0 million. We are also considering a number of other upgrades to further strengthen Santa Anita Park's ability to attract top horses, trainers and jockeys, and to enable us to expand the market for Santa Anita Park's simulcast signal.

We are also currently considering a variety of themed entertainment and retail-based development proposals for approximately 85 acres of available land at Santa Anita Park, some of which could be developed in conjunction with business partners. Such development would be intended to further enhance the total

entertainment experience at Santa Anita Park, attract new patrons from diverse demographic backgrounds and strengthen the loyalty of existing patrons. These proposals are only in their preliminary stages, as any development of this nature would require the preparation of detailed feasibility studies and business plans and extensive consideration by our management of all relevant issues. If any proposal turns out to be commercially viable after such a detailed review, additional time would be required to obtain the necessary regulatory approvals, negotiate with potential business partners and obtain the necessary project financing.

Gulfstream Park

Gulfstream Park is also one of the premier horse racing and pari-mutuel wagering facilities in North America. Gulfstream Park is located on approximately 255 acres of land in the cities of Hallandale and Aventura, between Miami and Ft. Lauderdale in Florida. The Miami/Ft. Lauderdale area is home to approximately 3.3 million people, thus providing Gulfstream Park with a sizeable target market for live racing and off-track wagering. Gulfstream Park first opened in February 1939 and has operated each year since with the exception of the four years from 1940 to 1943. The annual meet at Gulfstream Park lasts for approximately 63 days each year and is held between early January and mid-March in each year. In addition, the Breeders' Cup has been held at Gulfstream Park three times—in 1989 and 1992, and most recently on November 6, 1999. There are generally eleven races scheduled on each racing day during the week and 11 or 12 races scheduled on each racing day during the weekend. In 1998, Gulfstream Park's average daily attendance was approximately 8,400 patrons per live racing day.

Gulfstream Park ranked as one of the five highest North American racetracks in average daily off-track handle in 1998, generating an average daily off-track handle of approximately \$8.4 million in off-track wagers during each live racing day in 1998. Gulfstream Park also had one of the highest total handles of all North American racetracks in 1998, generating approximately \$660 million in wagers in that year. Gulfstream Park exports its simulcast program to approximately 11 million people at approximately 800 off-track wagering facilities in the United States, Canada, the Caribbean region and Mexico. Total weekly viewership of Gulfstream Park's major racing events, including through cable shows and satellite feeds, is estimated by us to be approximately 55 million.

Gulfstream Park's facilities currently include a grandstand with seating for approximately 14,500 patrons, a clubhouse with seating for an additional 5,800 patrons, a one-mile main track, a seven-eighths mile turf track, stalls for approximately 1,450 horses and parking for approximately 14,000 cars. The grandstand consists of three levels of seating, a rooftop restaurant, casual restaurants, snack bars and liquor bars. There are also three gourmet dining rooms in the clubhouse. Gulfstream Park includes approximately 50 acres of land which we are considering developing.

Golden Gate Fields

Golden Gate Fields racetrack is one of the premier horse racing and pari-mutuel wagering facilities in North America in terms of total handle. During 1998, Golden Gate Fields generated revenues of \$25.7 million. Golden Gate Fields is located on approximately 181 acres of land in the Cities of Albany and Berkeley, California, approximately 8 miles from downtown Oakland and approximately 11 miles from San Francisco. Golden Gate Fields' racing season consists of two meets, one of which runs for 60 days from late March to mid-June each year and the other of which runs for approximately 45 days from mid-November of each year to mid-January of the following year. This racing schedule complements Santa Anita Park's racing schedule by adding racing days between the end of The Oak Tree Meet and the beginning of The Santa Anita Meet. Golden Gate Fields had one of the ten highest total handles of all North American racetracks in 1998, generating approximately \$610 million in wagers in 1998. Golden Gate Fields' simulcast program also generates strong demand from other racetracks and off-track wagering facilities, generating approximately \$360 million in off-track handle in 1998. Golden Gate Fields exports its simulcast program to approximately 559 sites in the United States, Canada, Mexico, Jamaica and Panama. In addition, we recently commenced exporting Golden Gate Fields' simulcast program to Australia and the Dominican Republic. Over 2.5 million people are located

within a 30 mile radius of Golden Gate Fields, thus providing a large target market for live and simulcast horse racing.

Golden Gate Fields' facilities currently consist of a one-mile main track and a nine-tenths mile turf course, stalls for over 1,400 horses, a main grandstand with seating for approximately 8,000 patrons, a clubhouse with seating for approximately 5,250 patrons and a turf club with seating for approximately 1,500 patrons and parking for over 8,500 cars. Golden Gate Fields also has over 700 closed-circuit television monitors to show races, odds, probable payoffs, results and the previous day's races.

Thistledown Racetrack

Thistledown Racetrack is located on approximately 125 acres in North Randall, Ohio, 10 miles southeast of downtown Cleveland. Thistledown has one of the longest racing seasons of all North American racetracks, consisting of 187 racing days each year between mid-March and early December, encompassing the Summit, Thistledown, Randall and Cranwood meets. In 1998, Thistledown generated a total handle of approximately \$230 million. Simulcasts from Thistledown are exported to approximately 45 other racetracks in the United States and one race each year is simulcast to Canada. Annually, Thistledown hosts the Ohio Derby, which is the premier graded stakes race in Ohio and is one of the top three-year old horse races in the United States. Prior to our acquisition of Thistledown Racetrack, the simulcast product from Thistledown had not been given the exposure necessary in order to generate growth in Thistledown's attendance and handle. We intend to package the signal from Thistledown with the signals from our other racetracks and market this "bundled" package under our own brand name. We expect that this will result in an increase in the number of off-track sites Thistledown's racing signal is exported to and growth in Thistledown's handle, especially as we expand our distribution channels, and that it will also enhance the quality of horse racing offered at Thistledown. Thistledown's facilities include a grandstand with seating for approximately 16,000 patrons, a luxury suite for corporate and group events, a one-mile oval track, stalls for approximately 1,500 horses and parking for approximately 2,000 cars. Thistledown also owns the rights to an additional 57 racing days plus a further 30 winter racing days which it uses entirely to host simulcasting at other Ohio racetracks in exchange for a percentage of the handle on such races.

Remington Park Racetrack

Remington Park racetrack is situated on approximately 370 acres in Oklahoma City, Oklahoma. Remington Park offers a total of 122 live racing days during each year. The racing schedule consists of two meets, including a 40-day Quarter Horse meet from April to mid-June and an 82-day thoroughbred meet running four or five days per week, from August to December. In 1998, Remington Park generated a total handle of approximately \$178 million. Simulcasts from Remington Park are exported to approximately 35 other racetracks in the United States. As with Thistledown Racetrack, the simulcast product from Remington Park has not been given the exposure necessary to generate growth in Remington Park's attendance and handle. We expect that through bundling of Remington Park's signal with the signals from our other racetracks, we will be able to increase the number of off-track sites Remington Park's racing signal is exported to and Remington Park's handle, especially as we expand our distribution channels, and enhance the quality of horse racing offered at Remington Park. Remington Park's facilities include a grandstand with seating for approximately 20,000 patrons, 21 luxury suites for corporate and group events, a one-mile dirt track, a seven-eighths mile turf course, stalls for approximately 1,300 horses and parking facilities sufficient to accommodate approximately 8,000 cars. The property on which Remington Park is located is leased from Oklahoma Zoological Trust under a lease which extends through 2013, with options to renew for five 10-year periods.

San Luis Rey Downs

We own San Luis Rey Downs, a horse boarding and training center located on approximately 200 acres of land outside of San Diego, California. Due to its proximity to Santa Anita Park, San Luis Rey Downs supplements Santa Anita Park's facilities by providing thoroughbred stabling and training facilities which we

believe will enable us to continue to attract some of the top horses in North America. San Luis Rey Downs can also provide overflow capacity for horses at Santa Anita Park in the event of any renovation of Santa Anita Park's barns, thereby ensuring minimal disruption to our live racing events at Santa Anita Park.

Great Lakes Downs Acquisition

We have entered into an Asset Purchase Agreement dated as of December 24, 1999 with Great Lakes Downs, Inc. and Great Lakes Downs Café, Inc. to acquire the assets and assume certain liabilities of Great Lakes Downs racetrack in Muskegon, Michigan for a purchase price of approximately \$1.7 million, payable by the issuance of 246,287 shares of our Class A Subordinate Voting Stock.

Great Lakes Downs is situated on approximately 85 acres in Muskegon, Michigan, approximately 35 miles from Grand Rapids. Great Lakes Downs, which commenced operations in January 1999, offers a total of 134 live racing days beginning in late April and ending in early November of each year. In 1999, Great Lakes Downs generated a total handle of approximately \$55 million. Simulcasts from Great Lakes Downs are exported to approximately 45 other racetracks in the United States. We anticipate that as the simulcast signal from Great Lakes Downs is bundled with the simulcast signals from our other racetracks, Great Lakes Downs will become a good regional track in terms of handle. Great Lakes Downs' facilities include a grandstand with capacity for approximately 7,500 patrons, a $\frac{5}{8}$ mile dirt track, stalls for approximately 920 horses and parking facilities sufficient to accommodate approximately 2,000 cars.

Media Sports Wagering

Media sports wagering is a term used to refer to sports wagering conducted through a variety of different media, including telephone account, interactive television and Internet-based wagering. We are currently exploring expansion into each of these areas, possibly in conjunction with business partners and subject to regulatory approvals (see "Risk Factors—Gaming Risks—*Our gaming activities are extensively regulated and this could adversely affect our growth prospects*"), in order to expand the market for our simulcast horse racing product. In the future, we may build on the experience we develop in horse racing by expanding our operations to include sports wagering on other sports as well.

Telephone Account Wagering

We are currently considering the establishment of a telephone account wagering operation, possibly in conjunction with business partners and subject to regulatory approval. Once established, such a system would involve patrons opening an account with our strategic partner and depositing funds into this account through the use of debit or credit cards. Patrons would then place wagers over the telephone on horse races offered at our racetracks and on horse races simulcast by other racetracks to our simulcast wagering facilities. Wagers placed by patrons could not exceed the amounts on deposit in their accounts and winnings would be credited to patrons' accounts and would be available for future wagers. We would derive revenues from our share of the wagers placed as well as fees charged to patrons for the service.

We expect that telephone account wagering will make wagering on horse racing more convenient for our patrons and expand the market for our simulcast product by enabling us to fully utilize an important distribution channel for our horse racing product. A telephone account operator must be licensed and a telephone account wagering "hub" or base must be established in any one of eight states in which telephone account wagering is permitted (Connecticut, Kentucky, Maryland, Nevada, New York, Ohio, Oregon and Pennsylvania). Once an operator has obtained the required licenses and established a hub, the operator may accept wagers from patrons living in such eight states and in other states.

Internet and Interactive Television-Based Wagering

We are exploring the potential of Internet and interactive television-based wagering on horse racing and possibly other sporting events, possibly in conjunction with business partners and subject to regulatory approval. Interactive television-based wagering involves the transmission of horse racing-related television programming through cable or satellite delivery into the homes of subscribers. These subscribers are able to use interactive “real-time” television-based technology, generally through a remote controlled set-top box, to wager on the live horse races being shown in the program. In order to place wagers, patrons must deposit money with the sponsoring racetrack through the use of debit or credit cards. We would derive revenue from our patrons’ subscriptions and our share of the wagers placed on the races broadcast.

Interactive television-based wagering would allow us to increase the market for our simulcast product by utilizing an important distribution channel for this product. We currently have the non-exclusive right to broadcast races from Santa Anita Park and Golden Gate Fields, although races from Gulfstream Park are subject to an exclusive contract with TVG until 2003. Commencing in 2003, we will have the exclusive right to broadcast races from both Santa Anita Park, Gulfstream Park and Golden Gate Fields, three of the most sought-after racing signals in North America. Interactive television-based wagering would significantly enhance our ability to cross promote our live horse racing and we expect it would enable us to attract new patrons to horse racing and cultivate their loyalty. We would aim to show full racing cards and to develop an appealing, convenient and easy-to-use format which would provide a fresh new look for horse racing. Furthermore, we would aim to broadcast the programming we develop for interactive television-based wagering through a variety of sources, including satellite television, cable television and the Internet. As our operations expand, we would apply the experience we gain in interactive television-based wagering on horse races in expanding to wagering in other sports.

Due to the growth of the Internet as a medium of both communication and commerce, we are exploring the possibility of establishing an Internet-based gaming service, possibly in conjunction with a strategic partner and subject to regulatory approval. Establishing such a service would enable us to increase the market for our simulcast product by maximizing the opportunities presented by the Internet as a distribution channel for our live horse racing product. It would also enable us to achieve economies of scale since the programming we would aim to broadcast on the Internet would be the same as that produced for our interactive television-based wagering. As with interactive television-based wagering, we would expect to develop a competitive position on the strength of our live horse racing product and we would expect this competitive position to strengthen by 2003 when we will have the exclusive right to broadcast races from Santa Anita Park, Gulfstream Park and Golden Gate Fields. As our operations expand, we would likely be able to apply the experience we gain in Internet-based wagering on horse races to other sports.

Real Estate Portfolio

We currently own a portfolio of real estate properties in North America and Europe, including a “gated” residential community currently under development, one operational golf course and related recreational facilities, a golf course under development and other real estate. We intend gradually to sell the balance of our real estate portfolio in order to provide capital to be used in our horse racing business; accordingly, we will take steps such as servicing such land and obtaining zoning approval to enhance the value of such properties and increase the revenues from resale.

Our real estate portfolio includes land currently being developed in Austria and undeveloped and partially developed land in both Austria and Canada. We are currently developing a gated residential community, known as Fontana, situated amidst the Fontana Sports golf course and related recreational facilities owned and operated by us. This residential development consists of approximately 50 acres and is located in Oberwaltersdorf, Austria, approximately 15 miles south of Vienna. The Fontana residential development is being developed in two phases into a luxury residential community consisting of 250 apartment units and 100 single family homes. We expect to complete the second phase of the Fontana residential project by 2006. We also own approximately 1,000 acres of undeveloped land in Ebreichsdorf, Austria located approximately 15 miles south of Vienna which includes a golf course leased to a third party. In addition, our real estate

portfolio includes approximately 270 acres of mixed-use land adjacent to the existing headquarters of Magna in Aurora, Canada, approximately 30 miles north of Toronto. Part of the Aurora property could be sold to a developer of a gated residential golf course community, while other parts could be sold to developers of retail, office, commercial, light industrial and other developments. We are currently servicing, improving and seeking zoning for some of these properties in order to enhance their value on resale.

Our real estate portfolio also includes two golf courses, Fontana Sports which is in operation and located in Oberwaltersdorf, Austria and Aurora Downs which is being completed in Aurora, Canada. Fontana Sports is a semi-private sports facility adjacent to the Fontana residential community. The Fontana Sports facility includes an 18-hole golf course, tennis club, fitness facility and a restaurant. Aurora Downs is a private 18-hole golf course under development and is adjacent to the lands we own in Aurora, Canada. Doug Carrick, one of Canada's leading golf course architects, designed both Fontana Sports and Aurora Downs. We expect that Aurora Downs will officially open in May 2001. We expect that amenities will include a clubhouse with a restaurant, a members' lounge, a spa and a pro shop. Our parent company, Magna, is currently paying us an annual access fee pursuant to an arrangement effective as of March 1, 1999 to access the Fontana Sports facility for Magna-sponsored corporate and charitable events as well as for business development purposes. Upon completion of Aurora Downs, Magna will pay us an annual access fee to use Aurora Downs for Magna-sponsored corporate and charitable events and business development purposes. These access arrangements are scheduled to expire five years after their effective dates. We have also granted Magna a right of first refusal to purchase these golf courses, if we decide to sell them. We are currently considering a variety of options with respect to our golf courses, including direct operation or leasing to third party operators, as well as sale and leaseback transactions (which would require that Magna not exercise its right of first refusal) or outright sales. See "Certain Relationships and Related Transactions".

We also hold some of the land adjacent and in close proximity to both of the above described golf courses and we expect that the ultimate resale value of such adjacent and proximate lands will be significantly enhanced through the presence of these golf courses.

Finally, we own a portfolio of other real estate in Austria, Canada and the United States. We are currently servicing, improving and seeking zoning for some of these properties in order to enhance their value on resale. We intend to dispose of these properties gradually as market conditions permit.

For financial information on our operating segments see Note 10 to the Consolidated Financial Statements.

OUR STRATEGY

There are four related components of our strategy: (1) continuing our consolidation of racetracks and enhancing the facilities at some of these racetracks; (2) “bundling”, or combining, our simulcast horse racing products and marketing the signal under our own brand name; (3) leveraging our competitive position in the horse racing industry and, ultimately, our brand name, in expanding our distribution channels and range of sports wagering products; and (4) developing total entertainment destinations centered on some of our racetracks.

1. Continuing our consolidation and enhancement of racetracks

Through our acquisitions of Santa Anita Park, Gulfstream Park, Golden Gate Fields, Thistledown Racetrack and Remington Park, and the acquisition of Great Lakes Downs currently in progress, we have become one of the leading consolidators of premier horse racetracks in North America. Being an industry consolidator means that we have acquired multiple racetracks with the objective of maximizing administrative and cost efficiencies at those tracks. We expect to acquire other high-quality, geographically diverse racetracks which would increase the number of racing days we offer, distribute the races we offer over more days in each year, expand our simulcasting content and enhance the value of our simulcast product. Through our ownership of multiple racetracks, we expect that we will be able to achieve cost efficiencies in administration, purchasing and other areas, which will have a positive impact on our financial condition and results of operations. In addition, we expect to be able to offer advertisers and sponsors higher value advertising and cross-promotional marketing opportunities, signage rights at our racetracks, and ultimately, “virtual signage”, or electronic advertising and marketing space on an Internet website, Internet distribution channel and interactive television channel.

In addition, we have made certain enhancements to the facilities at Santa Anita Park, including construction of a 750 seat restaurant and bar, installation of a large format LED screen in the infield track area, upgrades to the grandstand and trackside apron and improvements to the Winners’ Circle. We are also examining further upgrades at some of our other racetracks which are intended to increase live attendance, strengthen our ability to consistently attract some of the top horses, trainers and jockeys in North America, increase the market for our simulcast product, improve racing conditions and help to generate additional revenues per visitor.

2. Bundling our simulcast horse racing products and marketing the signal under our own brand name

As a result of our racetrack consolidation strategy, we believe that we offer one of horse racing’s leading simulcast products and we expect our position to strengthen further through future acquisitions. The 1999 racing schedule of our racetracks consisted of 293 race days and the 2000 racing schedule of our racetracks will consist of approximately 326 race days broadcast from six racetracks including three of the top ten U.S. racetracks, in terms of total handle. Over the next few years, we intend to “bundle”, or combine, the signals from our racetracks, and possibly also signals from racetracks not owned by us, and market this bundled simulcast product through a single signal marketed under our own brand name. This bundling would offer off-track wagering facilities importing our signal greater convenience and lower operating costs and would offer our wagering patrons more convenient access to our complete simulcast product. We expect that bundling would also increase the exposure of, and the handle at, our smaller racetracks, thereby increasing the revenues available to us to further enhance the quality of the horse racing we offer at such tracks through more attractive purses and enhanced facilities.

Bundling would also enhance our identity as an owner of some of the premier horse racetracks in North America and a provider of one of the industry’s leading simulcast products. This branding would also enable us to cultivate a loyal customer base for both our live racing and simulcast product.

3. Using our competitive position in the horse racing industry and our brand name in expanding our distribution channels and range of sports wagering products

We intend to use our competitive position in the horse racing industry and build on the brand name recognition we expect to develop, in order to expand the distribution channels for our simulcast product and, ultimately, diversify the sports wagering products we offer, possibly in conjunction with business partners and subject to regulatory requirements. As part of our strategy, we intend to increase the market for our existing simulcast product by establishing telephone account, interactive television and Internet-based wagering operations as distribution channels for our simulcast product. We also intend to explore the expansion of our sports wagering products to sports other than horse racing, both in North America and in Europe, through various distribution channels, including telephone account, interactive television and Internet-based wagering, subject to regulatory requirements. If we pursue such expansion, we expect that we would be able to cross-sell new sports wagering products to our existing patrons. We expect that our branding strategy would create merchandising, licensing and marketing opportunities that would contribute to our revenues. More importantly, we expect that our strategy would reinforce our ability to offer advertisers and sponsors higher value advertising, marketing and signage opportunities.

4. Developing total entertainment destinations centered on some of our horse racetracks

We are considering developing leisure and retail-based real estate development projects on the excess land around some of our racetracks, possibly in conjunction with business partners. Such developments could include multiplex theaters, retail shopping, restaurants, hotels and entertainment themed developments. Subject to regulatory approval, these developments may also involve the integration of other gaming options, including video lottery terminals or similar gaming devices, which we expect would increase customer attendance at our horse racetracks. These developments would be intended to create total entertainment destinations centered on our horse racetracks and could enhance the status of such racetracks, expand the demographic diversity of our patrons, attract new pari-mutuel wagering customers and provide additional revenue sources from our existing customer base.

There are a number of risks inherent in our strategy, which will take at least several years to implement fully. See ‘Risk Factors’ for a discussion of these and other risks.

INDUSTRY OVERVIEW

Horse Racing and Pari-Mutuel Wagering

Background

Pari-mutuel wagering on horse racing is the largest form of pari-mutuel wagering and a significant segment of the gaming industry generally. Pari-mutuel wagering is currently authorized in 43 states in the United States, all provinces of Canada and approximately 100 other countries in the world. According to the National Gambling Impact Study Commission's report issued on June 18, 1999, the total amount wagered on horse racing in the United States in 1997 was approximately \$15 billion, of which approximately \$11.8 billion, or approximately 79%, resulted from off-track wagering. We expect that off-track wagering will experience continued growth due to the increase of wagering opportunities offered by the establishment of additional simulcast facilities, as well as the anticipated growth of telephone account, interactive television and Internet-based wagering.

Over the past 20 years, live attendance at, and on-track wagering on, horse races at racetracks in the United States declined due to a number of factors, including increased competition from other forms of gaming, the desire by patrons to have more convenient access to horse racing and other factors. This decline in live attendance resulted in a declining 'handle', or amount wagered, and resulted in track owners offering smaller purses for horse races. As purses became smaller, the quality of horses being attracted to racetracks declined and live attendance decreased further. In the 1980s, technological advances and legislative changes facilitated the growth of simulcasting and off-track wagering. These changes significantly increased the market for horse racing products. The rise of off-track wagering has resulted in larger pools of wagers on horse races and has more than off-set the decline in on-track wagering due to declining live attendance. This in turn has resulted in larger purses being offered, better quality horses being attracted to races and increased interest in horse racing and pari-mutuel wagering.

Companies involved in pari-mutuel wagering on horse races derive pari-mutuel revenues from wagers placed on: (1) live races conducted on their own tracks; (2) simulcast races imported by the simulcast wagering facilities at the racetrack; and (3) simulcasts exported to other racetracks. Other related revenues are derived from fees charged to other racetracks in connection with the exporting of simulcasts to such racetracks, the sale of racing dates to other racetracks within the same state, fees charged for telephone account betting and interactive television-based wagering services. Non-gaming revenues are derived from admission and parking fees, concessions, sale of racing programs, merchandising, group sales and corporate events.

Key Characteristics of the Industry

The horse racing industry is currently characterized by four key aspects: (i) industry consolidation, (ii) expansion of simulcasting and off-track wagering, (iii) competition from other forms of gambling and entertainment and (iv) government regulation.

Industry Consolidation

The horse racing industry is a highly fragmented industry with relatively few high-quality racetracks and relatively few operators owning more than two facilities. The limited supply of high-quality horse racetracks in North America is due primarily to the high cost of constructing new racetracks and the difficulty in obtaining financing. As a result, relatively few racetracks have been built in the past 30 years. This trend is expected to continue as small and medium size racetrack operators will likely continue to have difficulty obtaining financing for such developments.

Since live attendance at horse racetracks has been declining in North America in recent years, racetrack operators have had to increase the efficiency of their track management and maximize revenues from simulcast operations and off-track wagering. These factors have contributed to consolidation in the ownership and

management of some of the premier racetracks in the United States. We own and operate Santa Anita Park, Gulfstream Park, Golden Gate Fields, Thistledown Racetrack and Remington Park, and we have entered into a definitive agreement to acquire the assets and assume certain liabilities of Great Lakes Downs. Similarly, our principal competitor, Churchill Downs Inc., operates a number of racetracks, including Churchill Downs Racetrack in Louisville, Kentucky, home of the Kentucky Derby, as well as Hollywood Park in Inglewood, California, Calder Race Course in Miami, Florida, Ellis Park in Henderson, Kentucky and Hoosier Park in Anderson, Indiana. Churchill Downs has publicly stated its intention to continue to acquire more tracks and seek to acquire the rights to simulcast races conducted at other tracks.

Expansion of Simulcasting and Off-Track Wagering

Simulcasting involves the import of a televised signal from a live horse racing event to an on-track simulcast wagering facility, as well as the export of a televised racing signal from a live horse racing event to an off-track wagering facility for a fee. Off-track facilities which import simulcasts select simulcast products from various racetracks in order to create a program of horse races for its patrons. Such off-track wagering facilities receive a percentage of each wager placed and must pay a simulcasting fee consisting of a percentage of each wager placed as compensation to the racetrack from which the simulcast signal is imported. Off-track wagering facilities must import high-quality racing simulcasts in order to maximize their revenues and, as a result, operators of the premier racetracks exporting their racing signals experience strong demand for simulcasts of their races. Racetracks exporting their signals negotiate their simulcasting fee on the basis of the strength of the demand for their simulcast races.

The growth in simulcasting and off-track wagering has been particularly beneficial to operators of the premier racetracks which have multiple races and large purses, but has not been of benefit to small and medium sized racetracks. Operators of multiple racetracks are able to “bundle” the signals from races at their various racetracks and sell such bundled signals as a package to off-track wagering facilities. This has the effect of generating greater revenues for such racetracks, thus enabling larger purses and higher quality racing to be offered, even at the smaller racetracks owned by such operators. It is expected that operators of the premier racetracks will continue to increase their revenues at the expense of small and medium size operators.

Competition from Other Forms of Gaming and Entertainment

Gambling in casinos, riverboats and bingo halls, as well as through state and provincial lotteries, has increased in recent years, thereby reducing some revenues which had previously been directed at horse racing. Similarly, alternative sources of entertainment, such as attendance at or wagering on professional sports events, also create competition by diverting gaming revenues to such other forms of activity.

Government Regulation

Horse racing is a highly regulated industry. Individual states control the operations of racetracks located within such states with the aim of protecting the public from unfair and illegal gambling practices, extracting taxes, licensing racetracks and operators and preventing organized crime from involvement in the industry. Although the specific form may vary, all states that regulate horse racing do so through a horse racing commission or other state gambling regulatory authority. Regulatory authorities perform background checks on all racetrack owners prior to granting the necessary operating licenses to such persons. Horse owners, trainers, jockeys, drivers, stewards, judges and backstretch personnel are also subject to licensing by state authorities. State regulation of horse races extends to virtually every aspect of racing and usually extends to such details as the presence and placement of specific race officials, such as timers, placing judges, starters and patrol judges.

In addition to state regulation of horse racing, the United States government regulates horse racing through the *Interstate Horse Wagering Act* of 1978 and the *Interstate Wire Act* of 1961. As a result of these two statutes, racetracks can commingle wagers from different racetracks and wagering facilities and broadcast horse racing events to other licensed establishments. Furthermore, under the authority provided by these statutes,

eight states (Connecticut, Kentucky, Maryland, Nevada, New York, Ohio, Oregon and Pennsylvania) have permitted the pari-mutuel industry to broadcast races into homes and have permitted account wagering.

We must satisfy the licensing requirements of various regulatory authorities in each state where we maintain racetracks and carry on business, including The California Horse Racing Board, the Nevada Gaming Commission, the Florida Department of Business and Professional Regulation Division of Pari-Mutuel Wagering, the Oklahoma Horse Racing Commission, the Ohio State Racing Commission and, upon completion of the acquisition of the assets of Great Lakes Downs, the Office of the Racing Commissioner of the Michigan Department of Agriculture. As part of this regulation, licenses to conduct live horse racing and to participate in simulcast wagering must be obtained annually and there is no assurance that such licenses will be granted.

In California, The California Horse Racing Board is responsible for regulating the form of wagering, the length and conduct of meets and the distribution of the pari-mutuel wagers within the limits set by the California legislature. The California Horse Racing Board has annually licensed one of our subsidiaries, Los Angeles Turf Club, Incorporated, and Oak Tree Racing Association (“Oak Tree”) to conduct racing meets at Santa Anita Racetrack. At present, the California Horse Racing Board has not licensed other thoroughbred racetracks in Southern California to conduct racing during these meets. However, night harness racing and night quarterhorse meets are conducted at other racetracks in Southern California during portions of these meets. The California Horse Racing Board also licenses the operations of Golden Gate Fields. Our financial condition and results of operations could be materially adversely affected by legislative changes or action by The California Horse Racing Board which would increase the number of competitive racing days, reduce the number of racing days available to us and Oak Tree, or authorize other forms of wagering.

In Florida, the Division of Pari-Mutuel Wagering considers applications for annual licenses for thoroughbred, standardbred and quarter horse races. Tax laws in Florida currently discourage the three Miami-area racetracks from applying for race dates outside of their traditional racing season. Currently, the race dates for the Miami-area racetracks do not overlap. As of July 1, 2001, we expect that a new tax structure will eliminate this deterrent. As a result, Gulfstream Park racetrack may face direct competition from other Miami-area racetracks in the future. Such competition could have a material adverse effect on our financial condition and results of operations.

In Ohio, the Ohio State Racing Commission approves annual licenses for thoroughbred, standardbred and quarter horse races. The Ohio State Racing Commission has not licensed any other operators of thoroughbred racetracks in the Cleveland area to conduct racing during Thistledown Racetrack’s meets. However, the Ohio State Racing Commission has licensed an operator of a night harness racing track in the Cleveland area to conduct night harness racing.

In Oklahoma, the Oklahoma Horse Racing Commission approves annual licenses for thoroughbred, standardbred and quarter horse races. There are currently no racetracks other than Remington Park in the state of Oklahoma.

Media Sports Wagering

Telephone Account Wagering

Telephone account wagering involves the placing of wagers on live horse racing events over the telephone. Currently, only eight states permit telephone account wagering: Connecticut, Kentucky, Maryland, Nevada, New York, Ohio, Oregon and Pennsylvania. According to the NGISC’s June 1999 report, the amount wagered through telephone account wagering systems in the United States in 1998 was approximately \$550 million.

Licensed operators of telephone account wagering must open a “hub” in one of the eight states in which such wagering is legal, establish accounts for patrons (who pay their wagers through debit or credit cards) and

receive wagers from such patrons. States permitting telephone account wagering allow telephone account wagering facilities to accept wagers placed by patrons residing in such states as well as in states where telephone account wagering is not permitted.

Interactive Television-Based Wagering

Interactive television-based wagering involves the transmission of horse racing-related television programming through cable or satellite delivery into the homes of subscribers. These subscribers are able to use interactive “real-time” television-based technology to wager on the live horse races being shown in the program. In order to place wagers, patrons must deposit money with the sponsoring racetrack through the use of debit or credit cards. Currently, the same eight states which permit telephone account wagering also permit interactive television-based wagering. The horse racetrack exporting its live racing signal is entitled to a simulcast fee based on in-home wagers placed on its races. There are risks associated with offering interactive television-based wagering, including those described above in “Risk Factors—Gaming Risks—*Our gaming activities are extensively regulated and this could adversely affect our growth prospects*”.

Internet Wagering

The proliferation of personal home computers and increased confidence in conducting on-line commercial transactions, together with the growth of Internet gambling opportunities, has resulted in an environment which we believe is conducive to rapid growth of Internet-based wagering. The NGISC’s June 1999 report estimates that there are over 250 on-line casinos, 64 lotteries, 20 bingo games and 139 sports books offering gambling over the Internet. The Internet gaming market is estimated to have doubled from approximately \$445 million in 1997 to over \$900 million in 1998, according to *Interactive Gaming News*, an Internet gaming publication.

The Internet gaming opportunity is significant for several reasons. First, the Internet operates worldwide and is ideally suited for gaming, which is also recognized worldwide as a source of entertainment. Second, Internet gaming provides access to a younger, better-educated segment of the population. Third, Internet gaming offers a high level of convenience to patrons, in terms of the ease with which patrons can access races, the audio and visual presentation of the races and the ease and relative security of placing wagers over secure data lines. Finally, Internet gaming involves lower investments and operating expenses than traditional forms of gaming. However, there are risks associated with offering Internet wagering, including those described above in “Risk Factors—Gaming Risks—*Our gaming activities are extensively regulated and this could adversely affect our growth prospects*”.

SELECTED FINANCIAL AND OPERATING INFORMATION

The following table sets forth certain of our consolidated and pro forma consolidated financial data as at and for the periods indicated. The selected consolidated financial data as at and for the nine months ended September 30, 1999 have been derived from our Unaudited Consolidated Financial Statements as at and for the nine months ended September 30, 1999, which, in the opinion of management, include all adjustments (consisting of normal recurring accruals) necessary to present fairly the information set forth therein. Results for the nine months ended September 30, 1999 are not necessarily indicative of the results that may be expected for the full year. The selected consolidated financial data as at and for the three years ended July 31, 1998 and the five month period ended December 31, 1998 have been derived from and should be read in conjunction with our Audited Consolidated Financial Statements for the three-year period ended July 31, 1998 and the five-month period ended December 31, 1998. The pro forma selected consolidated financial data for the year ended December 31, 1998 and nine months ended September 30, 1999 have been derived from and should be read in conjunction with our Pro Forma Consolidated Financial Statements as at and for the nine months ended September 30, 1999 and the year ended December 31, 1998. The selected financial and operating information should also be read in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Operating Results" included in this prospectus.

Income Statement Data(1)

	Pro Forma Nine Months Ended September 30, 1999	Pro Forma Year Ended December 31, 1998	Nine Months Ended September 30, 1999	Five Months Ended December 31, 1998	Years Ended July 31,				
					1998	1997	1996	1995	1994
(in thousands of U.S. dollars, except per share amounts)									
Revenue									
Racetrack	\$127,584	\$149,585	\$58,954	\$ 3,952	\$ —	\$ —	\$ —	\$ —	\$ —
Real estate	12,167	21,239	12,167	6,597	20,486	15,276	2,460	1,166	121
Total revenue	139,751	170,824	71,121	10,549	20,486	15,276	2,460	1,166	121
Costs and Expenses									
Racetrack costs and expenses	98,451	126,278	46,292	3,625	—	—	—	—	—
Real estate costs and expenses	12,496	27,355	12,496	8,462	25,864	13,879	4,613	2,713	277
Depreciation and amortization	12,912	18,852	4,676	1,649	1,852	1,824	330	21	22
Interest expense (income), net	717	1,615	264	1,221	1,380	955	(59)	(26)	156
Income (loss) before income taxes	15,175	(3,276)	7,393	(4,408)	(8,610)	(1,382)	(2,424)	(1,542)	(334)
Net income (loss)	\$ 7,621	\$ (5,739)	\$ 3,000	\$(4,231)	\$(8,610)	\$(1,382)	\$(2,424)	\$(1,542)	(334)
Earnings (loss) per share of Class A Subordinate Voting, Class B and Exchangeable Stock									
Basic and diluted(2)	\$ 0.10	\$ (0.07)	\$ 0.04	\$ (0.05)	\$ (0.11)	\$ (0.02)	\$ (0.03)	\$ (0.02)	\$ (0.00)
Average number of shares of Class A Subordinate Voting, Class B and Exchangeable Stock outstanding during the period (in thousands):									
Basic and diluted(2)	80,198	80,198	78,535	78,535	78,535	78,535	78,535	78,535	78,535

(1) We prepare our financial statements in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") which differ in certain respects from accounting principles generally accepted in Canada

(“Canadian GAAP”). For a discussion of the principal differences between U.S. GAAP and Canadian GAAP, see Note 15, “Canadian Generally Accepted Accounting Principles”, to our Audited Consolidated Financial Statements.

- (2) On December 30, 1999, Magna completed the reorganization described in this prospectus. As part of the reorganization, our capital structure was established creating Class A Subordinate Voting Stock with one vote per share and Class B Stock with 20 votes per share. As of December 30, 1999, 63,712,141 shares of our Class B Stock, 1,662,890 shares of our Class A Subordinate Voting Stock and 14,823,187 Exchangeable Shares were issued and outstanding. Our historical basic and diluted earnings (loss) per share has been calculated assuming that 78,535,328 shares of our Class B Stock and Exchangeable Shares and none of our Class A Subordinate Voting Stock were issued and outstanding at the beginning of the periods presented. Our pro forma basic and diluted earnings (loss) per share has been calculated assuming that 63,712,141 shares of our Class B Stock, plus 14,823,187 Exchangeable Shares exchangeable into 14,823,187 shares of our Class A Stock and 1,662,890 shares of our Class A Subordinate Voting Stock (issued in connection with the acquisitions of the Thistledown and Golden Gate Fields racetracks) were issued and outstanding at the beginning of the periods presented.

Balance Sheet Data(1)

	Pro Forma September 30, 1999	September 30, 1999	December 31, 1998	July 31,				
				1998	1997	1996	1995	1994
				(in thousands of U.S. dollars)				
Cash and cash equivalents	\$ 63,158	\$ 23,544	\$ 17,503	\$ 295	\$ 220	\$ 133	\$ 521	\$ 1,338
Note receivable from Magna	—	146,862	—	—	—	—	—	—
Total assets	736,716	693,455	364,142	184,802	113,175	76,219	51,636	28,770
Total debt(2)	43,423	65,333	32,335	19,495	18,938	22,614	12	—
Magna’s net investment/shareholder’s equity	553,570	545,888	302,502	158,275	87,917	49,985	48,166	27,226

- (1) We prepare our financial statements in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) which differ in certain respects from accounting principles generally accepted in Canada (“Canadian GAAP”). For a discussion of the principal differences between U.S. GAAP and Canadian GAAP, see Note 15, “Canadian Generally Accepted Accounting Principles”, to our Audited Consolidated Financial Statements.
- (2) Total debt includes Bank indebtedness, Long-term debt (including Long-term debt due within one year) and Note payable to Magna.

The matters discussed under the heading “Reorganization” below may materially affect the comparability of some of the foregoing selected financial data. Accordingly, please refer to such section for details of the terms of the Reorganization.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATING RESULTS

The following discussion of our financial condition and operating results should be read in conjunction with the Pro Forma Consolidated Financial Statements, Unaudited Consolidated Financial Statements and Audited Consolidated Financial Statements included elsewhere in this prospectus. This discussion contains forward-looking statements that involve significant risks and uncertainties. Our actual results could differ materially from those projected in or contemplated by the forward-looking statements due to a number of factors, including, but not limited to those described under "Risk Factors" elsewhere in this prospectus. See "Special Note Regarding Forward-Looking Information" in this prospectus.

Overview

We acquire, develop and operate horse racetracks and related pari-mutuel wagering operations. As a complement to our horse racing business, we are exploring the development of media sports wagering operations, including telephone account, interactive television and Internet-based wagering, as well as certain leisure and retail-based real estate projects on the excess land around certain of our racetracks, possibly in conjunction with business partners and subject to regulatory requirements. In addition, we own a real estate portfolio which includes a "gated" residential community currently under development, one operational golf course and related recreational facilities, a golf course under development and other real estate. We are currently considering a variety of options with respect to such golf courses, including direct operation or leasing to third party operators, as well as sale and leaseback transactions or outright sale. We intend gradually to sell the balance of our real estate portfolio in order to provide capital to be used in our business; accordingly, we will take steps such as servicing such land and obtaining zoning approval to enhance the value of such properties and increase the revenues from resale.

Racetrack operations

We acquired Santa Anita Park located in Arcadia, California, approximately 14 miles northeast of Los Angeles, one of the premier horse racetracks in North America, in December 1998. Santa Anita Park operates through the prime winter racing season, commencing December 26 and running into late April each year. In addition, we lease Santa Anita Park to Oak Tree Racing Association which hosts The Oak Tree Meet from the end of September through early November of each year.

On September 1, 1999, we acquired Gulfstream Park, also one of the premier horse racetracks and pari-mutuel wagering facilities in North America and the host site of the Breeders' Cup held November 6, 1999, located in the cities of Hallandale and Aventura, Florida, between Miami and Fort Lauderdale. Gulfstream Park operates through early January to mid-March of each year.

On November 12, 1999, we acquired the Thistledown and Remington Park racetracks in North Randall, Ohio and Oklahoma City, Oklahoma, respectively. Thistledown has one of the longest racing seasons of all North American racetracks, consisting of 187 racing days each year between mid-March and early December of each year. Remington Park offers both a 40-day Quarter Horse meet from mid-April to mid-June and an 82-day Thoroughbred Horse meet from mid-August to early December of each year. The aggregate purchase price was \$24.0 million, of which \$19.5 million was paid in cash and \$4.5 million was paid through the issuance of 650,695 shares of our Class A Subordinate Voting Stock.

On December 10, 1999, we acquired the Golden Gate Fields racetrack in Albany and Berkeley, California, approximately 8 miles from downtown Oakland and approximately 11 miles from San Francisco. The purchase price was \$87.0 million, of which \$60.0 million was paid in cash, \$7.0 million was paid through the issuance of 1,012,195 shares of our Class A Subordinate Voting Stock and \$20.0 million was paid by way of an interest-free promissory note, \$10.0 million of which matures on the first anniversary of the date of closing and \$5.0 million of which matures on the second and third anniversaries. Golden Gate Field's racing season

consists of two meets, one of which runs from late March to mid-June and the other of which runs from mid-November to mid-January of each year.

Finally, we have entered into an agreement with Great Lakes Downs, Inc. and Great Lakes Downs Café, Inc. to acquire the assets and assume certain liabilities of Great Lakes Downs racetrack in Muskegon, Michigan for a purchase price of \$1.7 million, payable by the issuance of 246,287 shares of our Class A Subordinate Voting Stock. Great Lakes Downs, which began operations in January 1999, offers a total of 134 live racing days beginning in April and ending in November of each year. We expect to complete this acquisition in late January 2000.

We refer you to our Pro Forma Consolidated Financial Statements which consolidate on a pro forma basis the acquisitions of Santa Anita Park, Gulfstream Park, Thistledown, Remington Park and Golden Gate Fields with our operations as at and for the nine months ended September 30, 1999 and the twelve months ended December 31, 1998. On a pro forma basis, our revenues increased by \$68.6 million and our net income increased by \$4.6 million for the nine months ended September 30, 1999 resulting in total pro forma consolidated revenues of \$139.8 million and net income of \$7.6 million. On a pro forma basis, our revenues increased by \$145.6 million and our net loss was reduced by \$4.7 million for the twelve months ended December 31, 1998, resulting in total pro forma consolidated revenues of \$170.8 million and a net loss of \$5.7 million.

Because of the seasonal nature of our racetrack business, revenues and operating results for any interim quarter are not indicative of the revenues and operating results for the year. Our live racing schedule also dictates that we earn a substantial portion of our net earnings in the first quarter of each year which is when The Santa Anita Park Meet and the annual meet at Gulfstream Park occur as well as the fourth quarter of each year, which is when The Oak Tree Meet and one of the two annual meets at Golden Gate Fields occurs.

Our primary sources of racetrack revenues are commissions earned from pari-mutuel wagering. Pari-mutuel wagering on horse racing is pooled betting in which individuals bet against each other as to what the outcome of a horse race will be. We have no interest in the order of finish in any given race and therefore have no risk in the outcome. A percentage of the pooled wagers is retained by us. Our share of pari-mutuel wagering revenues is based on pre-determined percentages of various categories of the pooled wagers at our racetracks. The pre-determined percentages are set by state regulators. Pari-mutuel wagering on horse racing occurs at horse racetracks on the races being conducted at such tracks as well as at such racetracks on televised racing signals (“simulcasts”) received or “imported” by the simulcast wagering facilities located at such tracks (collectively, “on-track wagering”). Pari-mutuel wagering on horse racing also occurs at wagering establishments on horse races being conducted at tracks elsewhere (“off-track wagering”). Our racetracks have simulcast wagering facilities to complement our live horse racing by enabling our patrons to wager on horse races being held at other racetracks when there is no live racing occurring at our racetracks. We also generate non-wagering revenues consisting primarily of food and beverages, programs, admissions, parking, and other amounts.

Real estate operations

We are currently developing a gated residential community, known as Fontana, situated amidst a golf course and related recreational facilities owned and operated by us. This residential development consists of approximately 50 acres and is located in Oberwaltersdorf, Austria, approximately 15 miles south of Vienna. The Fontana residential development is being developed in two phases into a luxury residential community consisting of 250 apartment units and 100 single-family homes. We expect to complete the second phase of the Fontana residential project by 2006. We hold two golf courses, Fontana Sports, which is part of the Fontana residential development property and is in operation, and Aurora Downs in Aurora, Canada which is currently under construction. We are currently considering a variety of options with respect to such golf courses, including direct operation or leasing to third party operators, as well as sale and leaseback transactions (which would require that Magna not exercise its right of first refusal) or outright sale. We intend gradually to sell the

balance of our real estate portfolio, excluding lands adjacent to our racetracks, in order to provide capital to be used in our business; accordingly we are currently servicing, improving and seeking zoning for some of these properties in order to enhance their value on resale.

Results of operations

Nine month periods ended September 30, 1999 and 1998

Racetrack operations

Revenues from our racetrack operations were \$59.0 million for the nine month period ended September 30, 1999. Santa Anita Park and San Luis Rey Downs contributed revenues of \$58.5 million and \$0.5 million, respectively. No revenues were earned at Gulfstream Park during the nine month period ended September 30, 1999, since the racetrack’s operations are only reflected in our consolidated results from the date of acquisition, September 1, 1999, and no racing occurred in the month of September 1999. We earned no revenues from our racetrack operations in the comparable 1998 period as Santa Anita Park, San Luis Rey Downs and Gulfstream Park were acquired in December 1998, May 1999 and September 1999, respectively.

In the current period, our share of total pari-mutuel wagering revenues for Santa Anita Park was \$40.2 million and non-wagering revenues at Santa Anita Park were \$18.3 million.

We derive our pari-mutuel wagering revenues at Santa Anita Park from the following primary sources:

- (a) Live race days
 - wagers made by patrons at Santa Anita Park on races held at Santa Anita Park;
 - wagers made by patrons at Santa Anita Park on imported simulcast signals for races held at other tracks in Southern California, Northern California and at tracks out-of-state;
 - wagers made by patrons at Southern California Off-track Wagering, Inc. (“SCOTWINC”) sites on exported simulcast signals for races held at Santa Anita Park and on races held at tracks in Northern California and on races held at tracks out-of-state in each case when the Santa Anita Park or Oak Tree meets are operating; and
 - wagers made by patrons at an out-of-state site on exported simulcast signals for races held at Santa Anita Park.
- (b) Non-live race days
 - we participate in the revenues of SCOTWINC sites – SCOTWINC is an organization formed by representatives of the racing associations, fairs and satellite wagering facilities of Southern California to promote off-track wagering and to equitably divide expenses associated with off-track betting. We also receive a percentage of the net profit of SCOTWINC – this helps defray the costs of off-track wagering, such as pari-mutuel departments, television and satellite costs, and supplies. The excess SCOTWINC funds that are not distributed are split equally between the track and the horsemen. Santa Anita owns 27% of the stock of SCOTWINC.

The distribution of pari-mutuel wagering for the nine months ended September 30, 1999 is summarized below (in millions except number of live race days):

	<u>Nine months ended September 30, 1999</u>
Total live race day handle	\$857.2
Number of live race days	<u>81</u>
Our share of live race day handle	\$ 35.9
Our share of non-live race day handle and other	<u>4.3</u>
Total pari-mutuel wagering revenue	<u>\$ 40.2</u>

Our total handle has been positively impacted by the development of SCOTWINC and betting at Santa Anita Park on out-of-state races. With the exception of 1997, total wagering has shown an increase since 1994.

Our share of pari-mutuel handle improved in 1999 primarily as a result of recent changes in the allocation of the handle. On August 11, 1998, the California Senate passed Bill Number SB27, which gave racetracks in California a reduction in the state license fees to be paid from the handle and permission to import up to 20 races per day from out-of-state. The reduction in the amount of handle allocated to the state resulted in an increase in allocation to us as well as to purses. The permission to import out-of-state races is significant, as previously, the only imported races which were wagered on in California were from outside the U.S., primarily Hong Kong and Australia.

Racetrack costs and expenses were \$46.3 million. Santa Anita Park, Gulfstream and San Luis Rey Downs incurred costs and expenses of \$45.3 million, \$0.5 million and \$0.5 million, respectively. The major components of Santa Anita Park costs and expenses were payroll costs (\$27.2 million) and marketing and advertising costs (\$5.0 million) representing approximately 70% of our total costs. Gulfstream Park costs and expenses were minimal during the nine month period ended September 30, 1999, since the racetrack's costs are only reflected in our consolidated results from the date of acquisition, September 1, 1999, and no racing occurred in the month of September 1999. With the acquisition of Gulfstream Park, Thistledown, Remington Park and Golden Gate Fields, we intend to continue to implement our strategy which includes the consolidation of our racetrack acquisitions with the objective of maximizing administrative and other cost efficiencies at our racetracks.

Real estate operations

Revenues from our real estate operations were \$12.2 million for the nine month period ended September 30, 1999 compared to \$17.2 million for the nine month period ended September 30, 1998. The decrease is primarily attributable to a reduction in housing activity at the Fontana residential development which is nearing completion of the first phase of a two phase development plan. Partially offsetting the decrease in revenues was increased membership and other usage revenue at Fontana Sports, including \$1.6 million related to Magna's access fee agreement with Fontana Sports which commenced March 1, 1999. We also generated increased rental revenues on certain properties acquired during the comparative period. Revenues from our remaining real estate operations were substantially unchanged.

Real estate costs and expenses were \$12.5 million for the nine month period ended September 30, 1999 compared to \$21.9 million for the nine month period ended September 30, 1998. The reduction is attributable to the decrease in housing activity at the Fontana residential development. In addition, we incurred costs in the nine month period ended September 30, 1998 related to the potential development of a theme park on approximately 670 acres of our land in Ebreichsdorf near Vienna, Austria which was acquired by us during the year ended July 31, 1997. Costs included consultants' fees associated with feasibility studies, alternative theme park designs, market analysis, presentation brochures, site models and alternative site investigations. In May 1999, we announced that we were unable to obtain the various permits and approvals that would have been required to potentially develop this property as a theme park. As a result, we are re-assessing the potential uses for the property. Costs incurred in the nine month period ended September 30, 1999 were substantially reduced.

Costs and expenses of our remaining real estate operations were substantially unchanged.

Depreciation and amortization

Depreciation and amortization increased by \$2.9 million to \$4.7 million for the nine month period ended September 30, 1999, primarily as a result of depreciation related to our acquisitions of Santa Anita Park on December 10, 1998, San Luis Rey Downs on May 1, 1999 and Gulfstream Park on September 1, 1999 and a full nine months of depreciation on properties acquired in calendar 1998. As of September 30, 1999, certain properties have been classified as available for sale and depreciation has ceased on such properties.

Interest expense, net

Our net interest expense decreased by \$0.9 million to \$0.3 million for the nine month period ended September 30, 1999 compared to the nine month period ended September 30, 1998, primarily as a result of higher interest income. The increase in interest income is attributable to intercompany interest earned on our note receivable from Magna.

Income tax provision

We recorded an income tax provision of \$4.4 million on pre-tax income of \$7.4 million for the nine month period ended September 30, 1999 compared to nil on a pre-tax loss of \$7.6 million for the nine month period ended September 30, 1998. Our income tax provision relates solely to the income of our racetrack operations. The losses of our other operations have not been tax benefited for accounting purposes.

Five month periods ended December 31, 1998 and 1997

Racetrack operations

Revenues from our racetrack operations were \$4.0 million for the five month period ended December 31, 1998, all of which related to the operations of Santa Anita Park. There were only five racing days during the five month period ended December 31, 1998 as the Santa Anita Park meet did not commence until December 26, 1998. We earned no revenues from our racetrack operations in the comparable 1997 period as Santa Anita Park was acquired in December 1998.

Our share of pari-mutuel wagering was \$2.5 million and non-wagering revenues were \$1.4 million. The distribution of pari-mutuel wagering for the last five racing days of 1998 is summarized below (in millions except number of live race days):

	<u>Five racing days ended December 31, 1998</u>
Total live race day handle	\$61.4
Number of live race days	<u>5</u>
Our share of live race day handle	\$ 2.2
Our share of non-live race day handle and other	<u>0.3</u>
Total pari-mutuel wagering revenue	<u>\$ 2.5</u>

Racetrack costs and expenses were \$3.6 million, all of which related to our operation of Santa Anita Park. The major components of the Santa Anita Park's costs and expenses were payroll costs (\$1.8 million) and marketing and advertising costs (\$0.3 million) representing approximately 58% of our total costs.

Real estate operations

Revenues from our real estate operations were \$6.6 million for the five month period ended December 31, 1998 compared to \$5.8 million for the five month period ended December 31, 1997. The increase in revenues is primarily attributable to rental revenues earned on recently acquired properties. Revenues from the Fontana residential development, Fontana Sports and other real estate operations were substantially unchanged between the periods.

Real estate costs and expenses were \$8.5 million for the five month period ended December 31, 1998 compared to \$7.0 million for the five-month period ended December 31, 1997. The increase in costs and expenses is attributable to a change in the mix between apartment and housing sales at the Fontana residential development. The costs and expenses of our remaining real estate operations were substantially unchanged between the periods.

Depreciation and amortization

Depreciation and amortization increased by \$0.9 million to \$1.6 million for the five month period ended December 31, 1998, primarily as a result of depreciation related to our acquisition of Santa Anita Park on December 10, 1998 and a full five months of depreciation on properties acquired in calendar 1998.

Interest expense, net

Our net interest expense increased by \$0.7 million to \$1.2 million for the five month period ended December 31, 1998 compared to the five month period ended December 31, 1997. The increase in interest expense is primarily attributable to an increase in interest bearing borrowings from Magna to finance the acquisition of Santa Anita Park. Such borrowings were converted to equity in 1999.

Income tax recovery

We recorded an income tax recovery of \$0.2 million on a pre-tax loss of \$4.4 million for the five month period ended December 31, 1998 compared to nil on a pre-tax loss of \$2.4 million for the five month period ended December 31, 1997. Our income tax recovery relates solely to the losses of Santa Anita Park from the date of acquisition to December 31, 1998. The losses of our other operations have not been tax benefited for accounting purposes. The tax benefits of certain of these losses have been utilized by Magna and are not available to us and valuation allowances have been recorded against the remaining tax loss carryforward benefits.

Years ended July 31, 1998 and 1997

Real estate operations

Revenues from our real estate operations were \$20.5 million for the year ended July 31, 1998 compared to \$15.3 million for the year ended July 31, 1997. Substantially all of the increase is attributable to an increase in housing activity at the Fontana residential development and increased membership and usage at Fontana Sports. Revenues from our remaining real estate operations were substantially unchanged.

Real estate costs and expenses were \$25.9 million for the year ended July 31, 1998 compared to \$13.9 million for the year ended July 31, 1997. The increase relates to costs and expenses at the Fontana residential development and Fontana Sports. In addition, we incurred costs in the year ended July 31, 1998 related to the potential development of a theme park on approximately 670 acres of our land in Ebreichsdorf near Vienna, Austria. We acquired this property during the year ended July 31, 1997. Costs in the acquisition year were insignificant.

Depreciation and amortization

Depreciation and amortization was substantially unchanged between the years ended July 31, 1998 and 1997.

Interest expense, net

Our net interest expense increased by \$0.4 million to \$1.4 million for the year ended July 31, 1998 compared to the year ended July 31, 1997. The increase is attributable to an increase in external debt and interest bearing debt due to Magna related to properties acquired in the years ended July 31, 1998 and 1997.

Income tax recovery

We did not record a tax benefit on pre-tax losses of \$8.6 million and \$1.4 million for the years ended July 31, 1998 and 1997, respectively. The tax benefits of certain of these losses have been utilized by Magna and are not available to us and valuation allowances have been recorded against the remaining tax loss carryforward benefits.

Years ended July 31, 1997 and 1996

Real estate operations

Revenues from our real estate operations were \$15.3 million for the year ended July 31, 1997 compared to \$2.5 million for the year ended July 31, 1996. The year ended July 31, 1997 was the first year of substantial sales activity at the Fontana residential development and at Fontana Sports.

Real estate costs and expenses were \$13.9 million for the year ended July 31, 1997 compared to \$4.6 million for the year ended July 31, 1996. The increase in costs and expenses is primarily attributable to building activity at the Fontana residential development and the opening of Fontana Sports.

Depreciation and amortization

Depreciation and amortization increased by \$1.5 million to \$1.8 million for the year ended July 31, 1997 compared to the year ended July 31, 1996, primarily as a result of the opening of Fontana Sports.

Interest expense, net

Our net interest expense was \$1.0 million for the year ended July 31, 1997 compared to net interest income of \$0.1 million for the year ended July 31, 1996. The \$1.1 million increase in interest expense is attributable to external debt associated with the Fontana residential development and Fontana Sports, which debt was drawn late in the year ended July 31, 1996, and an increase in interest bearing debt due to Magna.

Income tax recovery

We did not record any tax benefit on pre-tax losses of \$1.4 million and \$2.4 million for the years ended July 31, 1997 and 1996, respectively. The tax benefits of certain of these losses have been utilized by Magna and are not available to us and valuation allowances have been recorded against the remaining tax loss carryforward benefits.

Liquidity and Capital Resources

With the exception of the nine month period ended September 30, 1999, we have generated negative cash flow from operations since inception. We have financed our operations primarily through contributions by our sole shareholder, Magna. Magna has made a commitment to its shareholders that for a period of seven years ending May 31, 2006, it will not without the prior consent of the holders of a majority of Magna's Class A Subordinate Voting Shares:

- (i) make additional debt or equity investments in us or any of our subsidiaries; or
- (ii) invest in any non-automotive related businesses or assets other than through its investment in us.

Given the above-described commitment by Magna to its shareholders, we will be required to fund our own operations.

At September 30, 1999, we had cash and cash equivalents (including our note receivable from Magna less our note payable to Magna) net of debt, of \$105.1 million and total shareholder's equity of \$545.9 million.

On November 12, 1999, we acquired the Thistledown and Remington Park racetracks for a total purchase price of \$24.0 million. Of the total purchase price, \$19.5 million was paid in cash and \$4.5 million was paid through the issuance of 650,695 shares of our Class A Subordinate Voting Stock.

On December 10, 1999, we also acquired the Golden Gate Fields racetrack for a total purchase price of \$87 million. Of the total purchase price, \$60.0 million was paid in cash, \$7.0 million was paid through the issuance of 1,012,195 shares of our Class A Subordinate Voting Stock and \$20.0 million was paid by way of

an interest-free promissory note, \$10.0 million of which matures on the first anniversary of the date of closing and \$5.0 million of which matures on the second and third anniversaries.

After giving pro forma effect, as of September 30, 1999, to the various transactions described above and in the notes to the Pro Forma Consolidated Financial Statements, we had cash and cash equivalents, net of debt of \$15.7 million and total shareholder's equity of \$553.6 million.

On December 22, 1999, we successfully completed the negotiation of two credit facilities—a \$63 million three year term loan facility and a \$10 million revolving operating line of credit, both of which would bear interest at rates ranging between the U.S. Prime Rate and LIBOR plus 2.2% per annum.

As of September 30, 1999, our real estate portfolio totals \$441.8 million. Included in this amount are properties available for sale totaling \$81.2 million and properties under or held for development totaling \$173.3 million, components of which could be made available for sale. In addition, revenue producing properties total \$168.1 million and include the Fontana Sports facilities and horse racing facilities at Santa Anita Park, Gulfstream Park, and San Luis Rey Downs. We are currently considering a variety of options with respect to our golf courses, including direct operation or leasing to third party operators, as well as sale and leaseback transactions (which would require that Magna not exercise its right of first refusal) or outright sales.

Excluding the costs of the acquisitions described earlier, we currently anticipate capital expenditures of approximately \$20.0 million during the remaining three months of 1999. Most of the capital expenditures relate to completion of the capital renovation program at Santa Anita Park and completion of Aurora Downs.

We believe that our current cash resources, together with cash flow from operations from our racetrack activities, cash available under the credit facilities described above and cash proceeds to be realized upon sale of a portion of our real estate portfolio will be sufficient to finance our capital expenditure and acquisition program during the next year. However, we can provide no assurance that we will not be required to seek additional capital at an earlier date. We may, from time to time, seek additional debt and/or equity financing through public or private sources. If additional funds are raised or future acquisitions are effected by issuing our shares, you will experience dilution of your interest. There is no assurance that adequate debt and/or equity financing will be available to us as needed or, if available, on terms acceptable to us. If adequate financing is not available, our business, financial condition and results of operations could be materially adversely effected.

Operating activities

Cash provided by (used in) operations was \$1.2 million, \$(1.3) million, \$(7.9) million, \$(3.9) million and \$(3.6) million for the nine month period ended September 30, 1999, the five month period ended December 31, 1998, and the years ended July 31, 1998, 1997, and 1996, respectively. Cash provided by operations in the nine month period ended September 30, 1999 is a result of cash generated by our Santa Anita Park operations of \$6.1 million, offset by cash usages at our other operations. For all periods prior to January 1, 1999, we incurred losses resulting in negative cash flow from operations.

Investing activities

Cash used in investing activities was \$269.0 million, \$136.7 million, \$72.6 million, \$43.6 million and \$25.1 million for the nine month period ended September 30, 1999, the five month period ended December 31, 1998, and the years ended July 31, 1998, 1997, and 1996, respectively.

During the nine month period ended September 30, 1999, \$87.6 million was used for business acquisitions, consisting of \$81.2 million to acquire Gulfstream Park and \$6.4 million to acquire the real estate assets of San Luis Rey Downs, and \$33.7 was spent on real estate property additions which include spending on the capital renovation program at Santa Anita Park. In addition, \$146.9 million was loaned to Magna and is reflected as a note receivable as at September 30, 1999. The note is due on demand and bears interest at the U.S. Prime Rate less 1% per annum. During the five month period ended December 31, 1998, \$118.6 million was used to acquire Santa Anita Park and related real estate and \$17.9 million was spent on real estate property

additions which include land and related development spending in connection with the Aurora Downs project. During the year ended July 31, 1998, \$72.5 million was spent on real estate property additions primarily in Austria and Canada. During the year ended July 31, 1997, real estate property additions totaled \$41.5 million including the purchases of a 250 hectare parcel of land near Vienna, Austria and various other properties in Canada. During the year ended July 31, 1996, \$24.2 million was spent on real estate property additions including development costs at Fontana Sports.

Financing activities

Cash provided by financing activities was \$273.8 million, \$155.2 million, \$80.6 million, \$47.6 million and \$28.4 million for the nine month period ended September 30, 1999, the five month period ended December 31, 1998, and the years ended July 31, 1998, 1997, and 1996, respectively. Cash provided by financing activities has been primarily through contributions by Magna. On September 1, 1999, Magna invested an additional \$250.0 million in cash, by way of equity contribution, in the Company. Of this amount, \$146.9 million was loaned back to Magna as described above. Also during the nine month period ended September 30, 1999, Magna provided financing of \$35.2 million through a short-term note. Other sources of cash include a bank term line of credit for 240 million Austrian Schillings (\$18.8 million), short term debt of \$6.8 million assumed on the acquisition of Gulfstream Park, and mortgages with various Austrian banks and local governments totaling \$5.9 million at September 30, 1999. The bank term line of credit was used to finance the Fontana residential and Fontana Sports developments, and is repayable in six annual installments of 40 million Austrian Schillings, which began July 31, 1997. The short term debt assumed on the acquisition of Gulfstream Park is repayable on February 16, 2000. The mortgages arose during the year ended July 31, 1998 and are repayable over various periods to the year 2037.

Outlook

Through the implementation of our strategy, we have become one of the leading consolidators of premier racetracks in North America. We expect that the ownership of multiple racetracks will result in cost efficiencies in administration, purchasing and other areas. We expect growth in the revenues of our racetracks through an increase in our simulcast programming to telecast horse racing throughout the year and the bundling of simulcast signals from all of our racetracks. The bundling of our simulcast signals will increase the exposure of, and the handle at, our smaller racetracks, thereby increasing the revenues available to us to further enhance the quality of the horse racing we offer at such tracks.

We intend to market our bundled simulcast product through a single signal marketed under the MI Entertainment Corp. brand name. In addition, we intend to explore the expansion of our sports wagering products to sports other than horse racing as we expand our involvement in telephone account, interactive television and Internet-based wagering, possibly in conjunction with strategic partners and subject to regulatory approval. Finally, we expect that our role as a horse racing industry consolidator and our branding strategy will open up potentially lucrative merchandising, licensing and marketing opportunities which will increase our revenues.

We currently own a diverse portfolio of real estate properties in North America and Europe. We intend to complete the second phase of the Fontana residential property development by 2006 and complete the Aurora Downs golf course by May 2001. We expect that the Aurora Downs golf course and Fontana Sports facility will significantly enhance the resale value of lands adjacent to both of these facilities. We intend to sell some of our real estate properties as market conditions permit and are taking steps to maximize the revenues derived from these properties on future resale. Our ability to sell these properties will be enhanced by a number of factors including the current positive economic climate which is producing strong levels of economic activity and job creation and low interest rates both generally and in the regions in which we hold such real estate. In addition, we believe the location of such real estate enhances our ability to sell. However, notwithstanding the above, there can be no assurance that we will be successful in our efforts to sell these properties.

For further information as to our business outlook, see "Our Strategy" in this prospectus.

Year 2000 Issue

Certain computer software and microprocessors use two digits rather than four digits to define the applicable year. Any computer programs that have date-sensitive software and microprocessors may recognize a date using “00” as a year other than the year 2000. This phenomenon (the “Year 2000 Issue”) could cause a disruption of our operations, including among other things, interruptions in pari-mutuel wagering.

The total cost of our remediation to address the Year 2000 Issue is currently estimated to have been \$1.388 million, of which \$1.338 million was capitalized and the remainder expensed. Of these amounts, \$1.142 million was incurred through September 30, 1999, of which \$1.122 million was capitalized and the remainder was expensed. Substantially all of the remaining expenditures were made prior to December 31, 1999. Further, of the total amount, \$0.5 million was incurred by certain of the operations prior to their acquisition by us.

We believe that every reasonable effort has been made to resolve the Year 2000 Issue and to mitigate its potential effects on our business. Based on our current assessment, we believe that the Year 2000 Issue has not, and will not have a material adverse impact on our results of operations and financial condition but, given the inherent complexities of the issue, there can be no assurance of this.

Accounting Developments

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No.133, “Accounting for Derivative Instruments” (“SFAS No. 133”). SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133 requires that we recognize all derivatives either as assets or liabilities and measure those instruments at fair market value. We have not determined the impact, if any, of this pronouncement on our financial position and results of operations.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary exposure to market risk (or the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices) is with respect to our investments in companies with a functional currency other than the U.S. dollar. Fluctuations in the U.S. dollar exchange rate relative to the Canadian dollar and Euro will result in fluctuations in shareholder's equity and comprehensive income. We do not enter into derivative financial instruments for hedging or trading purposes.

CONSOLIDATED CAPITALIZATION

The following table sets out our unaudited consolidated and pro forma consolidated capitalization as at September 30, 1999 and December 15, 1999. The table should be read in conjunction with the Unaudited Consolidated Financial Statements and the Pro Forma Consolidated Financial Statements and related notes found elsewhere in this prospectus.

	Actual September 30, 1999	Pro Forma September 30, 1999	Actual December 15, 1999
(in thousands of U.S. dollars)			
Short-term debt			
Bank indebtedness	\$ 7,774	\$ 7,774	\$ 4,001
Note payable to Magna	35,240	—	—
Long-term debt due within one year	10,157(1)	10,157	18,531(1)(2)
Long-term debt	12,162(1)	29,492(2)	20,025(1)(2)
Shareholder's Equity			
Magna's net investment	545,888	—	—
Share capital	—	553,570	553,570(3)
Total capitalization	\$611,221	\$600,993	\$596,127

- (1) Our actual Long-term debt (including amounts due within one year) consists of: (i) a line of credit denominated in Austrian Schillings bearing interest at VIBOR plus 0.625% per annum, of which \$9,346,000 and \$8,735,000 was drawn as at September 30, 1999 and December 15, 1999, respectively; (ii) bank term line of credit bearing interest at LIBOR plus 1.25% per annum, in respect of which \$6,800,000 was owed at September 30, 1999 and December 15, 1999; (iii) mortgages outstanding with various Austrian banks and local governments bearing interest at rates ranging from 0.5% to 6.75% per annum, in respect of which \$5,896,000 and \$5,465,000 was owed at September 30, 1999 and December 15, 1999, respectively; and (iv) a term loan bearing interest at a fixed rate of 4% per annum, in respect of which \$277,000 and \$226,000 was owed at September 30, 1999 and December 15, 1999, respectively.
- (2) Our Pro Forma Long-term debt (including amounts due within one year) includes the amounts referred to in note (1) above plus \$17,330,000 representing the discounted value of the \$20,000,000 non-interest bearing note issued on the acquisition of Golden Gate Fields based on a discount rate of 8.7%.
- (3) Excluding net income earned or losses incurred or change in currency translation adjustment, all from September 30, 1999.

REORGANIZATION

On November 5, 1999, Magna completed a reorganization of our corporate structure (the “Reorganization”) under which Magna’s North American and European non-automotive businesses and real estate assets were transferred to us, including the following:

1. All the outstanding capital stock of The Santa Anita Companies, Inc., which owns all the outstanding capital stock of the Los Angeles Turf Club, Inc., the operator of the Santa Anita Park racetrack in California, and approximately 305 acres of related real estate.
2. All the outstanding capital stock of Magna Vierte Beteiligungs AG, which operates the Fontana Sports golf course and related recreational facilities and is developing the adjacent Fontana residential development in Oberwaltersdorf, Austria.
3. All the outstanding capital stock of Magna Projektentwicklungs AG, which, through a subsidiary, owns a parcel of land held for development in Ebreichsdorf, Austria.
4. Rights to acquire approximately 160 acres of land and improvements in Aurora, Ontario under a conditional sale agreement with Magna, which is subject to the successful severance of the affected properties. An additional 200 acres, which comprise Aurora Downs, the 18-hole golf course currently under construction, is also subject to a conditional sale agreement with a company associated with the members of the family of Frank Stronach, our Chairman and Chief Executive Officer.
5. Various other parcels of land and improvements and other non-automotive assets located in North America and Europe.

During the course of the Reorganization, Magna transferred assets and settled certain intercompany indebtedness through the issuance of approximately \$300 million of shares of our stock. Magna also subscribed for shares of our stock by way of a cash payment of \$250 million. Our Certificate of Incorporation was then amended to add share provisions for our Class A Subordinate Voting Stock and Class B Stock and our outstanding stock was then reclassified and further subdivided into shares of Class B Stock. On December 30, 1999, 14,823,187 shares of our Class B Stock held by Magna were repurchased by us for \$110,000,000. On this date, \$110,000,000 was invested by Magna in Exchangeco in return for 14,823,187 Exchangeable Shares.

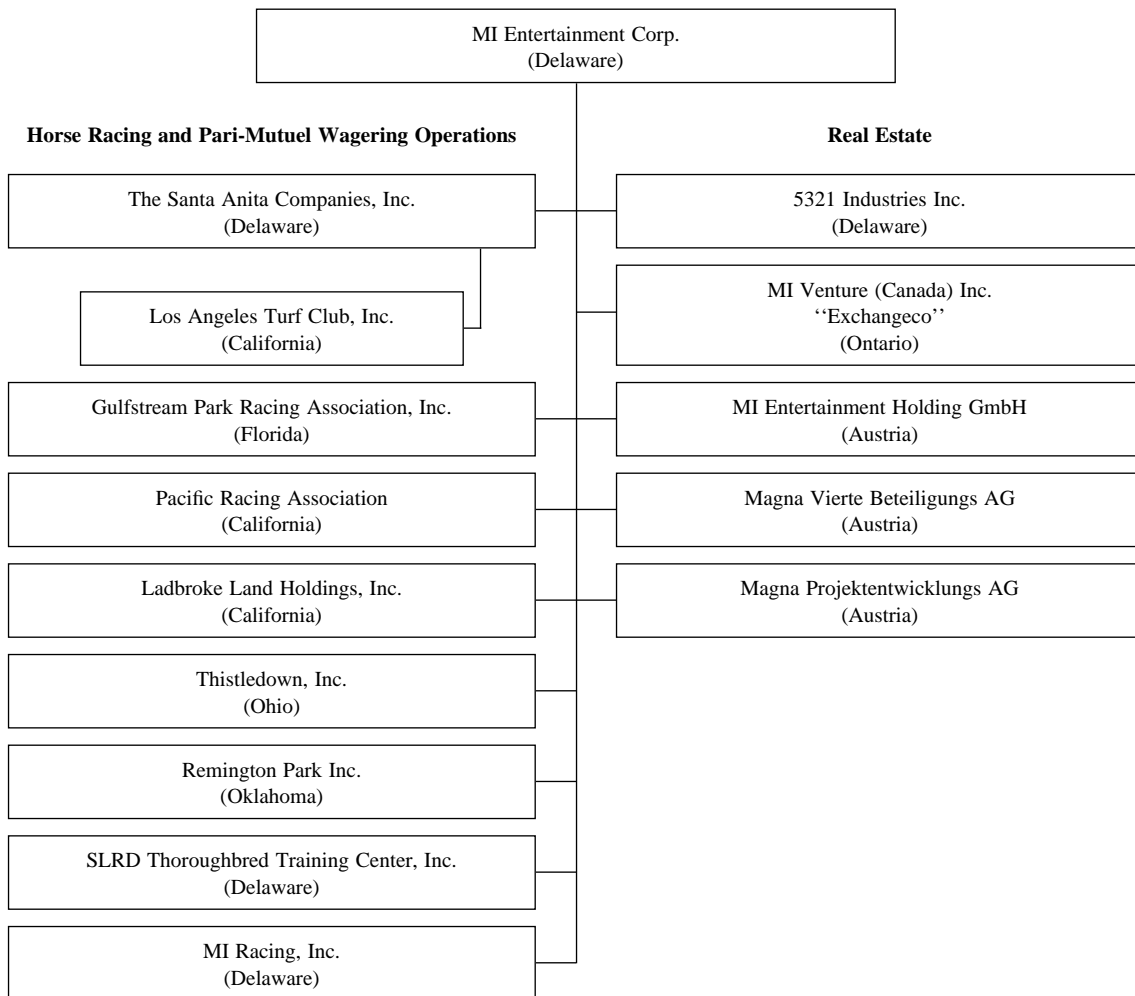
On December 30, 1999, there were 63,712,141 shares of our Class B Stock, 1,662,890 shares of our Class A Subordinate Voting Stock and 14,823,187 Exchangeable Shares outstanding. In connection with our agreement to acquire the assets and assume certain liabilities of Great Lakes Downs racetrack, we have agreed to issue a total of 246,287 additional shares of our Class A Subordinate Voting Stock.

Upon completion of the distribution, Magna will own all our Class B Stock, which means that Magna will be entitled to exercise approximately 99% of the total votes attached to all our outstanding stock. Magna will therefore continue to be able to elect all our directors and continue to control us. See “Corporate Structure” for a chart illustrating our corporate structure after giving effect to the Reorganization.

Corporate Structure

We were incorporated on March 4, 1999 under the laws of the State of Delaware as MI Venture Inc. Our certificate of incorporation was amended by certificate of amendment on August 30, 1999 to reclassify our Common Stock into Class A Common Stock and add a new class of stock designated as Class C Common Stock. Our certificate of incorporation was further amended on November 4, 1999 to change our name to MI Entertainment Corp., add share provisions for our Class A Subordinate Voting Stock and Class B Stock and reclassify and further subdivide our outstanding stock into shares of Class B Stock. Our registered and corporate office is located at 1209 Orange Street, Wilmington, Delaware, 19801 and our principal executive office is located at 285 West Huntington Drive, Arcadia, California 90017.

The following chart shows our organizational structure and that of our material subsidiaries as of January 14, 2000, each of which is directly or indirectly wholly-owned, together with the jurisdiction of incorporation of each of the entities shown thereon.



Environmental Matters

We are subject to a wide range of environmental laws and regulations imposed by governmental authorities relating to wastewater discharge, waste management and storage of hazardous substances. Upon completion of the distribution, we will adopt a Health, Safety and Environmental Policy pursuant to which we will commit to:

- conducting our operations in a manner that complies with or exceeds all legal requirements regarding health, safety and the environment;
- regularly evaluating and monitoring past and present business activities affecting health, safety and the environment;
- ensuring that a systematic health, safety and environmental review program is implemented and monitored at all times for each of our operations, with a goal of continued improvement in health, safety and environmental matters; and
- ensuring that adequate reports on health, safety and environmental matters are presented to our Board of Directors, at a minimum, on an annual basis.

We are currently subject to Magna's Health, Safety and Environmental Policy, which is substantially similar to the policy we intend to adopt.

To date, compliance with environmental laws and regulations has not had a material adverse effect on our financial condition and results of operations, however, changes in such governmental laws and regulations are ongoing and may make environmental compliance increasingly expensive. We cannot predict future costs that we may incur to meet environmental obligations.

A subsidiary of Magna has agreed to indemnify us in respect of environmental remediation costs and expenses relating to existing conditions in certain of our Austrian real estate properties.

Employees

As of October 31, 1999, we employed approximately 839 employees, approximately 294 of whom are represented by a union. Since our inception, we have not had a work stoppage. We consider our relations with our employees to be good. We also believe that our future success will depend in part on our continued ability to attract, integrate, retain and motivate highly qualified technical and managerial personnel, and upon the continued service of our senior management.

Our contract with the Service Employees International Union, Local 280, which represents approximately 400 pari-mutuel employees at Santa Anita Park during our racing season, will expire on July 24, 2000. We expect that we will be able to negotiate a new union contract with Local 280 through the collective bargaining process.

Competition

We generally do not compete directly with other racetracks or off-track wagering facilities for customers because of geographic separation of facilities and differences in seasonal timing of meets. In some cases, the differences in seasonal timing of meets results from the regulatory environment in which racetracks operate. In California, The California Horse Racing Board has annually licensed us and Oak Tree Racing Association to conduct racing meets at Santa Anita Park and it has not licensed other thoroughbred racetracks in Southern California to conduct racing during these meets. However, night harness racing and night quarterhorse meets are conducted at other racetracks in Southern California during portions of these meets. In Florida, tax laws currently discourage the three Miami-area racetracks from applying for race dates outside of their traditional racing season. Currently, the race dates for the three Miami-area racetracks do not overlap. However, commencing July 1, 2001 a new tax structure affecting Florida racetracks is expected to eliminate this deterrent. As a result, Gulfstream Park racetrack may face direct competition from other Miami-area racetracks in the future. We currently compete for customers with other forms of gaming and entertainment and attempt to attract customers by providing high quality racing in appealing facilities, value for money spent and good customer service.

If we implement our strategy to increase the distribution channels for our simulcast horse racing product to include telephone account, interactive television and Internet-based wagering, we will likely face competition from competitors with greater experience and advanced market penetration in these distribution channels, such as TVG, which is owned by TV Guide, Inc., and The Racing Network. TVG currently markets the signals of approximately 45 racetracks, ten of which are under exclusive contract, including the signal from Churchill Downs' racetracks and the signals from Gulfstream Park and The Oak Tree Meet. TVG's exclusive right to market the signals from Gulfstream Park and The Oak Tree Meet expires in December, 2003. We expect that TVG's initial competitive advantage may be off-set by the fact that in 2003 we will have exclusive rights to market the signal for Santa Anita Park, Gulfstream Park and Golden Gate Fields. In addition, we may be able to eliminate this competitive disadvantage by pursuing this element of our strategy in conjunction with an experienced strategic partner.

RECENT ACQUISITIONS

A significant proportion of our assets were acquired from our parent company, Magna, and certain of its subsidiaries on a non-arm's length basis pursuant to the Reorganization (see "Reorganization" above). Details of the acquisition of Santa Anita Park by certain of Magna's subsidiaries are provided below. In addition, details of material acquisitions made by us are also provided below:

Pursuant to an asset purchase agreement dated as of November 13, 1998, with Meditrust Corporation, Meditrust Operating Company, The Santa Anita Companies, Inc. and Santa Anita Enterprises, Inc. (collectively, "Meditrust"), the assets of Santa Anita Park and the stock of Los Angeles Turf Club, Inc. were acquired by one of Magna's subsidiaries, The Santa Anita Companies, Inc., as of December 10, 1998 and the transaction closed on December 11, 1998. The purchase price for the assets acquired was approximately \$119 million, all of which was paid in cash. We acquired the shares of The Santa Anita Companies from Magna in the course of the Reorganization (see "Reorganization").

Pursuant to an asset purchase agreement dated as of March 8, 1999, one of our indirect, wholly-owned subsidiaries, SLRD Thoroughbred Training Center, Inc. ("SLRD") agreed to acquire from San Luis Rey Downs Enterprises LLC the assets of San Luis Rey Downs for a purchase price of approximately \$6.4 million, all of which was paid in cash. This transaction was completed on May 1, 1999.

Pursuant to a stock purchase agreement dated as of June 30, 1999 between us and Gulfstream Holdings, Inc. of Illinois ("Gulfstream Holdings") and Gulfstream Park Racing Association Inc. ("Gulfstream Park"), we agreed to acquire from Gulfstream Holdings all the issued and outstanding stock of Gulfstream Park for a purchase price of \$88.2 million. Gulfstream Park owns all the assets of Gulfstream Park racetrack in Hallandale, Florida. We completed the acquisition on September 1, 1999.

Pursuant to a stock purchase agreement dated as of October 21, 1999, we agreed to acquire from The Edward J. DeBartolo Corporation and Oklahoma Racing LLC, all the issued and outstanding stock of Thistledown, Inc. and Remington Park, Inc. for a total purchase price of \$24.0 million. Thistledown, Inc. owns all the assets of Thistledown racetrack in North Randall, Ohio. Remington Park, Inc. owns all the assets of Remington Park racetrack in Oklahoma City, Oklahoma. Of the total purchase price of \$24.0 million, the stock of Thistledown cost \$14.0 million, \$9.5 million of which was paid in cash and the balance of which was paid through the issuance of 650,695 shares of our Class A Subordinate Voting Stock. The stock of Remington Park, Inc. cost \$10.0 million, all of which was paid in cash. We completed this acquisition on November 12, 1999.

Pursuant to a stock purchase agreement dated as of November 5, 1999, we agreed to acquire from Ladbroke Racing Corporation, all the issued and outstanding stock of Ladbroke Land Holdings Inc. and Pacific Racing Association Inc. These companies collectively own and operate Golden Gate Fields racetrack in Albany, California. The purchase price for the stock of these companies was \$87.0 million, of which \$60.0 million was paid in cash, \$7.0 million was paid through the issuance 1,012,195 shares of our Class A Subordinate Voting Stock and \$20.0 million was paid by way of an interest-free promissory note, \$10.0 million of which matures on the first anniversary of the date of closing and \$5.0 million of which matures on each of the second and third anniversaries. We completed this acquisition on December 10, 1999.

Pursuant to an asset purchase agreement dated as of December 24, 1999, with Great Lakes Downs, Inc. and Great Lakes Downs Café, Inc. we have agreed to acquire the assets and assume certain liabilities of Great Lakes Downs racetrack in Muskegon, Michigan for a purchase price of \$1.7 million, payable by the issuance of 246,287 shares of our Class A Subordinate Voting Stock. We expect to complete this transaction in late January 2000.

CERTAIN INCOME TAX CONSIDERATIONS

Certain Canadian Federal Income Tax Considerations

This summary is based on the current provisions of the *Income Tax Act* (Canada) (the “Tax Act”), the regulations thereunder (the “Regulations”), and the current published administrative practices of the Canada Customs and Revenue Agency (“Revenue Canada”) and the current provisions of the Canada-U.S. Income Tax Convention (the “Tax Treaty”). This summary also takes into account all specific proposals to amend the Tax Act and the Regulations publicly announced prior to the date hereof (the “Draft Amendments”) and assumes the Draft Amendments will be enacted substantially as proposed, although no assurance in this regard can be given. This summary does not otherwise take into account or anticipate any changes in law or administrative practice, whether by way of legislative, judicial or governmental action or interpretation, nor does it address any provincial or foreign income tax considerations.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder. Accordingly, shareholders are advised to consult their own tax advisors concerning the income tax consequences to them of the distribution.

Residents of Canada

This portion of the summary is applicable to Magna shareholders who receive the distribution of our Class A Subordinate Voting Stock or the Exchangeable Shares, as the case may be, and who, for purposes of the Tax Act and at all relevant times, are resident or deemed to be resident in Canada, will hold our Class A Subordinate Voting Stock or Exchangeable Shares, as the case may be as capital property, and deal at arm’s length with Magna, us and Exchangeco. This summary does not apply to a shareholder with respect to whom we are or will be a foreign affiliate within the meaning of the Tax Act. Our Class A Subordinate Voting Stock and the Exchangeable Shares will generally be considered to be capital property to a holder unless such shares are held in the course of carrying on a business of trading or dealing in securities or otherwise as part of a business of buying and selling securities or were acquired in a transaction or transactions considered to be an adventure in the nature of trade. Canadian resident shareholders whose Exchangeable Shares might not otherwise qualify as capital property may be entitled to make the irrevocable election provided by subsection 39(4) of the Tax Act. Our Class A Subordinate Voting Stock and the Exchangeable Shares held by certain financial institutions, including banks, trust companies, credit unions, insurance corporations, registered securities dealers and corporations controlled by one or more of the foregoing, will generally not be held as capital property and will be subject to special “mark-to-market” rules in the Tax Act not discussed in this summary. **Shareholders that are financial institutions should consult their own tax advisors to determine the tax consequences to them of the application of the mark-to-market rules.**

For purposes of the Tax Act, all amounts relating to the acquisition, holding or disposition of our Class A Subordinate Voting Stock must be expressed in Canadian dollars including dividends, adjusted cost base and proceeds of disposition; amounts denominated in United States dollars must be converted into Canadian dollars based on the prevailing United States dollar exchange rate generally at the time such amounts arise.

The Distribution

The distribution will be treated for the purposes of the Tax Act as a taxable dividend received from a taxable Canadian corporation. The amount of the distribution to holders who elect to receive our Class A Subordinate Voting Stock will be the aggregate of the fair market value of our Class A Subordinate Voting Stock at the time the distribution is paid, the amount of cash in lieu of a fractional share and the amount of the regular quarterly cash dividend. The amount of the dividend to holders who elect to receive Exchangeable Shares will be the aggregate of the fair market value of the Exchangeable Shares and the Automatic Exchange Right, Exchange Right and the Voting Rights (collectively, the “Ancillary Rights”) at the

time of the distribution, any cash received in lieu of a fractional share and the amount of the regular quarterly cash dividend. Magna will make a determination of value for the purposes of preparing the tax information statement in respect of the distribution which are required under the Tax Act to be mailed by Magna to the shareholders. Magna will determine the fair market value of the Class A Subordinate Voting Stock and Exchangeable Shares on the basis of the 10-day weighted average trading price in the “if, as and when issued” market for the Class A Subordinate Voting Stock prior to the distribution date. Magna is of the view that the Ancillary Rights have only nominal value. Any determination of value by Magna is not binding on Revenue Canada.

For individuals, the amount of the distribution will be included in the individual’s income and will generally be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations.

The distribution received by a shareholder that is a corporation will generally be included in computing its income. Such a shareholder will, however, generally be entitled to deduct the amount of the distribution in computing taxable income. Certain corporations may be liable under Part IV of the Tax Act to pay a refundable tax of 33 $\frac{1}{3}$ % on the distribution to the extent that such dividend is deductible in computing the corporation’s taxable income.

Since the distribution will be treated for the purposes of the Tax Act as a taxable dividend, shareholders may be liable for tax under the Tax Act without having received a cash payment sufficient to satisfy such liability. If the shareholder sells our Class A Subordinate Voting Stock or Exchangeable Shares, as the case may be, in order to satisfy such liability, there is no assurance that the shareholder will realize the price per share at which the our Class A Subordinate Voting Stock or the Exchangeable Shares, as the case may be, are valued for the purposes of calculating the amount of the distribution for tax purposes. If a shareholder does not realize proceeds of disposition on such sale at least equal to the amount at which the shares were valued for purposes of calculating the amount of the dividend, however, the shareholder would realize a capital loss on the disposition of the shares since the cost of each such share to the shareholder will be equal to its fair market value at the time of the distribution. The general tax treatment of capital gains and capital losses is discussed below under the heading “Taxation of Capital Gain or Capital Loss”.

Our Class A Subordinate Voting Stock

Acquisition and Disposition of our Class A Subordinate Voting Stock

The cost of our Class A Subordinate Voting Stock acquired on the distribution will be equal to the fair market value of our Class A Subordinate Voting Stock at the time of distribution. A disposition or deemed disposition of our Class A Subordinate Voting Stock by a holder will generally result in a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the holder of our Class A Subordinate Voting Stock immediately before the disposition. The general tax treatment of capital gains and capital losses is discussed below under the heading “Taxation of Capital Gain or Capital Loss”.

Dividends on our Class A Subordinate Voting Stock

Dividends on our Class A Subordinate Voting Stock, if any, will be required to be included in the recipient’s income for the purpose of the Tax Act. The amount of the dividend will include any United States non-resident withholding tax withheld on such dividends. Dividends received by a shareholder who is an individual will not be subject to the gross-up and dividend tax credit rules generally applicable to taxable dividends received from taxable Canadian corporations. A shareholder that is a corporation will include such dividends in computing its income and generally will not be entitled to deduct the amount of such dividends in computing its taxable income. A shareholder that is a “Canadian-controlled private corporation” (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on such dividends. United States non-resident withholding tax on such dividends generally will be eligible for foreign tax credit or deduction

treatment where applicable under the Tax Act. See the commentary below under the heading “Certain United States Federal Income Tax Considerations—Tax Consequences of Ownership and Disposition of MIEC Class A Subordinate Voting Stock by Non-U.S. Holders—Dividends with Respect to MIEC Class A Subordinate Voting Stock”.

Exchangeable Shares

Acquisition and Disposition of Exchangeable Shares

The cost of Exchangeable Shares and Ancillary Rights acquired on the distribution will be equal to the fair market value thereof as at the time of distribution. A disposition or deemed disposition of the Exchangeable Shares by a holder will generally result in a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the holder of Exchangeable Shares immediately before the disposition. The general tax treatment of capital gains and losses is discussed below under the heading “Taxation of Capital Gain or Capital Loss”.

Dividends on Exchangeable Shares

Dividends on the Exchangeable Shares, if any, received or deemed to be received by a holder who is an individual, will be required to be included in computing the holder’s income and will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from a corporation resident in Canada.

Subject to the discussion below as to the denial of the dividend deduction, in the case of a holder that is a corporation, other than a “specified financial institution” as defined in the Tax Act, dividends received or deemed to be received on the Exchangeable Shares will be included in computing the corporation’s income and will generally be deductible in computing its taxable income. In the case of a holder that is a specified financial institution, such a dividend will be deductible in computing its taxable income only if either: (i) the specified financial institution did not acquire the Exchangeable Shares in the ordinary course of the business carried on by such institution; or (ii) at the time of the receipt of the dividend by the specified financial institution, the Exchangeable Shares are listed on a prescribed stock exchange in Canada (which currently includes the TSE) and the specified financial institution, either alone or together with persons with whom it does not deal at arm’s length, does not receive (or is not deemed to receive) dividends in respect of more than 10% of the issued and outstanding Exchangeable Shares. A corporation is a “specified financial institution” for purposes of the Tax Act if it is a bank, a trust company, a credit union, an insurance corporation or a corporation whose principal business is the lending of money to persons with whom the corporation is dealing at arm’s length or the purchasing of debt obligations issued by such persons or a combination thereof, and corporations controlled by or related to such entities.

If we or any other person with whom we do not deal at arm’s length is a specified financial institution at a point in time that a dividend is paid on an Exchangeable Share, then subject to the exemption described below, dividends received or deemed to be received by a holder of Exchangeable Shares that is a corporation will not be deductible in computing taxable income but will be fully includable in taxable income under Part I of the Tax Act. We are of the view that neither we nor any person with which we do not deal at arm’s length nor any partnership or trust of which we or the person is a member or beneficiary, respectively, is a specified financial institution at the current time but there can be no assurance that this status will not change prior to any dividend received or deemed to be received by a corporate shareholder. This denial of the dividend deduction for a holder of Exchangeable Shares that is a corporation will not in any event apply if, at the time a dividend is received or deemed to be received, the Exchangeable Shares are listed on a prescribed stock exchange (which currently includes the TSE), we are “related” to Exchangeco for the purposes of the Tax Act and the recipient (together with persons with whom the recipient does not deal at arm’s length or any partnership or trust of which the recipient or person is a member or beneficiary respectively) does not receive dividends on more than 10% of the issued and outstanding Exchangeable Shares.

A holder of Exchangeable Shares that is a “private corporation” (as defined in the Tax Act) or any other corporation resident in Canada and controlled or deemed to be controlled by or for the benefit of an individual or a related group of individuals may be liable under Part IV of the Tax Act to pay a refundable tax of 33 $\frac{1}{3}$ % on dividends received or deemed to be received on the Exchangeable Shares to the extent that such dividends are deductible in computing the holder’s taxable income. A holder of Exchangeable Shares that is a “Canadian-controlled private corporation” (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on dividends or deemed dividends that are not deductible in computing taxable income.

The Exchangeable Shares will be “taxable preferred shares” and “short-term preferred shares” for purposes of the Tax Act. Accordingly, Exchangeco will be subject to a 66 $\frac{2}{3}$ % tax under Part VI.I of the Tax Act on dividends paid or deemed to be paid on the Exchangeable Shares and will be entitled to deduct $\frac{1}{4}$ of the tax payable in computing its taxable income under Part I of the Tax Act. Dividends received or deemed to be received on the Exchangeable Shares will not be subject to the 10% tax under Part IV.I of the Tax Act.

Redemption or Exchange of Exchangeable Shares

On the redemption (including a retraction) of an Exchangeable Share by Exchangeco, the holder of an Exchangeable Share will be deemed to have received a dividend equal to the amount, if any, by which the redemption proceeds (the fair market value at the time our Class A Subordinate Voting Stock is received by the shareholder from Exchangeco on the redemption plus the Dividend Amount, if any) exceeds the paid-up capital (for purposes of the Tax Act) of the Exchangeable Shares at the time the Exchangeable Share is so redeemed. The amount of any such deemed dividend will be subject to the tax treatment described above under the heading “Dividends on Exchangeable Shares”. On the redemption, the holder of an Exchangeable Share will also be considered to have disposed of the Exchangeable Share for proceeds of disposition equal to the redemption proceeds less the amount of such deemed dividend. A holder will in general realize a capital gain (or a capital loss) equal to the amount by which the adjusted cost base to the holder of the Exchangeable Share is less than (or exceeds) such proceeds of disposition. See “Taxation of Capital Gain or Capital Loss” below. In the case of a holder of Exchangeable Shares that is a corporation, in some circumstances the amount of any such deemed dividend may be treated as proceeds of disposition and not as a dividend.

On the exchange of an Exchangeable Share by the holder thereof with us for our Class A Subordinate Voting Stock, the holder will in general realize a capital gain (or a capital loss) to the extent the proceeds of disposition of the Exchangeable Share net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the holder of the Exchangeable Share. For these purposes, the proceeds of disposition will be the aggregate of the fair market value, at the time of the exchange, of our Class A Subordinate Voting Stock received on the exchange, any Dividend Amount received by the holder as part of the exchange consideration and the amount of any cash received in lieu of a fractional share. See “Taxation of Capital Gain or Capital Loss” below.

Acquisition and Disposition of Our Class A Subordinate Voting Stock

The cost of our Class A Subordinate Voting Stock received on the retraction, redemption or exchange of an Exchangeable Share will be equal to the fair market value of our Class A Subordinate Voting Stock at the time of such event, to be averaged with the adjusted costs base of any other of our Class A Subordinate Voting Stock held at that time by the holder as capital property. For the tax treatment of a disposition of or dividend on our Class A Subordinate Voting Stock see “Our Class A Subordinate Voting Stock—Acquisition and Disposition of Our Class A Subordinate Voting Stock and Dividends on Our Class A Subordinate Voting Stock”.

Taxation of Capital Gain or Capital Loss

Three-quarters of any capital gain (the “taxable capital gain”) realized by a holder will be included in the holder’s income for the year of disposition. Three-quarters of any capital loss so realized (the “allowable

capital loss”) may be deducted by the holder against taxable capital gains for the year of disposition. Any excess of allowable capital losses over taxable capital gains of the holder for the year of disposition may be carried back up to three taxation years or forward indefinitely and deducted against net taxable capital gains in those other years to the extent and in the circumstances prescribed in the Tax Act.

Capital gains realized by an individual or trust, other than certain trusts, may give rise to alternative minimum tax under the Tax Act. A holder that is a Canadian-controlled private corporation (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on taxable capital gains.

If the holder of an Exchangeable Share is a corporation, the amount of any capital loss arising on a disposition or deemed disposition of any such share may be reduced by the amount of dividends received or deemed to have been received by it on such share to the extent and under circumstances prescribed by the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Exchangeable Shares or where a trust or partnership of which a corporation is a beneficiary or a member is a member of a partnership or a beneficiary of a trust that owns any such shares.

Eligibility for Investment in Canada

Provided the Exchangeable Shares are listed on a prescribed stock exchange in Canada (which currently includes the TSE), the Exchangeable Shares will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans (“RRSPs”), registered retirement income funds (“RRIFs”), deferred profit sharing plans (“DPSPs”) and registered education savings plans (“RESPs”). The Ancillary Rights will not be qualified investments under the Tax Act. However, Magna is of the view that the fair market value of such rights is nominal. Based on such view, there should be no material consequences under the Tax Act to RRSPs, RRIFs and DPSPs holding such non-qualified investments. RESPs holding such non-qualified investments may, however, realize adverse consequences regardless of the fair market value of such non-qualified investments. Provided the Exchangeable Shares are listed on a prescribed stock exchange in Canada (which currently includes the TSE), the Exchangeable Shares will not be foreign property under the Tax Act for trusts governed by such plans or for certain other persons to whom Part XI of the Tax Act is applicable. The Ancillary Rights will be foreign property under the Tax Act. However, Magna is of the view that the fair market value of such rights is nominal.

Provided our Class A Subordinate Voting Stock are listed on a prescribed stock exchange in Canada (which currently includes the TSE) our Class A Subordinate Voting Stock will be qualified investments under the Tax Act for trusts governed by RRSPs, RRIFs, DPSPs and RESPs. Our Class A Subordinate Voting Stock will be foreign property under the Tax Act.

Non Residents of Canada

The following portion of the summary is applicable to persons who receive the Special Dividend, who, for purposes of the Tax Act and at all relevant times, deal at arm’s length with Magna, are not and will not be resident or deemed to be resident in Canada and do not and will not use and are not and will not be deemed to use their Class A Subordinate Voting Stock in or in the course of carrying on a business in Canada (each such holder referred to as a “non-resident holder”). Special rules which are not discussed in this summary may apply to a non-resident that is an insurer carrying on business in Canada and elsewhere.

Special Dividend

A non-resident holder who receives the distribution will be subject to Canadian withholding tax at a rate of 25% of the fair market value thereof at the time of payment or crediting subject to reduction by an applicable tax treaty. Pursuant to the provisions of the Tax Treaty, the non-resident withholding tax is generally reduced to a rate of 15% if the beneficial owner of the dividend is a U.S. resident. Also, dividends paid or credited to a non-resident holder that is a tax exempt organization as described in Article XXI of the Tax Treaty will not be subject to withholding tax.

Magna will make a determination of the fair market value of the distribution for the purposes of determining the amount of the withholding tax and for preparing the information statements in respect of the distribution which are required to be mailed by Magna to the non-resident holders. The fair market value of the distribution will include the fair market value of the shares of our Class A Subordinate Voting Stock, the amount of cash in lieu of fractional shares and the amount of the regular quarterly cash dividend, including any shares or cash withheld to satisfy any non-resident withholding tax liability. Magna will determine the fair market value of our Class A Subordinate Voting Stock at the time of distribution on the basis of the 10-day weighted average trading price in the “if, as and when issued” market prior to the distribution date. Any determination of the fair market value by Magna is not binding on Revenue Canada. The withholding tax liability will be satisfied by Magna withholding the appropriate amount from the Magna regular quarterly cash dividend otherwise payable to shareholders and, if necessary, a portion of the shares of our Class A Subordinate Voting Stock otherwise distributable. For details with respect to the withholding of our Class A Subordinate Voting Stock, see “The Special Dividend—Withholding Tax Liability of Non-Residents of Canada”.

Certain United States Federal Income Tax Considerations

The following describes certain U.S. federal income tax considerations of (i) the distribution of shares of our Class A Subordinate Voting Stock to a person that is a citizen or resident of the United States or a U.S. domestic corporation or that otherwise is subject to U.S. federal income tax on a net basis (a “U.S. Holder”) and (ii) the ownership and disposition of shares of our Class A Subordinate Voting Shares by a stockholder that is not a U.S. Holder (a “Non-U.S. Holder”). This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the “Code”), administrative pronouncements, judicial decisions and existing and proposed Treasury Regulations, changes to any of which may affect the tax consequences described herein. This summary discusses only the principal U.S. federal income tax consequences to those beneficial owners holding our Class A Subordinate Voting Stock as capital assets within the meaning of Section 1221 of the Code.

Tax Treatment to U.S. Holders of the Distribution of Class A Subordinate Voting Stock

A U.S. Holder will realize, to the extent of Magna’s current and accumulated earnings and profits, foreign source ordinary income on the receipt of shares of our Class A Subordinate Voting Stock in an amount equal to the fair market value of Class A Subordinate Voting Stock distributed (with the value of such dividend computed before any reduction for any Canadian withholding tax). Subject to the requirements and limitations imposed by the Code, a U.S. Holder may elect to claim the Canadian tax withheld or paid with respect to the distribution of shares of our Class A Subordinate Voting Stock as a foreign tax credit against the U.S. federal income tax liability of the U.S. Holder. The foreign tax credit will be allowable in respect of the distribution of our Class A Subordinate Voting Stock only if the U.S. Holder has held Magna Class A Subordinate Voting Shares for at least 16 days during the 30-day period beginning 15 days before the ex-dividend date for the dividend of our Class A Subordinate Voting Stock. The distribution of our Class A Subordinate Voting Stock generally will constitute “passive income” or, in the case of certain U.S. Holders, “financial services income” for U.S. foreign tax credit purposes. U.S. Holders who do not elect to claim any foreign tax credits may claim a deduction for Canadian income tax withheld.

Tax Treatment to Non-U.S. Holders of Owning Class A Subordinate Voting Stock

Dividends. In general, if we were to make distributions with respect to our Class A Subordinate Voting Stock, such distributions would be treated as dividends to the extent of our current or accumulated earnings and profits as determined under the Code. Any distribution that is not a dividend will be applied in reduction of the Non-U.S. Holder’s basis in the Class A Subordinate Voting Stock. To the extent the distribution exceeds such basis, the excess will be treated as gain from the disposition of our Class A Subordinate Voting Stock.

Dividends paid to a Non-U.S. Holder of Class A Subordinate Voting Stock generally will be subject to withholding of U.S. federal income tax at a 30% rate or such lower rate as may be provided by an applicable income tax treaty between the United States and the country of which the Non-U.S. Holder is a tax resident,

unless (i) the dividends are effectively connected with the conduct of a trade or business of the Non-U.S. Holder within the United States or (ii) if a tax treaty applies, the dividends are effectively connected with the conduct of a trade or business of the Non-U.S. Holder within the United States and attributable to a United States permanent establishment (or a fixed base through which certain personal services are performed) maintained by the Non-U.S. Holder. For dividend payments made prior to the effective date of certain pending United States Treasury Regulations, currently expected to be January 1, 2001, a Non-U.S. Holder may file IRS Form 4224, or successor form thereto, in order to avoid withholding with respect to dividends that are effectively connected with such Non-U.S. Holder's conduct of a trade or business in the United States. However, for purposes of determining whether tax is to be withheld at a rate of 30% of the gross amount of such dividends or at a reduced rate as specified by an applicable tax treaty, we ordinarily will presume that dividends paid to a holder with an address in a foreign country are paid to a resident in such country absent knowledge that such presumption is not warranted, and dividends paid to a holder with an address within the United States generally will be presumed to be paid to a holder that is a U.S. person and will not be subject to such withholding unless we have actual knowledge that the holder is a Non-U.S. Holder. Under certain circumstances, a Non-U.S. Holder is required to file IRS Form 1001, or successor form thereto, to claim the benefit of a reduced withholding rate provided by an applicable income tax treaty.

Dividends received by a Non-U.S. Holder that are effectively connected with the conduct of a trade or business within the United States or, if a tax treaty applies, are effectively connected with the conduct of a trade or business within the United States and attributable to a U.S. permanent establishment (or a fixed base through which certain personal services are performed), are subject to U.S. federal income tax on a net income basis (that is, after allowance for applicable deductions) at applicable graduated individual or corporate rates. Any such dividends received by a Non-U.S. Holder that is a corporation may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

A Non-U.S. Holder eligible for a reduced rate of withholding of U.S. federal income tax may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the U.S. Internal Revenue Service.

Gain on Disposition of Class A Subordinate Voting Stock. A Non-U.S. Holder generally will not be subject to U.S. federal income tax with respect to gain recognized on a sale, exchange, or other disposition of Class A Subordinate Voting Stock (including a redemption of Class A Subordinate Voting Stock treated as a sale for federal income tax purposes) unless (i) the gain is effectively connected with the conduct of a United States trade or business of the Non-U.S. Holder, (ii) the Non-U.S. Holder is an individual who holds the Class A Subordinate Voting Stock as a capital asset, is present in the United States for 183 or more days in the taxable year of the sale or other disposition, and either the individual has a "tax home" in the United States or the sale is attributable to an office or other fixed place of business maintained by the individual in the United States, or (iii) we are or have been a "United States real property holding corporation" within the meaning of Section 897(c)(2) of the Code at any time within the shorter of the five-year period ending on the date of disposition or the Non-U.S. Holder's holding period and certain other conditions are met. Assuming the shares of our Class A Subordinate Voting Stock are regularly traded on an established securities market, these conditions include your ownership of more than 5 percent of the outstanding Class A Subordinate Voting Stock at any time during the 5-year period ending on the date you sell any shares of your Class A Subordinate Voting Stock.

Backup Withholding Tax and Information Reporting. Generally, we must report to the IRS the amount of dividends paid, the name and address of the recipient, and the amount, if any, of tax withheld. A similar report is sent to the holder. Pursuant to tax treaties or other agreements, the IRS may make its reports available to tax authorities in the recipient's country of residence. Backup withholding at the rate of 31% may apply to payments subject to information reporting (including dividends and proceeds of sale) made to persons that fail to furnish certain identifying information in accordance with the U.S. information reporting requirements.

Backup withholding and information reporting will not apply to payments of dividends on the Class A Subordinate Voting Stock or gross proceeds of a sale of Class A Subordinate Voting Stock if (i) the beneficial owner of Class A Subordinate Voting Stock certifies under penalty of perjury that it is a Non-U.S. Holder (for example, by providing the payor IRS Form W-8), (ii) payment is made to an “exempt recipient” (which term includes corporations) or (iii) an exemption is otherwise established.

Backup withholding is not an additional tax. Rather, the tax liability of persons subject to 31% backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund may be obtained, provided that the required information is furnished to the IRS.

DIRECTORS AND EXECUTIVE OFFICERS

Our current directors are Messrs. J. Brian Colburn, Vincent J. Galifi, James Nicol and Frank Stronach. Prior to the completion of the distribution we intend to appoint the following individuals as directors.

Directors

<u>Name and Address</u>	<u>Age</u>	<u>Principal Occupation</u>
Jerry D. Campbell . . .	59	President and Chief Executive Officer of the Company
William Davis	69	Counsel, Torys
Peter George	56	Vice Chairman and Chief Executive Officer of Hilton Group plc (formerly Ladbroke Group plc)
Joseph Harper	56	President and General Manager of Del Mar Thoroughbred Club
J. Terrence Lanni	56	Chairman of the Board and Chairman of the Executive Committee of MGM Grand Inc.
Edward C. Lumley . . .	59	Vice Chairman, Nesbitt Burns Inc.
Earle Mack	61	Senior Partner and Chief Financial Officer of The Mack Company
James Nicol	45	Vice-Chairman of the Company and Vice-Chairman of Magna International Inc.
Gino Roncelli	64	Chief Executive Officer of Roncelli Plastics Inc. and Councilman for the City of Arcadia, California
Glenn Schaefer	46	President and Chief Financial Officer of Mandalay Resort Group (formerly Circus Circus Enterprises, Inc.)
Andrew Stronach(1) . .	31	Executive Vice-President, Corporate Development of the Company
Frank Stronach(1) . . .	67	Partner, Frank Stronach & Co.
Ronald Volkman	61	Chairman of the Board and President of ATX, Inc.
John C. York II	50	Executive Vice President and Senior Vice President, Racing Operations of The Edward J. DeBartolo Corporation

(1) Mr. Andrew Stronach is the son of Mr. Frank Stronach.

The term of office for each director expires at the conclusion of the next annual meeting of our stockholders.

All of our directors have held the principal occupations identified above (or another position with the same employer) for not less than five years. Mr. Campbell served as Chairman of the Board and Chief Executive Officer of Republic Bancorp Inc. from April 1986 to December 1999. Mr. Lanni served as Chief Executive Officer of MGM Grand Inc. from June 1995 to December 1999 and was President and Chief Operating Officer of Caesars World Inc. from April 1991 to February 1995. Mr. Nicol has served as a Vice-Chairman of Magna since 1998, prior to which time he served as Chairman and Chief Executive Officer of TRIAM Automotive Inc. since February 1994. Prior to November 1992, Mr. Nicol held various senior management positions within Magna and its subsidiaries. Mr. Andrew Stronach has served as President of both Adena Springs Farm and Stronach Stables since 1998 and held various senior administrative positions with both such companies since 1995.

Upon appointment of our proposed additional directors, we will constitute an Audit Committee and a Corporate Governance, Human Resources and Compensation Committee. A majority of the members of each such committee will be comprised of independent directors.

Primary Officers

Our current officers are Messrs. Frank Stronach (Chairman of the Board), James Nicol (President and Vice Chair), Graham Orr (Executive Vice-President and Chief Financial Officer), Vincent Galifi (Executive Vice-President, Finance), J. Brian Colburn (Executive Vice-President and Secretary), Lonny Powell (Executive Vice-President, Racing Operations) and Frank De Marco Jr. (Vice-President, Regulatory Affairs). Prior to the completion of the distribution we intend to appoint the following individuals as officers:

<u>Name and Address</u>	<u>Age</u>	<u>Position with the Company and Principal Occupation</u>
Jerry D. Campbell . . .	59	President and Chief Executive Officer of the Company
David A. Mitchell . . .	46	Executive Vice-President and Chief Financial Officer of the Company
James Nicol	45	Vice-Chairman of the Company and Vice-Chairman of Magna (since May 1998)
Lonny T. Powell	40	Executive Vice-President, Racetrack Operations of the Company and President and Chief Executive Officer of Los Angeles Turf Club, Inc. (since July 1999)
Andrew Stronach	31	Executive Vice-President, Corporate Development of the Company
Frank De Marco, Jr. . . .	74	Vice-President, Regulatory Affairs of the Company and Executive Director, Secretary and General Counsel of Los Angeles Turf Club, Inc. (since April 1998)
James T. Bromby	40	Corporate Controller of the Company

All of our officers have held the principal occupations identified above (or another position with the same employer) for the last five years, with the exception of Mr. Campbell, Mr. Powell, Mr. Stronach, Mr. DeMarco and Mr. Bromby.

Mr. Campbell served as Chairman of the Board and Chief Executive Officer of Republic Bancorp Inc. from its establishment in April 1986 to December 1999. Mr. Campbell brings us over 32 years of executive experience, including 30 years as a chief executive officer. In addition, Mr. Campbell has approximately 25 years of experience in the horse racing industry through his involvement in the breeding and racing of horses. Mr. Campbell is also the President and Chief Executive Officer of Great Lakes Downs, Inc. which owns and operates Great Lakes Downs racetrack in Muskegan, Michigan.

Mr. Mitchell served as a Senior Vice-President of Caesars World Inc. from September 1994 to December 1999. Mr. Mitchell’s primary responsibilities included the development of major domestic and international gaming venues, including venues in Argentina, Egypt, France, Ireland, Lebanon, Macau, Mexico, Morocco, Phillippines, South Africa, Spain and Venezuela. Mr. Mitchell also brings us several years of management experience in the horse racing industry.

Mr. Powell served as the President of Turf Paradise racetrack from 1994 to 1999, the President of Multnomah Greyhound Park from 1992 to 1994, Executive Vice-President and Chief Executive Officer of Longacres Park from 1990 to 1992, General Manager of Woodlands in 1990, Coordinator and Director of the University of Arizona Racetrack Industry Program from 1986 to 1990 and Assistant General Manager of Longacres Park from 1982 to 1986.

Mr. Stronach has served as President of both Adena Springs Farm and Stronach Stables since 1998 and held various senior administrative positions with both companies since 1995.

Mr. De Marco has been a practicing attorney in Los Angeles County since 1951 and has been the Executive Director, General Counsel and Secretary of Los Angeles Turf Club, Inc. since April, 1998.

Mr. Bromby has served in various capacities at Magna since 1998 and served as Senior Manager at Coopers & Lybrand in Toronto from 1994 to 1998 and in London, England from 1989 to 1994.

Prior to the date of this prospectus, none of our directors or officers owned beneficially any of our Class A Subordinate Voting Stock or Class B Stock. Following the distribution, all of our directors and officers as a group (● persons) will beneficially own ● of shares of our Class A Subordinate Voting Stock, representing approximately ● % of our Class A Subordinate Voting Stock on a fully-diluted basis and none of our Class B Stock. See “Security Ownership of Certain Beneficial Owners and Management”.

Employment Agreements

We expect to enter into employment contracts with senior management effective on or prior to the distribution date. These employment contracts will generally provide for base salaries and annual bonuses (in most cases based on a specified percentage of our pre-tax profits before profit sharing), continued ownership of a minimum amount of our Class A Subordinate Voting Stock, confidentiality obligations and non-competition covenants. Each such employment contract will provide that we may terminate the senior officer’s employment by giving minimum advance written notice of termination or by paying a retiring allowance in lieu thereof.

Once adopted, our Corporate Constitution will provide that aggregate incentive bonuses (which may be paid in cash or deferred for payment in future years or which may be paid in our Class A Subordinate Voting Stock) paid or payable to senior management in respect of any fiscal year shall not exceed 6% of our pre-tax profits before profit sharing for such fiscal year. See “Description of Securities—Corporate Constitution” below.

We are not required to make payments under any employment contract with our senior officers in the event of a change in control.

Stock Option Plan

We intend to adopt a stock option plan (the “Stock Option Plan”) in order to provide stock options and stock appreciation rights in respect of our Class A Subordinate Voting Stock to our eligible senior officers and employees. Certain persons engaged by us to provide management or consulting services to us or for our benefit would also be eligible to receive stock options and stock appreciation rights under the Stock Option Plan.

Under the Stock Option Plan, stock options and stock appreciation rights may be granted in respect of a maximum of ● shares of our Class A Subordinate Voting Stock, subject to customary anti-dilution adjustments. The option price for any option granted under the Stock Option Plan will be established at the time of the grant, but must be at least equal to the closing price of shares of our Class A Subordinate Voting Stock on the trading day immediately prior to the date of the grant. Each option is exercisable in such manner as determined at the date of grant and options will not be granted for terms exceeding 10 years. The Stock Option Plan will provide that:

- (a) the number of shares of our Class A Subordinate Voting Stock reserved for issuance pursuant to stock options granted to insiders may not exceed 10% of our then outstanding Class A Subordinate Voting Stock and Class B Stock;
- (b) the number of shares of our Class A Subordinate Voting Stock issuable to insiders within a one-year period may not exceed 10% of our then outstanding Class A Subordinate Voting Stock and Class B Stock; and
- (c) the number of shares of our Class A Subordinate Voting Stock issuable to any one insider and that insider’s associates within a one-year period may not exceed 5% of our then outstanding Class A Subordinate Voting Stock and Class B Stock.

The Stock Option Plan will be administered by the Corporate Governance, Human Resources and Compensation Committee of our board of directors. The option price will be payable in cash at the time of

exercise or, at the discretion of the Corporate Governance, Human Resources and Compensation Committee, by delivery to us of other consideration or securities.

Our Corporate Governance, Human Resources and Compensation Committee may also grant a stock appreciation right which will permit an optionee to elect to surrender an unexercised option, or any portion thereof, and to receive from us in exchange therefor an amount equal to the difference between the market price and the option exercise price of shares of our Class A Subordinate Voting Stock subject to such option. This grant may be made either at the time of the grant of an option under the Stock Option Plan or prior to the expiry or exercise of such option. The number of shares of our Class A Subordinate Voting Stock subject to a stock appreciation right may not exceed the number of shares of our Class A Subordinate Voting Stock subject to such option. In general, stock appreciation rights will be exercisable only at such times as the options in respect of which they are granted are exercisable. The amount payable as a result of the exercise of a stock appreciation right may, at the discretion of our Corporate Governance, Human Resources and Compensation Committee, be paid in shares of our Class A Subordinate Voting Stock, cash or a combination of our Class A Subordinate Voting Stock and cash.

No options or stock appreciation rights granted under the Stock Option Plan will be transferable other than by will or by the laws of descent and distribution and each option or stock appreciation right will be exercisable during the lifetime of the holder only by him or her.

Subject to regulatory approval and (where required) stockholder approval, our board of directors may amend, revise, suspend or discontinue the Stock Option Plan in whole or in part. However, such amendment, revision, suspension or discontinuance may not without the consent of a participant, alter or impair such participant's previously granted rights under the Stock Option Plan.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of January 1, 2000 regarding the beneficial ownership of our Class A Subordinate Voting Stock and Class B Stock by each person known by us to own more than five percent of the issued and outstanding shares of our Class A Subordinate Voting Stock and our Class B Stock.

The number and percentage of shares of our stock beneficially owned are based on:

- 1,662,890 outstanding shares of our Class A Subordinate Voting Stock as of January 1, 2000.
- 63,712,141 shares of Class B Stock outstanding as of November 5, 1999.

<u>Class of Securities</u>	<u>Name and Address of Beneficial Holder</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Class B Stock	Magna International Inc.(1)(2) 337 Magna Drive Aurora, Ontario L4G 7K1	63,712,141	100%
Class A Subordinate Voting Stock	The Edward J. DeBartolo Corporation	650,695(3)	39%
Class A Subordinate Voting Stock	Ladbroke Racing Corporation	1,012,195(4)	61%

(1) Magna directly owns 58,499,149 (or 91.81%) of these shares of our Class B Stock and also owns 14,823,187 Exchangeable Shares exchangeable into the same number of shares of our Class A Subordinate Voting Stock. The remaining shares of our Class B Stock are owned through direct or indirect wholly

owned subsidiaries of Magna. Assuming the exercise of the Exchangeable Shares, Magna would be entitled to vote approximately 99% of the votes attaching to our stock.

- (2) The Stronach Trust beneficially owns approximately ● % of the Class B Shares of Magna, which shares represent approximately ● % of the voting equity of Magna as of January ● , 2000.
- (3) Represents approximately ● % of our voting equity as of January ● , 2000.
- (4) Represents approximately ● % of our voting equity as of January ● , 2000.

As of January ● , 2000, none of our directors or officers owned any shares of our Class A Subordinate Voting Stock or Class B Stock.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Relationship with Magna

Magna was incorporated under the laws of Ontario, Canada. The Class A Subordinate Voting Shares of Magna are listed for trading on the NYSE and the TSE. Magna's Class B Shares are listed on the TSE. Magna is currently the sole stockholder of our Class B Stock and the Exchangeable Shares and The Edward J. DeBartolo Corporation and Ladbroke Racing Corporation are currently the sole holders of our Class A Subordinate Voting Stock. Upon completion of the distribution, Magna will own all our Class B Stock (and none of our Class A Subordinate Voting Stock), which means that Magna will be entitled to exercise approximately 99% of the total votes attached to all our outstanding stock. Magna will therefore continue to be able to elect all our directors and continue to control us.

Once implemented prior to the distribution, our Corporate Constitution will require that a minimum of two directors be individuals who are not our officers or employees, officers or employees of any of our affiliates (including Magna), directors of any of our affiliates (including Magna), or persons related to any such officers, employees or directors. Our Corporate Constitution will also require that a majority of our directors be individuals who are not our officers or employees or individuals related to such persons. See "Description of Securities—Corporate Constitution—Board of Directors". Policies of applicable securities regulatory authorities also recommend that issuers involved in a "related party transaction" have such transaction approved by a special committee of directors, consisting only of directors who are independent of the interested party and, in certain circumstances, that an independent valuation and the approval of such transaction by a majority of the disinterested stockholders be obtained. We intend to constitute such a special committee of directors in appropriate circumstances and to comply with such other requirements as may be imposed under applicable law.

Magna has made a commitment to its shareholders that it will not, for a period of seven years ending May 31, 2006, without the prior consent of the holders of a majority of Magna's Class A Subordinate Voting Shares: (i) make any further debt or equity investment in us or any of our subsidiaries; or (ii) invest in any non-automotive-related businesses or assets other than through its investment in us. Magna has also stated to its shareholders that it intends to convert some shares of our Class B Stock to shares of our Class A Subordinate Voting Stock and dispose of additional shares of our Class A Subordinate Voting Stock when market conditions for doing so are favorable, with the ultimate intention of retaining only a minority equity position. This may occur through a combination of: (i) secondary sales by Magna of such stock held by it; and/or (ii) the dilution of its interest through the issuance of Class A Subordinate Voting Stock by us in connection with capital market transactions, acquisitions and/or other investments by business partners in us. Magna's commitment is contained in a forbearance agreement dated as of ● , 2000 between us and Magna and in which Magna's shareholders are express third party beneficiaries.

See Note 11 to the Consolidated Financial Statements regarding certain transactions between us and Magna.

Control of the Company

After giving effect to the distribution, Magna will continue to be able to elect all our directors and will continue to control us. Therefore, Magna will continue to be able to cause us to effect certain corporate transactions without the consent of our minority stockholders, subject to applicable law. In addition, Magna will continue to be able to cause or prevent a change in our control. The Stronach Trust controls Magna through the right to direct the votes attaching to Class B Shares of Magna which carry a majority of the votes attaching to the outstanding voting shares of Magna. Frank Stronach, one of our directors, and the founder, a director and Chairman of the Board of Directors of Magna, together with three other members of his family, are the trustees of the Stronach Trust. Mr. Stronach is also one of the members of the class of potential beneficiaries of the Stronach Trust.

Purchase of Land in Aurora, Canada

During the five month period ended December 31, 1998, Magna entered into an agreement to purchase from a company associated with members of the family of Frank Stronach, the Chairman of the Board of Magna, approximately 200 acres of land and improvements in Aurora, Ontario for a purchase price of approximately \$11.0 million. This land is adjacent to land currently owned by Magna and other land subject to a conditional sale agreement by Magna to us. As at September 30, 1999, Magna had paid \$9.0 million to the vendor in connection with this transaction. The rights to acquire this land and improvements, as well as golf course construction in progress funded by Magna, have been transferred to us as part of the Reorganization (see “Reorganization” above).

Access Fees

Pursuant to an access agreement dated as of March 1, 1999, Magna is currently paying us an annual fee to access the Fontana Sports golf course and related recreational facilities for Magna-sponsored corporate and charitable events as well as for business development purposes. The access fee relating to Fontana Sports is payable until March 1, 2004. Upon completion of Aurora Downs, Magna will enter into an agreement to pay us an annual access fee to use Aurora Downs for Magna-sponsored corporate and charitable events and business development purposes. The access fee agreement relating to Aurora Downs will expire five years from the date of such agreement. We have also granted Magna a right of first refusal to purchase these two golf courses, if we decide to sell them.

Purchase of Great Lakes Downs

Pursuant to a purchase agreement dated as of December 24, 1999, with Great Lakes Downs, Inc. and Great Lakes Downs Café, Inc., we agreed to acquire the assets and assume certain liabilities of Great Lakes Downs racetrack for a purchase price of approximately \$1.7 million, payable by the issuance of 246,287 shares of our Class A Subordinate Voting Stock. Mr. Jerry Campbell, one of our proposed directors and our proposed President and Chief Executive Officer is the principal shareholder of Great Lakes Downs, Inc.

LEGAL PROCEEDINGS

One of our subsidiaries has been named as a defendant in a class action brought in a United States District Court by Gutwillig et al. The plaintiffs in this class action claim unspecified compensatory and punitive damages, for restitution and disgorgement of profits, all in relation to forced labor performed by the plaintiffs for such subsidiary and certain other Austrian and German corporate defendants at their facilities in Europe during World War II. As a result of the transactions described under the heading “Reorganization” above, we acquired the stock of such subsidiary. Under Austrian law, such subsidiary would be jointly and severally liable for the damages awarded in respect of this class action claim. We cannot predict the final outcome of this class action suit, or establish a reasonable estimate of possible damages or a range of possible damages that could be

awarded to the plaintiffs if their claims are successful. However, an Austrian subsidiary of Magna has agreed to indemnify such subsidiary for any damages or expenses associated with this claim.

From time to time, various routine claims incidental to our business are made against us. None of these claims have had, and we believe that none of the current claims, if successful, will have, a materially adverse effect upon us.

TRADING HISTORY AND DIVIDEND RECORD AND POLICY

There has been no market for the shares of our Class A Subordinate Voting Stock or Class B Stock or for the Exchangeable Shares.

Holders of shares of our Class A Subordinate Voting Stock, our Class B Stock and the Exchangeable Shares are entitled to receive their proportionate shares of dividends as may be declared by our board of directors, subject to the prior rights attaching to any other stock ranking in priority to our Class A Subordinate Voting Stock, our Class B Stock and the Exchangeable Shares.

Subject to applicable law, we intend to pay dividends starting with the fiscal year commencing January 1, 2004 in respect of the quarter commencing on that date and each succeeding quarter on our Class A Subordinate Voting Stock and our Class B Stock. We will declare future dividends on our Class A Subordinate Voting Stock and our Class B Stock in accordance with our articles of incorporation and our Corporate Constitution. See “Description of Our Securities—Corporate Constitution—Dividends”.

We were incorporated on March 4, 1999 and have not declared any dividends to date.

DESCRIPTION OF OUR SECURITIES

Our authorized stock consists of 310,000,000 shares of Class A Subordinate Voting Stock, par value \$0.01, and 90,000,000 shares of Class B Stock, par value \$0.01.

Neither Delaware law nor our articles of incorporation or by-laws limit the right of non-resident or foreign owners of our Class A Subordinate Voting Stock or Class B Stock to hold or to vote such stock.

Class A Subordinate Voting Stock

Holders of our Class A Subordinate Voting Stock are entitled:

- to one vote for each share of Class A Subordinate Voting Stock held at all meetings of our stockholders, excluding meetings of the holders of another class or series of stock; holders of shares of our Class B Stock are entitled to vote at such meetings on the basis of 20 votes per share of Class B Stock held;
- to receive a proportionate share of dividends that may be declared by our Board of Directors, other than certain stock dividends described below, and subject to the prior rights of stock ranking prior to our Class A Subordinate Voting Stock and our Class B Stock; and
- to receive a proportionate share of proceeds from the sale of our property and net assets available for distribution in the event of our liquidation, dissolution, winding-up or any other distribution of our assets among our stockholders for the purpose of winding-up our affairs.

Under our articles of incorporation, our Board of Directors may declare a simultaneous stock dividend payable on our Class A Subordinate Voting Stock in Class A Subordinate Voting Stock and on our Class B Stock in Class A Subordinate Voting Stock or Class B Stock (which would cause additional voting dilution to

holders of our Class A Subordinate Voting Stock). No dividend payable in Class B Stock may be declared on our Class A Subordinate Voting Stock.

Holders of our Class A Subordinate Voting Stock have certain additional voting rights under our Corporate Constitution. See “Description of Securities—Corporate Constitution” below.

Our articles of incorporation state that where such articles (including the Corporate Constitution) require the approval of the holders of our Class A Subordinate Voting Stock voting as a separate class, such approval means the approval given by a majority of the votes cast at a meeting of such holders other than the votes attaching to shares of Class A Subordinate Voting Stock beneficially owned directly or indirectly by Magna or by any person who, by agreement, is acting jointly with Magna or over which Magna or any such person exercises direct or indirect control or direction. No such limitations would apply to any other holder of shares of Class A Subordinate Voting Stock.

Class B Stock

The holders of our Class B Stock are entitled:

- to 20 votes for each share of Class B Stock held at all meetings of our stockholders, other than meetings of the holders of another class or series of stock; holders of our Class A Subordinate Voting Stock are entitled to vote at such meetings on the basis of one vote per share held;
- to receive a proportionate share of any dividends that may be declared by our board of directors other than certain stock dividends as described above and subject to the prior rights of stock ranking in priority to our Class B Stock and our Class A Subordinate Voting Stock;
- to receive a proportionate share of the proceeds from the sale of our property and net assets available for distribution in the event of our liquidation, dissolution, winding-up or any other distribution of our assets among our stockholders for the purpose of winding-up our affairs; and
- from time to time, to convert the Class B Stock into Class A Subordinate Voting Stock on a one-for-one basis. Our Class B Stock cannot be issued without the approval by ordinary resolution of the holders of our Class B Stock voting separately as a class, other than in connection with a stock dividend.

Corporate Constitution

We have adopted certain organizational and operating policies and principles, some of which will be embodied in our Corporate Constitution. Our Corporate Constitution, which will form part of our charter documents, defines the rights of employees and investors to participate in our profits and growth and imposes discipline on our management. The following description summarizes the material terms and provisions of our Corporate Constitution. These features cannot be amended or varied without the prior approval of the holders of our Class A Subordinate Voting Stock (other than Magna or any person who, by agreement, is acting jointly with Magna or over which Magna or any such person exercises direct or indirect control or direction) and our Class B Stock, each voting as a separate class.

Board of Directors

Our Corporate Constitution provides that, unless otherwise approved by the holders of our Class A Subordinate Voting Stock and our Class B Stock, each voting as a separate class, a majority of the members of our Board of Directors shall be individuals who are not our officers or employees or individuals related to such persons and that a minimum of two directors shall be persons who are not officers or employees of us or any of our affiliates (including Magna) or directors of any of our affiliates (including Magna), nor persons related to any such officers, employees or directors.

Employee Profit Sharing Plan

Our Corporate Constitution requires that 10% of our pre-tax profits before profit sharing for each fiscal year commencing in respect of our fiscal year commencing January 1, 2004 be allocated to our employee profit sharing plan and/or otherwise be distributed to our employees or the employees of our affiliates who do not participate in a similar plan, and who do not receive management incentive bonuses, during such year or the immediately following fiscal year. See “Incentive Bonuses” below.

Dividends

Our Corporate Constitution provides that, commencing in respect of our fiscal year commencing January 1, 2004, unless otherwise approved by ordinary resolution of the holders of each of our Class A Subordinate Voting Stock and our Class B Stock, voting as separate classes, the holders of our Class A Subordinate Voting Stock and our Class B Stock will be entitled to receive and we will pay, as and when declared by our Board of Directors out of funds properly applicable to the payment of dividends, non-cumulative dividends in respect of such fiscal years so that the aggregate of the dividends paid or payable in respect of such year is at least equal to 10% of our after-tax profits for our fiscal years commencing January 1, 2004 and 2005. In respect of each fiscal year thereafter, holders of our Class A Subordinate Voting Stock and Class B Stock will be entitled to receive dividends in respect of such fiscal years so that the aggregate of the dividends paid or payable in respect of such year is (i) equal to at least 10% of our after-tax profits and (ii) on average, equal to at least 20% of our after-tax profits for such fiscal year and the two immediately preceding fiscal years.

Authorized Capital

Except as otherwise approved by the holders of at least a majority of each of our Class A Subordinate Voting Stock and our Class B Stock, voting as separate classes, our Corporate Constitution prohibits: (i) an increase in the maximum number of authorized shares of any class of our capital stock; and (ii) the creation of any new class or series of stock having voting rights (other than on default in the payment of dividends) or having rights to participate in our profits (other than securities convertible into existing classes of stock or a class or series of stock having fixed dividends or dividends determined without regard to profits).

Social Objectives

Beginning in respect of our fiscal year commencing January 1, 2004, pursuant to our Corporate Constitution, a maximum of 2% of our pre-tax profits for any fiscal year shall be allocated to the promotion of certain social objectives during such fiscal year or the immediately following fiscal year. The term “social objectives” is defined to mean objectives which, in the sole opinion of our executive management, are of a political, patriotic, philanthropic, charitable, educational, scientific, artistic, social or other useful nature to the communities in which we operate.

Incentive Bonuses

Our Corporate Constitution provides that, effective in our fiscal year commencing January 1, 2004, incentive bonuses (which may be paid in cash or in our Class A Subordinate Voting Stock) paid or payable to our corporate management in respect of each fiscal year shall not exceed 6% of our pre-tax profits before profit sharing for such fiscal year and that base salaries payable to such corporate management shall be comparable to those in the industry generally. “Corporate management” is defined to mean our chief executive officer, chief operating officer, chief marketing officer and chief administrative officer and any other employee designated by such persons from time to time to be included within “corporate management”.

DESCRIPTION OF EXCHANGEABLE SHARES

The following is a summary of the rights, privileges, restrictions and conditions attaching to the Exchangeable Shares of our Ontario subsidiary MI Venture (Canada) Inc. and the terms of the Exchangeable Share Support Agreement and the Voting and Exchange Agreement, two agreements relating to the Exchangeable Shares to which we are a party, each dated as of December 30, 1999.

General

The Exchangeable Shares will be issued by our subsidiary MI Venture (Canada) Inc., which we refer to throughout this prospectus as Exchangeco. The Exchangeable Shares, together with certain ancillary rights are intended to be economically equivalent to the shares of our Class A Subordinate Voting Stock. The Exchangeable Shares will be exchangeable at any time at the option of the holder, on a one-for-one basis, for shares of our Class A Subordinate Voting Stock. By furnishing instructions to Magna under the Voting and Exchange Agreement, holders of the Exchangeable Shares will be able to exercise essentially the same voting rights with respect to us as they would have if they exchanged their Exchangeable Shares for shares of our Class A Subordinate Voting Stock. Holders of Exchangeable Shares will also be entitled to receive from Exchangeco dividends that are economically equivalent to any dividends paid on shares of our Class A Subordinate Voting Stock. The Exchangeable Shares are subject to adjustment or modification in the event of a stock split, stock dividend or other change to our capital structure so as to maintain the one-to-one relationship between the Exchangeable Shares and the shares of our Class A Subordinate Voting Stock.

Voting, Dividend and Liquidation Rights

Voting Rights with Respect to Exchangeco

Except as required by law or under the Exchangeable Share Support Agreement, the terms of the Exchangeable Shares with respect to the amendment thereof or the Voting and Exchange Agreement, the holders of Exchangeable Shares are not entitled to receive notice of or attend any meeting of shareholders of Exchangeco or to vote at any such meeting.

Voting Rights with Respect to Us

Pursuant to the Voting and Exchange Agreement, each holder of an Exchangeable Share (other than us and our subsidiaries) on the record date for any meeting at which our stockholders are entitled to vote will be entitled to instruct Magna, and Magna has agreed, to exercise one of the votes attached to a share of our Class A Subordinate Voting Stock or a share of our Class B Stock for each Exchangeable Share held by such holder. Under such agreement Magna has agreed that, for so long as any of the Exchangeable Shares are outstanding, it will at all times hold the power to cast an identical number of votes attaching to our Class A Subordinate Voting Stock or Class B Stock. If we are required to hold a class vote of our Class A Subordinate Voting Stock, Magna may not use the voting rights attaching to any of the shares of our Class B Stock that it holds to satisfy its obligation to cast votes as instructed by holders of Exchangeable Shares, but may only exercise the voting rights attaching to our Class A Subordinate Voting Stock held by it for that purpose. If necessary, Magna will convert Class B Stock into shares of our Class A Subordinate Voting Stock in order to have enough shares of that class available to honor all the voting instructions that it receives. If Magna does not receive voting instructions covering all the outstanding Exchangeable Shares, it will refrain from exercising a number of voting rights attaching to our shares that it holds that is equal to the number of Exchangeable Shares for which no voting instructions were received. A holder of Exchangeable Shares may, upon request to Magna, obtain a proxy from Magna entitling the holder to vote directly at the relevant meeting the votes attached to our shares held by Magna to which the Exchangeable Share holder is entitled to give Magna voting instructions.

We will send to the holders of the Exchangeable Shares, at our own expense, the notice of each meeting at which our stockholders are entitled to vote, together with the related meeting materials and a statement as to

the manner in which the holder may instruct Magna to exercise voting rights or to deliver a proxy to the holder. Such mailing shall commence on the same day as we send such notice and materials to our stockholders. We will also send to the holders of Exchangeable Shares copies of all information statements, interim and annual financial statements, reports and other materials sent by us to stockholders at the same time as such materials are sent to them. To the extent such materials are provided to us, we will also send to the holders of Exchangeable Shares all materials sent by third parties to our stockholders, including dissident proxy circulars and tender and exchange offer circulars, as soon as reasonably practicable after such materials are delivered to us.

All rights of a holder of Exchangeable Shares to instruct Magna to exercise votes attached to shares of our stock held by Magna will cease upon the exchange (whether by redemption, retraction or liquidation, or through the exercise of any of the rights as described below) of all such holder's Exchangeable Shares for shares of our Class A Subordinate Voting Stock.

In accordance with the terms of the Exchangeable Share Support Agreement, we and our subsidiaries will not exercise any voting rights with respect to any Exchangeable Shares held by us or our subsidiaries, although we will appoint proxyholders with respect to such Exchangeable Shares for the sole purpose of attending meetings of the holders of Exchangeable Shares in order to be counted as part of the quorum for such meetings.

Dividend Rights

Holders of Exchangeable Shares will be entitled to receive, subject to applicable law and to the next paragraph, dividends: (i) in the case of a cash dividend declared on shares of our Class A Subordinate Voting Stock, in an amount in cash for each Exchangeable Share corresponding to the cash dividend declared on each of the shares of our Class A Subordinate Voting Stock; (ii) in the case of a stock dividend declared on the shares of our Class A Subordinate Voting Stock to be paid in shares of our Class A Subordinate Voting Stock, in such number of Exchangeable Shares for each Exchangeable Share as is equal to the number of shares of our Class A Subordinate Voting Stock to be paid on each such outstanding share; or (iii) in the case of a dividend declared on the shares of our Class A Subordinate Voting Stock in property other than cash or shares of our Class A Subordinate Voting Stock, in such type and amount of property as is the same as or economically equivalent to, the type and amount of property declared as a dividend on each of the shares of our Class A Subordinate Voting Stock. Cash dividends on the Exchangeable Shares are payable in U.S. dollars or the Canadian dollar equivalent thereof, at the option of Exchangeco. The declaration date, record date and payment date for dividends on the Exchangeable Shares will be the same as the relevant date for the corresponding dividends on the shares of our Class A Subordinate Voting Stock. See "Trading History and Dividend Record and Policy".

In the case of a stock dividend declared on the shares of our Class A Subordinate Voting Stock to be paid in shares of our Class A Subordinate Voting Stock, in lieu of declaring a corresponding stock dividend on the Exchangeable Shares, the Board of Directors of Exchangeco may, in its discretion and subject to applicable law, subdivide, redivide or change (the "subdivision") each Exchangeable Share on the basis that each Exchangeable Share before the subdivision becomes a number of Exchangeable Shares as is equal to the sum of: (i) a share of our Class A Subordinate Voting Stock; and (ii) the number of shares of our Class A Subordinate Voting Stock to be paid as a stock dividend on each share of our Class A Subordinate Voting Stock. In such instance, such subdivision shall become effective on the effective date for the dividend declared on the shares of our Class A Subordinate Voting Stock without any further act or formality on the part of the Board of Directors of Exchangeco or of the holders of Exchangeable Shares. No approval of the holders of Exchangeable Shares to an amendment to the articles of Exchangeco shall be required to give effect to such subdivision. The record date for the determination of the holders of Exchangeable Shares entitled to receive Exchangeable Shares in connection with any subdivision of Exchangeable Shares and the effective date of such subdivision shall be the same dates as the record date and payment date, respectively, for the corresponding stock dividend declared on the shares of our Class A Subordinate Voting Stock.

Rights Upon an Event of Insolvency

Upon the occurrence and during the continuance of an event of insolvency of Exchangeco, each holder of Exchangeable Shares (other than us and our subsidiaries) will be entitled to exercise an exchange right with respect to any or all of the Exchangeable Shares held by such holder, thereby requiring us to purchase such Exchangeable Shares from the holder of our Class A Subordinate Voting Stock, the purchase price for which will be satisfied by the delivery of one share of our Class A Subordinate Voting Stock. As soon as practicable following the occurrence of an event of insolvency of Exchangeco, or any event which may, with the passage of time and/or the giving of notice, become such an event, we or Exchangeco will give notice thereof to each holder of Exchangeable Shares, which notice will advise the holder of the rights described in this paragraph. The purchase price payable by us for each Exchangeable Share purchased under this exchange right will be the same amount as Exchangeco would pay holders of Exchangeable Shares upon a liquidation.

Liquidation Rights with Respect to Exchangeco

In the event of the liquidation, dissolution or winding-up of Exchangeco or any other distribution of the assets of Exchangeco among its shareholders for the purpose of winding-up its affairs, holders of the Exchangeable Shares will have, subject to applicable law, preferential rights to receive from Exchangeco a specified liquidation amount (being the then current market price of a share of our Class A Subordinate Voting Stock) for each Exchangeable Share held, payable in shares of our Class A Subordinate Voting Stock, plus all declared and unpaid dividends. Upon the occurrence of such liquidation, dissolution or winding-up, we will have an overriding liquidation call right to purchase all the outstanding Exchangeable Shares (other than Exchangeable Shares held by us or our subsidiaries) from the holders thereof on the liquidation date for a purchase price per share equal to the specified liquidation amount.

Liquidation Rights with Respect to Us

In order for the holders of the Exchangeable Shares to participate on a *pro rata* basis with the holders of shares of our Class A Subordinate Voting Stock, on the fifth business day prior to the effective date of our voluntary or involuntary liquidation, dissolution or winding-up, each Exchangeable Share (other than those held by us or our subsidiaries) will, pursuant to an automatic exchange right under Voting and Exchange Agreement, automatically be exchanged for a share of our Class A Subordinate Voting Stock together with an amount of cash equal to any declared but unpaid dividends on each Exchangeable Share. The certificates previously evidencing the Exchangeable Shares shall automatically be deemed to evidence an equal number of shares of our Class A Subordinate Voting Stock. Upon a holder's request and the surrender of the Exchangeable Share certificates, we will deliver to such holder certificates representing an equivalent number of shares of our Class A Subordinate Voting Stock. For a description of certain of our obligations with respect to the dividend and liquidation rights of the holders of Exchangeable Shares, see "Description of Exchangeable Shares—Support Obligation".

Retraction

Subject to the exercise by us of our retraction call right, holders of the Exchangeable Shares will be entitled, at any time following the effective time of the retraction, to retract (i.e., require Exchangeco to redeem) any or all of the Exchangeable Shares held by such holder for a retraction price per share equal to the then current market price of a share of our Class A Subordinate Voting Stock, which retraction price will be satisfied by the delivery of one share of our Class A Subordinate Voting Stock, plus all declared and unpaid dividends. Holders of the Exchangeable Shares may effect such retraction by presenting: (i) a certificate or certificates to Exchangeco representing the number of Exchangeable Shares the holder desires to retract; (ii) a duly executed retraction request indicating the number of Exchangeable Shares the holder desires to retract and the retraction date and acknowledging the retraction call right described in the paragraph below; and (iii) such other documents as may be required to effect the retraction of the Exchangeable Shares.

When a holder retracts Exchangeable Shares, we will have an overriding call right to purchase on the retraction date all but not less than all of the retracted shares, at a purchase price per share equal to the retraction price, which purchase price will be satisfied by the delivery of one share of our Class A Subordinate Voting Stock. Upon receipt of a retraction request, Exchangeco will immediately notify us of it. We must then advise Exchangeco within five business days as to whether we will exercise our retraction call right. If we do not so advise Exchangeco, Exchangeco will notify the holder as soon as possible thereafter that we will not exercise our retraction call right. If we advise Exchangeco that we will exercise our retraction call right within such five business-day period, then provided the retraction request is not revoked by the holder as described below, the retraction request shall thereupon be considered only to be an offer by the holder to sell the retracted shares to us in accordance with our retraction call right.

A holder may revoke his or her retraction request, in writing, at any time prior to the close of business on the business day preceding the retraction date, in which case the retracted shares will neither be purchased by us nor be redeemed by Exchangeco. If a holder does not revoke his or her retraction request, on the retraction date the retracted shares will either be purchased by us or redeemed by Exchangeco, as the case may be.

If, as a result of solvency requirements or applicable law, Exchangeco is not permitted to redeem all retracted shares tendered by a retracting holder, Exchangeco will redeem only those retracted shares tendered by the holder (rounded down to a whole number of shares) as would not be contrary to such provisions of applicable law. We will be required to purchase the retracted shares not redeemed on the retraction date.

Redemption

Subject to applicable law and the redemption call right described in the next paragraph, on the redemption date, Exchangeco will redeem all but not less than all of the then outstanding Exchangeable Shares for a redemption price per share equal to the then current market price of a share of our Class A Subordinate Voting Stock, which redemption price will be satisfied by the delivery of one share of our Class A Subordinate Voting Stock, together with all declared but unpaid dividends. Exchangeco will, at least 60 days prior to the redemption date, or such number of days as the Board of Directors of Exchangeco may determine to be reasonably practicable under the circumstances in respect of a redemption date arising in connection with, among other events, a change of control of us or an event in respect of which the approval of holders of Exchangeable Shares is required, provide the registered holders of the Exchangeable Shares with written notice of the proposed redemption of the Exchangeable Shares by Exchangeco or the purchase of the Exchangeable Shares by us pursuant to the redemption call right.

We will have an overriding call right to purchase on the redemption date all, but not less than all, of the Exchangeable Shares then outstanding (other than Exchangeable Shares held by us and our subsidiaries) for a purchase price per share equal to the redemption price, which purchase price will be satisfied by the delivery of one share of our Class A Subordinate Voting Stock. Upon our exercise of the redemption call right, holders will be obligated to sell their Exchangeable Shares to us. If we exercise the redemption call right, Exchangeco's right and obligation to redeem the Exchangeable Shares on the redemption date will terminate.

Date for Redemption

Exchangeco has the right to redeem all of the Exchangeable Shares on and after October 1, 2001, or such other date after October 1, 2001 but prior to April 1, 2003 that the Board of Directors of Exchangeco may determine provided that written notice of the determination of such other date is provided to holders of the Exchangeable Shares at least 60 days before October 1, 2001.

In certain circumstances, Exchangeco has the right to require a redemption of the Exchangeable Shares prior to the date referred to in the paragraph above. Subject to the terms and condition of the Exchangeable Share Support Agreement, and subject to the redemption call right, an early redemption may occur upon:

- (a) the number of Exchangeable Shares then outstanding, other than Exchangeable Shares held by us and our subsidiaries, constitutes less than 5% of the aggregate of the number of shares of our Class A

Subordinate Voting Stock then outstanding and the total number of Exchangeable Shares then outstanding (including all Exchangeable Shares held by us and our subsidiaries);

- (b) the occurrence of a change of control of us, provided that the Board of Directors of Exchangeco determines (i) that it is not reasonably practicable to substantially replicate the terms and conditions of the Exchangeable Shares in connection with the change of control transaction, and (ii) that the redemption of the Exchangeable Shares is necessary to enable the completion of the change of control transaction;
- (c) a proposal being made for any matter relating to Exchangeco that requires the approval of the holders of Exchangeable Shares, provided that the Board of Directors of Exchangeco determines that it is not reasonably practicable to accomplish the business purpose intended by the matter (which business purpose must be *bona fide* and not for the primary purpose of causing the occurrence of an early redemption) in any other commercially reasonable manner; or
- (d) the failure by the holders of the Exchangeable Shares to approve or disapprove, as applicable, a matter relating to Exchangeco that requires the approval of the holders of Exchangeable Shares for the purpose of maintaining the equivalence of the Exchangeable Shares and the shares of our Class A Subordinate Voting Stock.

Ranking

The Exchangeable Shares will be entitled to a preference over the common shares of Exchangeco and any other shares ranking junior to the Exchangeable Shares with respect to the payment of dividends and the distribution of assets in the event of a liquidation, dissolution or winding-up of Exchangeco, whether voluntary or involuntary, or any other distribution of the assets of Exchangeco, among its shareholders for the purpose of winding-up its affairs.

Certain Restrictions

Exchangeco will not take any of the following actions without the approval of the holders of Exchangeable Shares as set forth below under “Description of Exchangeable Shares—Amendment and Approval”:

- (a) pay any dividends on the common shares of Exchangeco, or any other shares ranking junior to the Exchangeable Shares, other than stock dividends payable in common shares of Exchangeco, or any such other shares ranking junior to the Exchangeable Shares, as the case may be;
- (b) redeem, purchase or make any capital distribution in respect of common shares of Exchangeco, or any other shares ranking junior to the Exchangeable Shares;
- (c) redeem or purchase any other shares of Exchangeco ranking equally with the Exchangeable Shares with respect to the payment of dividends or any liquidation distribution;
- (d) issue any Exchangeable Shares other than: (i) pursuant to any shareholder rights plan adopted by Exchangeco; (ii) by way of stock dividend to the holders of Exchangeable Shares, or (iii) by way of any subdivision described above under the heading “Description of Exchangeable Shares—Dividend Rights”; or
- (e) issue any shares of Exchangeco ranking equally with, or superior to, the Exchangeable Shares other than by way of stock dividend to the holders of such Exchangeable Shares.

The restrictions in clauses (a), (b), (c) and (d) above will not apply at any time when the dividends on the outstanding Exchangeable Shares corresponding to dividends declared and paid on the shares of our Class A Subordinate Voting Stock from its first date of issue through such time have been declared and paid in full.

Amendment and Approval

The rights, privileges, restrictions and conditions attaching to the Exchangeable Shares may be added to, changed or removed only with the approval of the holders thereof. Any such approval or any other approval or consent to be given by the holders of the Exchangeable Shares will be deemed to have been sufficiently given if given in accordance with applicable law subject to a minimum requirement that such approval or consent be evidenced by a resolution passed by not less than two-thirds of the votes cast on such resolution at a meeting of the holders of Exchangeable Shares duly called and held at which holders of at least 25% of the then outstanding Exchangeable Shares are present or represented by proxy. In the event that no such quorum is present at such meeting within one-half hour after the time appointed therefor, then the meeting will be adjourned to such place and time (not less than five days later) as may be designated by the Chairman of such meeting. At such adjourned meeting, the holders of Exchangeable Shares present or represented by proxy may transact the business for which the meeting was originally called and a resolution passed thereat by the affirmative vote of not less than two-thirds of the votes cast on such resolution will constitute the approval or consent of the holders of the Exchangeable Shares.

Support Obligation

Pursuant to the Exchangeable Share Support Agreement, for so long as any Exchangeable Shares (other than Exchangeable Shares owned by us or our subsidiaries) remain outstanding:

- (a) we will not declare or pay dividends on the shares of our Class A Subordinate Voting Stock unless Exchangeco is able to (x) declare and pay and simultaneously declares or pays, as the case may be, an equivalent dividend on the Exchangeable Shares or (y) subdivide and simultaneously subdivides the Exchangeable Shares in lieu of declaring a stock dividend;
- (b) we will advise Exchangeco in advance of the declaration of any dividend on the shares of our Class A Subordinate Voting Stock and ensure that (x) the declaration date, record date and payment date for dividends on the Exchangeable Shares are the same as those for the corresponding dividend on the Shares of our Class A Subordinate Voting Stock or (y) the record date and effective date for a subdivision of the Exchangeable Shares in lieu of declaring a stock dividend are the same at the record date and payment date for the corresponding stock dividend on the shares of our Class A Subordinate Voting Stock;
- (c) we will ensure that the record date for any dividend declared on the shares of our Class A Subordinate Voting Stock is not less than 10 business days after the declaration date of such dividend;
- (d) we will take all actions and do all things reasonably necessary or desirable to enable and permit Exchangeco, in accordance with applicable law, to pay to the holders of the Exchangeable Shares the applicable liquidation amount, redemption price and retraction price in the event of a liquidation, dissolution or winding-up of Exchangeco, a retraction request by a holder of Exchangeable Shares or a redemption of Exchangeable Shares by Exchangeco; and
- (e) we will take all actions and do all things reasonably necessary or desirable to enable and permit us in accordance with applicable law, to perform our obligations arising upon the exercise by us of our call rights, including the delivery of shares of our Class A Subordinate Voting Stock in accordance with the provisions of the applicable call right.

The Exchangeable Share Support Agreement and the terms of the Exchangeable Shares provide that, without the prior approval of Exchangeco and the holders of the Exchangeable Shares given in the manner set forth above under “Description of Exchangeable Shares—Amendment and Approval”, we will not issue or distribute additional shares of our Class A Subordinate Voting Stock, securities exchangeable for or convertible into or carrying rights to acquire shares of our Class A Subordinate Voting Stock, rights, options or warrants to subscribe therefore, evidences of indebtedness or other assets, to all or substantially all holders of shares of our

Class A Subordinate Voting Stock, nor shall we change the shares of our Class A Subordinate Voting Stock, unless the same or an economically equivalent distribution on or change to the Exchangeable Shares (or in the rights of the holders thereof) is made simultaneously. The Exchangeco Board of Directors is conclusively empowered to determine in good faith and in its sole discretion whether any corresponding distribution on or change to the Exchangeable Shares is the same as or economically equivalent to any proposed distribution on or change to the shares of our Class A Subordinate Voting Stock. In the event of any proposed tender offer, share exchange offer, issuer bid, take-over bid or similar transaction with respect to the shares of our Class A Subordinate Voting Stock which is recommended by our Board of Directors and in connection with which the Exchangeable Shares are not redeemed by Exchangeco or purchased by us pursuant to the redemption call right, we will use reasonable efforts to take all actions necessary or desirable to enable holders of Exchangeable Shares to participate in such transaction to the same extent and on an economically equivalent basis as the holders of shares of our Class A Subordinate Voting Stock.

In order to assist us to comply with our obligations under the Exchangeable Share Support Agreement and to permit us to exercise the call rights, Exchangeco is required to notify us of the occurrence of certain events, such as the liquidation, dissolution or winding-up of Exchangeco, and Exchangeco's receipt of a retraction request from a holder of Exchangeable Shares.

Under the Exchangeable Share Support Agreement, we have agreed not to exercise any voting rights attached to the Exchangeable Shares owned by us or any of our subsidiaries on any matter considered at meetings of holders of Exchangeable Shares. We have also agreed to use our reasonable efforts to enable Exchangeco to maintain a listing for the Exchangeable Shares on a Canadian stock exchange.

With the exception of administrative changes for the purpose of adding covenants of any or all parties, making certain necessary amendments or curing ambiguities or clerical errors (in each case provided that our Board of Directors and the Board of Directors of Exchangeco are of the opinion that such amendments are not prejudicial to the interests of the holders of the Exchangeable Shares), the Exchangeable Share Support Agreement may not be amended without the approval of the holders of the Exchangeable Shares given in the manner set forth above under "Description of Exchangeable Shares—Amendment and Approval".

LEGAL MATTERS

Certain legal matters in connection with the distribution of shares of our Class A Subordinate Voting Stock will be passed upon by Sidley & Austin, our United States counsel. Certain legal matters in connection with the distribution of the Exchangeable Shares will be passed upon by Osler, Hoskin & Harcourt LLP, our Canadian counsel.

AUDITORS, TRANSFER AGENT AND REGISTRAR

Our auditors are Ernst & Young LLP, 2049 Century Park East, Suite 1700, Los Angeles, California 90067.

The transfer agent and registrar for our Class A Subordinate Voting Stock is ● at its principal office in ● .

PROMOTER

Since Magna took the initiative in substantially reorganizing our business and capital, Magna may be a promoter of us, and a promoter of Exchangeco, within the meaning of the securities laws of certain provinces of Canada. See “Relationship with Magna”, “Security Ownership of Certain Beneficial Owners and Management”, “Certain Relationships and Related Transactions” and “Reorganization”.

FINANCIAL STATEMENTS

Unaudited Pro Forma Consolidated Financial Statements of MI Entertainment Corp. as at and for the nine months ended September 30, 1999 and for the year ended December 31, 1998	F-2
Audited Consolidated Financial Statements of MI Entertainment Corp. as at December 31, 1998, July 31, 1998 and 1997 and for the five month period ended December 31, 1998 and years ended July 31, 1998, 1997 and 1996	F-12
Audited Financial Statements of Los Angeles Turf Club, Inc. as at December 10, 1998 and December 31, 1997 and for the periods from January 1, 1998 through December 10, 1998, November 6, 1997 through December 31, 1997, January 1, 1997 through November 5, 1997 and for the year ended December 31, 1996.	F-43
Audited Consolidated Financial Statements of Gulfstream Park Racing Association, Inc. and Subsidiary as at December 31, 1998 and 1997 and for each of the years in the three year period ended December 31, 1998	F-58
Audited Financial Statements of Remington Park, Inc. as at December 31, 1998 and 1997 and for each of the years in the three year period ended December 31, 1998	F-70
Audited Financial Statement of Thistledown, Inc. as at December 31, 1998 and 1997 and for each of the years in the three year period ended December 31, 1998	F-83
Audited Combined Financial Statements of Golden Gate Fields (consisting of Pacific Racing Association's operations subject to the licensing provisions of the California Horse Racing Board, Ladbroke Racing California, Inc. and Ladbroke Land Holdings, Inc. (wholly owned subsidiaries of Ladbroke Racing Corporation)) as at December 31, 1998 and 1997 and for each of the years in the three year period ended December 31, 1998	F-95

Separate financial statements for the real estate assets acquired by The Santa Anita Companies, Inc. from Meditrust Corporation have not been provided as this would provide no additional information that would be useful in the context of the Company's registration of its shares of Class A Subordinate Voting Stock. Such real estate was leased by the previous owner to the Los Angeles Turf Club, Inc. ("LATC"). Given the terms of the lease agreement between LATC and the previous owner of such real estate, the financial statements of LATC capture all of the costs of operating such real estate. Further, the rents paid by LATC were the only revenues generated by such real estate. Rents paid by LATC have been eliminated in the Company's pro forma consolidated financial statements and replaced by the appropriate amount of depreciation expense.

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

MI ENTERTAINMENT CORP.

**For the nine month period ended September 30, 1999 and
the year ended December 31, 1998**

COMPILATION REPORT

To the Directors of
MI ENTERTAINMENT CORP.

We have reviewed, as to compilation only, the accompanying pro forma consolidated balance sheet of MI Entertainment Corp. as at September 30, 1999 and the pro forma consolidated statements of income (loss) and comprehensive income (loss) for the nine months ended September 30, 1999 and for the year ended December 31, 1998, in accordance with the standards of The Canadian Institute of Chartered Accountants.

These pro forma consolidated statements have been prepared for inclusion in the Prospectus relating to the Class A Subordinate Voting Stock of the Company. In our opinion, the unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated statements of income (loss) and comprehensive income (loss) have been properly compiled to give effect to the proposed transactions and assumptions described in the notes thereto.

Los Angeles, California
January 14, 2000

Certified Public Accountants

MI ENTERTAINMENT CORP.

PRO FORMA CONSOLIDATED STATEMENT OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

for the Year Ended December 31, 1998

[Unaudited]

[U.S. dollars in thousands, except per share information]

	MI Entertainment Corp. Year Ended December 31, 1998	LATC (Note 2(a)(i))	Santa Anita Real Estate (Note 2(a)(ii))	LATC Adjustments (Notes 2(a)(iii) thru (vi))	Gulfstream (Note 2(b)(i))	Gulfstream Adjustments (Note 2(b)(ii))	Remington (Note 2(c)(i))	Remington Adjustments (Note 2(c)(iii))	Thistledown (Note 2(d)(i))	Thistledown Adjustments (Note 2(d)(iii))	Golden Gate (Note 2(e)(i))	Golden Gate Adjustments (Note 2(e)(iii))	Other Pro Forma Adjustments (Note 2(j))	Pro Forma Consolidated Total
Revenue														
Racetrack														
Wagering	\$2,513	\$41,043	\$	\$	\$20,919	\$	\$11,502	\$	\$14,211	\$	\$17,363	\$	\$	\$107,551
Non-wagering	1,439	22,119			2,729		3,990		3,469		8,288			42,034
Real estate	21,239													21,239
	<u>25,191</u>	<u>63,162</u>			<u>23,648</u>		<u>15,492</u>		<u>17,680</u>		<u>25,651</u>			<u>170,824</u>
Costs and expenses														
Racetrack costs and expenses	3,625	62,586	(10,184)	(303)	16,392		16,994		16,027		21,677	(536)		126,278
Real estate costs and expenses	27,355													27,355
Impairment of long-lived assets							2,837	(2,837)						
Depreciation and amortization	2,759	1,200	695	982	1,860	3,600	2,707	91	1,465	207	3,621	(335)		18,852
Interest expense (income), net	2,075	1,089		(924)	3,308	(3,231)	2,182	(2,308)	487	(576)	1,697	(359)	(1,825)	1,615
	<u>35,814</u>	<u>64,875</u>	<u>(9,489)</u>	<u>(245)</u>	<u>21,560</u>	<u>369</u>	<u>24,720</u>	<u>(5,054)</u>	<u>17,979</u>	<u>(369)</u>	<u>26,995</u>	<u>(1,230)</u>	<u>(1,825)</u>	<u>174,100</u>
Income (loss) before income taxes	(10,623)	(1,713)	9,489	245	2,088	(369)	(9,228)	5,054	(299)	369	(1,344)	1,230	1,825	(3,276)
Income tax provision (recovery)	(177)			3,269	861	(152)		(1,461)	253	(228)	202	(104)		2,463
Net income (loss)	<u>(10,446)</u>	<u>(1,713)</u>	<u>9,489</u>	<u>(3,024)</u>	<u>1,227</u>	<u>(217)</u>	<u>(9,228)</u>	<u>6,515</u>	<u>(552)</u>	<u>597</u>	<u>(1,546)</u>	<u>1,334</u>	<u>1,825</u>	<u>(5,739)</u>
Other comprehensive income: Foreign currency translation adjustment	2,866													2,866
Comprehensive income (loss) ..	<u>(7,580)</u>	<u>(1,713)</u>	<u>9,489</u>	<u>(3,024)</u>	<u>1,227</u>	<u>(217)</u>	<u>(9,228)</u>	<u>6,515</u>	<u>(552)</u>	<u>597</u>	<u>(1,546)</u>	<u>1,334</u>	<u>1,825</u>	<u>(2,873)</u>
Basic and diluted earnings (loss) per share of Class A Subordinate Voting and Class B Stock and Exchangeable Shares														\$ (0.07)
Average number of shares of Class A Subordinate Voting and Class B Stock and Exchangeable Shares outstanding during the period [in thousands]:														
Basic and diluted	<u>78,535</u>									<u>651</u>		<u>1,012</u>		<u>80,198</u>

See accompanying notes

MI ENTERTAINMENT CORP.

**PRO FORMA CONSOLIDATED STATEMENT OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
for the Nine Months Ended September 30, 1999**

[Unaudited]

[U.S. dollars in thousands, except per share information]

	MI Entertainment Corp. Nine Months Ended September 30, 1999	Gulfstream (Note 2(b)(i))	Gulfstream Adjustments (Note 2(b)(ii))	Remington (Note 2(c)(i))	Remington Adjustments (Note 2(c)(iii))	Thistledown (Note 2(d)(i))	Thistledown Adjustments (Note 2(d)(iii))	Golden Gate (Note 2(e)(i))	Golden Gate Adjustments (Note 2(e)(iii))	Other Pro Forma Adjustments (Note 2(j))	Pro Forma Consolidated Total
Revenue											
Racetrack											
Wagering	\$40,156	\$21,477	\$	\$8,071	\$	\$10,784	\$	\$14,202	\$	\$	\$94,690
Non-wagering	18,798	2,553		2,192		2,654		6,697			32,894
Real estate	12,167										12,167
	<u>71,121</u>	<u>24,030</u>	<u> </u>	<u>10,263</u>	<u> </u>	<u>13,438</u>	<u> </u>	<u>20,899</u>	<u> </u>	<u> </u>	<u>139,751</u>
Costs and expenses											
Racetrack costs and expenses	46,292	13,614		10,406		12,020		16,261	(142)		98,451
Real estate costs and expenses	12,496										12,496
Depreciation and amortization	4,676	1,292	2,400	487	69	1,081	155	1,902	850		12,912
Interest expense (income), net	264	2,041	(1,980)	(98)		304	(406)	1,833	(1,341)	100	717
	<u>63,728</u>	<u>16,947</u>	<u>420</u>	<u>10,795</u>	<u>69</u>	<u>13,405</u>	<u>(251)</u>	<u>19,996</u>	<u>(633)</u>	<u>100</u>	<u>124,576</u>
Income (loss) before income taxes	7,393	7,083	(420)	(532)	(69)	33	251	903	633	(100)	15,175
Income tax provision (recovery)	4,393	2,810	(167)		(210)	9	105	2,336	(1,722)		7,554
Net income (loss)	3,000	4,273	(253)	(532)	141	24	146	(1,433)	2,355	(100)	7,621
Other comprehensive loss:											
Foreign currency translation adjustment	(3,908)										(3,908)
Comprehensive income (loss)	<u>(908)</u>	<u>4,273</u>	<u>(253)</u>	<u>(532)</u>	<u>141</u>	<u>24</u>	<u>146</u>	<u>(1,433)</u>	<u>2,355</u>	<u>(100)</u>	<u>3,713</u>
Basic and diluted earnings per share of Class A Subordinate Voting and Class B Stock and Exchangeable Shares											<u>\$ 0.10</u>
Average number of shares of Class A Subordinate Voting and Class B Stock and Exchangeable Shares outstanding during the period [in thousands]:											
Basic and diluted	<u>78,535</u>						<u>651</u>		<u>1,012</u>		<u>80,198</u>

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See accompanying notes

MI ENTERTAINMENT CORP.
PRO FORMA CONSOLIDATED BALANCE SHEET
as at September 30, 1999
[Unaudited]
[U.S. dollars in thousands]

	MI Entertainment Corp.	Remington (Note 2(c)(ii))	Remington Adjustments (Note 2(c)(iii))	Thistledown (Note 2(d)(ii))	Thistledown Adjustments (Note 2(d)(iii))	Golden Gate (Note 2(e)(ii))	Golden Gate Adjustments (Note 2(e)(iii))	Other Pro Forma Adjustments (Notes 2(f) thru (i))	Pro Forma Consolidated Balance Sheet
ASSETS									
Current assets:									
Cash and cash equivalents	\$ 23,544	\$ 3,171	\$(10,250)	\$ 4,624	\$ (9,750)	\$46,731	\$(106,534)	\$111,622	\$ 63,158
Accounts receivable	5,926	707		2,296		823			9,752
Inventories	527	160		164					851
Prepaid expenses and other	3,028	222		208		127			3,585
Note receivable from Magna	146,862							(146,862)	
	<u>179,887</u>	<u>4,260</u>	<u>(10,250)</u>	<u>7,292</u>	<u>(9,750)</u>	<u>47,681</u>	<u>(106,534)</u>	<u>(35,240)</u>	<u>77,346</u>
Real estate properties and fixed assets, net	451,329	8,757		9,691		48,533	36,328		554,638
Other assets, net	62,239	1,323	1,832	1,134	4,143	2,473	28,547		101,691
Deferred income taxes								3,041	3,041
	<u>693,455</u>	<u>14,340</u>	<u>(8,418)</u>	<u>18,117</u>	<u>(5,607)</u>	<u>98,687</u>	<u>(41,659)</u>	<u>(32,199)</u>	<u>736,716</u>
LIABILITIES AND SHAREHOLDERS' EQUITY									
Current liabilities:									
Bank indebtedness	\$ 7,774								\$ 7,774
Accounts payable	4,373	1,886		3,579		21,361	(20,692)		10,507
Accrued salaries and wages	1,474								1,474
Refundable deposits	2,092								2,092
Other accrued liabilities	8,957	3,499		1,500		3,482			17,438
Income taxes payable	4,878								4,878
Long-term debt due within one year	10,157					2,594	(2,594)		10,157
Deferred revenue	4,699	518		12					5,229
Note payable to Magna	35,240							(35,240)	
	<u>79,644</u>	<u>5,903</u>		<u>5,091</u>		<u>27,437</u>	<u>(23,286)</u>	<u>(35,240)</u>	<u>59,549</u>
Long-term debt	12,162			61,629	(61,629)	59,591	(42,261)		29,492
Other long-term liabilities	1,317	19							1,336
Deferred income taxes	54,444			1,262	1,657		28,547	6,859	92,769
Magna's net investment	545,888							(545,888)	
Share capital		48,149	(48,149)	100	4,400	14,854	(7,854)	542,070	553,570
Deficit		(39,731)	39,731	(49,965)	49,965	(3,195)	3,195		
	<u>545,888</u>	<u>8,418</u>	<u>(8,418)</u>	<u>(49,865)</u>	<u>54,365</u>	<u>11,659</u>	<u>(4,659)</u>	<u>(3,818)</u>	<u>553,570</u>
	<u>693,455</u>	<u>14,340</u>	<u>(8,418)</u>	<u>18,117</u>	<u>(5,607)</u>	<u>98,687</u>	<u>(41,659)</u>	<u>(32,199)</u>	<u>736,716</u>

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On behalf of the Board:

(Signed) VINCENT GALIFI, Director

(Signed) JAMES NICOL, Director

See accompanying notes

MI ENTERTAINMENT CORP.

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS [Unaudited]

1. BASIS OF PRESENTATION

The pro forma consolidated balance sheet as at September 30, 1999 has been prepared from the unaudited consolidated balance sheet of MI Entertainment Corp. (the “Company”), the unaudited balance sheets of Remington Park, Inc. (“Remington”) and Thistledown, Inc. (“Thistledown”) and the unaudited combined statement of assets and liabilities of Golden Gate Fields (“Golden Gate”), each as at September 30, 1999. The pro forma consolidated statement of income (loss) and comprehensive income (loss) for the nine months ended September 30, 1999 has been prepared from the unaudited consolidated statement of income (loss) and comprehensive income (loss) of the Company, the unaudited statements of operations and accumulated deficit of Remington and Thistledown and the unaudited combined statement of operations of Golden Gate each for the nine months ended September 30, 1999 and the unaudited consolidated statement of income of Gulfstream Park Racing Association, Inc. (“Gulfstream”) for the eight months ended August 31, 1999. The pro forma consolidated statement of income (loss) and comprehensive income (loss) for the year ended December 31, 1998 has been prepared from the audited consolidated statements of income (loss) and comprehensive income (loss) of the Company for the five months ended December 31, 1998 and the year ended July 31, 1998 and the unaudited consolidated statement of income (loss) and comprehensive income (loss) for the five months ended December 31, 1997 as well as the audited statement of operations for the Los Angeles Turf Club, Inc. (“LATC”) for the period from January 1, 1998 to December 10, 1998 and the audited consolidated statement of income of Gulfstream, the audited statements of operations and accumulated deficit of Remington and Thistledown and the audited combined statement of operations of Golden Gate each for the year ended December 31, 1998. Results of operations for the Company for the year ended December 31, 1998 were calculated by adding the audited results of operations for the five months ended December 31, 1998 and the year ended July 31, 1998 less the unaudited results of operations for the five months ended December 31, 1997. These pro forma consolidated financial statements have been prepared on the basis of the assumptions and adjustments described in note 2 below and should be read in conjunction with the historical financial statements of the Company, LATC, Gulfstream, Remington, Thistledown and Golden Gate, including the related notes thereto, presented elsewhere herein.

The pro forma consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) which are also in conformity, in all material respects, with accounting principles generally accepted in Canada (“Canadian GAAP”) except as described in note 3 to these pro forma consolidated financial statements.

These pro forma consolidated financial statements are not necessarily indicative of the financial position or results of operations that would have resulted had the relevant transactions taken place at the respective dates referred to below.

2. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS

The pro forma consolidated financial statements have been presented assuming that the Reorganization as described elsewhere herein and the other items described below had been completed as of January 1, 1998 for the pro forma consolidated statements of income (loss) and comprehensive income (loss), and as of September 30, 1999 for the pro forma consolidated balance sheet. The pro forma consolidated financial statements give effect to the following items:

[a] The acquisition of the Santa Anita racetrack which comprises LATC and approximately 305 acres of related real estate.

i] The Company acquired the Santa Anita racetrack on December 10, 1998. Accordingly, the Company’s financial position and results of operations include the Santa Anita racetrack from December 10, 1998. The pro forma consolidated statement of income (loss) and comprehensive income (loss) for the

MI ENTERTAINMENT CORP.

**NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)**

year ended December 31, 1998 includes the results of operations for LATC from January 1, 1998 to December 10, 1998.

ii] Historically, the Santa Anita racetrack real estate was leased by LATC. Under the lease agreement, LATC was responsible for all operating costs associated with the real estate (including property taxes, utilities, insurance, repairs and maintenance) and such costs are included in the LATC statements of operations. Given that the Company acquired the Santa Anita real estate, the historic rents paid by LATC from January 1, 1998 to December 10, 1998 in the amount of \$10,184,000 have been reversed in the pro forma consolidated statement of income (loss) and comprehensive income (loss) and replaced with depreciation expense of \$695,000 based on the purchase price paid by the Company for the Santa Anita real estate and the allocation of the purchase price to land and depreciable real estate assets.

iii] The pro forma consolidated statement of income (loss) and comprehensive income (loss) for the year ended December 31, 1998 includes an adjustment to remove \$303,000 related to expenses recorded with respect to a defined benefit deferred compensation obligation of LATC's previous owner. Such obligation has not been transferred to LATC or the Company.

iv] The pro forma consolidated statement of income (loss) and comprehensive income (loss) for the year ended December 31, 1998 includes an increase in depreciation expense of \$982,000 as a result of the purchase price allocation to the assets of LATC.

v] The pro forma consolidated statement of income (loss) and comprehensive income (loss) for the year ended December 31, 1998 includes an adjustment to remove \$924,000 of interest expense on balances which were due to the previous owner of LATC. Such balances were eliminated under the purchase agreement and have not been replaced with other interest bearing financing.

vi] The pro forma consolidated statement of income (loss) and comprehensive income (loss) for the year ended December 31, 1998 has been adjusted by \$3,269,000 to reflect the tax expense, effected at a combined federal and state tax rate of 40%, that would have been incurred on the earnings for the year of LATC after the above noted pro forma adjustments.

[b] On September 1, 1999, the Company acquired all the outstanding capital stock of Gulfstream for a purchase price, including estimated transaction costs, of \$89,200,000 payable in cash.

i] The pro forma consolidated statements of income (loss) and comprehensive income (loss) for the year ended December 31, 1998 and the nine months ended September 30, 1999 includes the results of operations of Gulfstream for the year ended December 31, 1998 and the eight months ended August 31, 1999, respectively.

ii] The pro forma consolidated statements of income (loss) and comprehensive income (loss) for the year ended December 31, 1998 and the nine months ended September 30, 1999 include adjustments that arise as a result of the acquisition of Gulfstream on September 1, 1999 and the application of purchase accounting. The adjustments to the results of operations of Gulfstream for the year ended December 31, 1998 and eight months ended August 31, 1999 are:

- additional depreciation and amortization expense of \$3,600,000 and \$2,400,000, respectively, as a result of the increase in the book value of the buildings by \$19,355,000 and racing licence by \$62,527,000, based on the purchase price allocation, and accounting policies to depreciate buildings over 40 years and amortize the racing licence over 20 years;
- reversal of interest expense of \$3,156,000 and \$1,933,000, respectively, as a result of the repayment of \$48,000,000 of long-term debt;
- reversal of long-term debt related fees (reflected in interest expense (income), net) of \$75,000 and \$47,000, respectively, paid to the former owner of Gulfstream; and

MI ENTERTAINMENT CORP.

**NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)**

—reduction of the tax expense by \$152,000 and \$167,000, respectively, as a result of the above noted adjustments effected at a combined federal and state tax rate of 40%.

[c] On November 12, 1999, the Company acquired all the outstanding capital stock of Remington for a purchase price, including estimated transaction costs, of \$10,250,000 paid in cash.

[i] The pro forma consolidated statements of income (loss) and comprehensive income (loss) for the year ended December 31, 1998 and the nine months ended September 30, 1999 includes the results of operations of Remington for the same periods.

[ii] The pro forma consolidated balance sheet as at September 30, 1999 includes the financial position of Remington as at the same date.

[iii] The pro forma consolidated balance sheet as at September 30, 1999 includes an adjustment to record the application of purchase accounting to the September 30, 1999 Remington balance sheet. Other assets (comprising the racing licence) are increased by \$1,832,000, cash and cash equivalents are reduced by the Company's purchase price paid of \$10,250,000 and the share capital and deficit of Remington of \$48,149,000 and \$39,731,000 are eliminated.

The pro forma consolidated statements of income (loss) and comprehensive income (loss) for the year ended December 31, 1998 and the nine months ended September 30, 1999 include adjustments that arise as a result of the acquisition of Remington and the application of purchase accounting. The adjustments for the year ended December 31, 1998 and nine months ended September 30, 1999 are:

- reversal of an impairment of long-lived assets charge in the amount of \$2,837,000 and nil, respectively, as such assets for pro forma consolidated statement of income (loss) and comprehensive income (loss) purposes have been recorded at a value based on the Company's purchase price paid for the acquisition of Remington effective January 1, 1998 and not Remington's historical book value;
- additional depreciation and amortization expense of \$91,000 and \$69,000, respectively, as a result of the increase in the book value of the racing licence by \$1,832,000, based on the purchase price allocation, and an accounting policy to amortize the racing licence over 20 years;
- reversal of interest expense of \$2,308,000 and nil, respectively, as a result of the repayment of long-term debt of \$30,000,000 which was due to the previous owner of Remington and repaid on December 1, 1998 through a capital contribution; and
- additional tax recovery of \$1,461,000 and \$210,000, respectively, as a result of the above noted adjustments and the losses of Remington being available to be applied against the earnings of Santa Anita, Gulfstream and Golden Gate for federal income tax filing purposes, both effected at the federal tax rate of 35%.

[d] On November 12, 1999, the Company acquired all the outstanding capital stock of Thistledown for a purchase price, including estimated transaction costs, of \$14,250,000 of which \$9,750,000 was paid in cash and \$4,500,000 was paid through the issuance of shares of the Company.

[i] The pro forma consolidated statements of income (loss) and comprehensive income (loss) for the year ended December 31, 1998 and the nine months ended September 30, 1999 includes the results of operations of Thistledown for the same periods.

[ii] The pro forma consolidated balance sheet as at September 30, 1999 includes the financial position of Thistledown as at the same date.

[iii] The pro forma consolidated balance sheet as at September 30, 1999 includes an adjustment to record the application of purchase accounting to the September 30, 1999 balance sheet. Other assets

MI ENTERTAINMENT CORP.

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (Unaudited)

(comprising the racing licence) are increased by \$4,143,000, cash and cash equivalents are reduced by the Company's purchase price paid of \$9,750,000, deferred tax liabilities are increased by \$1,657,000, long-term debt is reduced by \$61,629,000, the share capital and deficit of Thistledown of \$100,000 and \$49,965,000, respectively, are eliminated and the issuance of share capital of the Company in the amount of \$4,500,000 is recorded.

The pro forma consolidated statements of income (loss) and comprehensive income (loss) for the year ended December 31, 1998 and the nine months ended September 30, 1999 include adjustments that arise as a result of the acquisition of Thistledown and the application of purchase accounting. The adjustments for the year ended December 31, 1998 and nine months ended September 30, 1999 are:

- additional depreciation and amortization expense of \$207,000 and \$155,000, respectively, as a result of the increase in the book value of the racing licence by \$4,143,000, based on the purchase price allocation, and an accounting policy to amortize the racing licence over 20 years;
- reversal of interest expense of \$576,000 and \$406,000, respectively, as a result of the repayment of long-term debt of \$61,629,000;
- additional tax recovery of \$228,000 for the year ended December 31, 1998 as a result of the above noted adjustments effected at the federal tax rate of 35% since state tax cannot be included in a tax sharing arrangement; and
- additional tax expense of \$105,000 for the nine months ended September 30, 1999 as a result of the above noted adjustments effected at a combined federal and state tax rate of 40%.

[e] On December 10, 1999, the Company acquired all the outstanding capital stock of Golden Gate for a purchase price, including estimated transaction costs, of \$88,000,000 of which \$61,000,000 was paid in cash, \$7,000,000 was paid through the issuance of shares of the Company and \$20,000,000 was paid through the issuance of a non-interest bearing note, \$10,000,000 of which matures on the first anniversary of the date of closing and \$5,000,000 of which matures on each of the second and third anniversaries.

[i] The pro forma consolidated statements of income (loss) and comprehensive income (loss) for the year ended December 31, 1998 and the nine months ended September 30, 1999 includes the results of operations of Golden Gate for the same periods.

[ii] The pro forma consolidated balance sheet as at September 30, 1999 includes the financial position of Golden Gate as at the same date.

[iii] The pro forma consolidated balance sheet as at September 30, 1999 includes an adjustment to record the application of purchase accounting to the September 30, 1999 Golden Gate balance sheet. Real estate properties (comprising land) are increased by \$36,328,000, other assets (comprising the racing licence) are increased by \$28,547,000, cash and cash equivalents are reduced by the purchase price paid of \$61,000,000 and by \$45,534,000 in respect of cash not acquired, deferred tax liabilities are increased by \$28,547,000, current liabilities are reduced by \$23,286,000, long-term debt is reduced by \$59,591,000 less \$17,330,000 (the discounted value of the \$20,000,000 non-interest bearing note issued on acquisition of Golden Gate using a discount rate of 8.7%), the share capital and deficit of Golden Gate of \$14,854,000 and \$3,195,000, respectively, are eliminated and the issuance of share capital of the Company in the amount of \$7,000,000 is recorded.

The pro forma consolidated statements of income (loss) and comprehensive income (loss) for the year ended December 31, 1998 and the nine months ended September 30, 1999 include adjustments that arise as a result of the acquisition of Golden Gate and the application of purchase accounting. The adjustments for the year ended December 31, 1998 and nine months ended September 30, 1999 are:

MI ENTERTAINMENT CORP.

**NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)**

- reversal of racetrack operating costs of \$536,000 and \$142,000, respectively, related to assets not acquired;
- additional depreciation and amortization expense of \$1,427,000 and \$850,000, respectively, as a result of the increase in the book value of the racing licence by \$28,547,000, based on the purchase price allocation, and accounting policies to depreciate buildings over 40 years and amortize the racing licence over 20 years;
- reversal of depreciation expense of \$1,762,000 and nil, respectively, on a prepaid lease with the previous owner of Golden Gate which was cancelled and the value of the lease was added to assets not acquired in 1998;
- reversal of interest expense of \$3,845,000 and \$3,501,000, respectively, as a result of the elimination of long-term debt of \$59,591,000;
- reversal of interest income of \$1,983,000 and \$1,585,000, respectively, as a result of the removal of cash not acquired of \$45,534,000;
- additional interest expense accrued of \$1,503,000 and \$575,000, respectively, on the discounted \$20,000,000 non-interest bearing note issued;
- additional tax recovery of \$38,000 for the year ended December 31, 1998 as a result of the above noted adjustments effected at the federal tax rate of 35% since state tax can not be included in a tax sharing arrangement, and reversal of \$66,000 of state tax expense related to operations not acquired; and
- additional tax expense of \$614,000 for the nine months ended September 30, 1999 as a result of the above noted adjustments, effected at a combined federal and state tax rate of 40%, less \$2,336,000 of tax expense related to operations not acquired.

[f] The components included in Magna's net investment in the Company's consolidated balance sheet as at September 30, 1999 have been separately disclosed in their respective balance sheet lines based on the Reorganization as defined in the historical consolidated financial statements of the Company.

[g] The pro forma consolidated balance sheet reflects the use of \$81,000,000 of cash to acquire Remington, Thistledown and Golden Gate as described in items [c][iii], [d][iii] and [e][iii] above.

[h] The repayment of the note payable to Magna of \$35,240,000 representing the short-term funding provided by Magna since March 1999, repaid by the Company subsequent to September 30, 1999.

[i] The collection of \$146,862,000 by the Company subsequent to September 30, 1999 of the note receivable due from Magna.

[j] Interest expense has been adjusted to reflect the components of Magna's net investment as defined under the Reorganization from January 1, 1998.

3. RECONCILIATION TO ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN CANADA

The Company's accounting policies as reflected in these pro forma consolidated financial statements do not materially differ from Canadian GAAP except for:

[a] For purposes of reconciling to Canadian GAAP, the Company has early adopted the provisions of The Canadian Institute of Chartered Accountants Handbook Section 3461 "Employee Future Benefits" on a retroactive basis. Accordingly, net pension expense and accrued pension liabilities are the same as those determined by the application of U.S. GAAP.

[b] Under Canadian GAAP, there is no requirement to disclose comprehensive income (loss).

CONSOLIDATED FINANCIAL STATEMENTS

MI ENTERTAINMENT CORP.

**For the five-month period ended December 31, 1998
and the years ended July 31, 1998, 1997 and 1996.**

REPORT OF INDEPENDENT AUDITORS

To the Shareholder and Directors of
MI Entertainment Corp.

We have audited the accompanying consolidated balance sheets of MI Entertainment Corp. as of December 31, 1998, July 31, 1998 and 1997, and the related consolidated statements of income (loss) and comprehensive income (loss), changes in Magna's net investment and cash flows for the five-month period ended December 31, 1998 and for each of the years in the three-year period ended July 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of MI Entertainment Corp. at December 31, 1998, July 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for the five-month period ended December 31, 1998 and for each of the years in the three-year period ended July 31, 1998 in conformity with accounting principles generally accepted in the United States.

Los Angeles, California
November 8, 1999
[Except as to Note 16, which is as of January 14, 2000]

Certified Public Accountants

MI ENTERTAINMENT CORP.
SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared in U.S. dollars following accounting principles generally accepted in the United States (“U.S. GAAP”). These policies are also in conformity, in all material respects, with accounting policies generally accepted in Canada, except as described in note 15 to the consolidated financial statements.

Principles of Consolidation

MI Entertainment Corp. (the “Company”) was formed to hold and operate all of the non-automotive related assets (including non-automotive real estate) currently owned by Magna International Inc. and its subsidiaries (“Magna”). Such assets were reorganized under the Company in various stages, and the capital structure was established (see Note 16[a]), over the period to November 5, 1999 (the “Reorganization”). The Company is a wholly owned subsidiary of Magna International Inc.

These consolidated financial statements present the historic financial position and operating results of the assets and liabilities reorganized under the Company on a carve out basis from Magna. To give effect to the continuity of Magna’s interest in the assets and liabilities of the Company, all assets and liabilities have been recorded in the consolidated balance sheets at Magna’s book values and have been included from the date they were acquired by Magna. All significant intercompany balances and transactions have been eliminated.

The assets and liabilities reorganized under the Company include the following:

Racetrack Operations

- All the outstanding capital stock of The Santa Anita Companies, Inc. (“SAC”). On December 10, 1998, SAC (formerly 234567 Development Inc., a wholly owned inactive subsidiary of Magna) acquired all of the outstanding capital stock of the Los Angeles Turf Club, Inc. (“LATC”) which operates the Santa Anita racetrack in California. SAC also acquired 305 acres of related real estate.
- All the outstanding capital stock of Gulfstream Park Racing Association, Inc. (“Gulfstream”). Gulfstream, which operates Gulfstream Park racetrack, is located on approximately 255 acres of land in the cities of Hallandale and Aventura, Florida.
- The real estate assets of SLRD Thoroughbred Training Center, Inc. (“SLRD”). SLRD, a horse boarding and training center located in San Diego California, owns approximately 202 acres of real estate.

Real Estate Operations

- All the outstanding capital stock of Magna Vierte Beteiligungs AG (“MVB”). Effective January 1, 1999, the assets and liabilities of Magna Liegenschaftsverwaltungs GmbH (“MLV”) were split into two companies. Under the split, all of the assets, liabilities, operations and employees of MLV were transferred to MVB except for two real estate properties and an equivalent amount of debt financing due to Magna. The two real estate properties not transferred to MVB were, from their original acquisition date by MLV, leased back to Magna on a triple net lease basis such that Magna was responsible for the operating costs related to the properties. The assets and operations of MLV transferred to MVB include a golf course and adjacent residential development in Oberwaltersdorf, Austria.
- All the outstanding capital stock of Magna Projektentwicklungs AG which owns all of the outstanding capital stock of Magna Grundstücksentwicklungs GmbH (collectively “MGE”). MGE’s primary asset is a parcel of land held for development in Ebreichsdorf, Austria.
- Land and improvements in Aurora, Ontario (the “Aurora lands”) which are subject to a conditional sale agreement by Magna to the Company. The conditional sale agreement is subject to the successful severance of the affected properties.

- Various other parcels of land and improvements (the “vacant land portfolio”) and other non-automotive properties, including any incidental operations associated with such properties. Two of these properties are subject to conditional sale agreements.
- Rights to acquire, from an affiliated company (see Note 11[a]), approximately 200 acres of land and improvements in Aurora, Ontario. An 18-hole golf course is currently under construction on the property. Construction in progress has also been transferred to the Company, accordingly, all such construction is reflected in the consolidated financial statements of the Company. This project is referred to as the Aurora Downs golf course.

The consolidated statements of income (loss) and comprehensive income (loss) include the following: (a) the historic revenues and expenses of SAC and LATC from December 10, 1998 and Gulfstream from September 1, 1999, representing the dates of Magna’s acquisitions of such entities; (b) the historic revenues and expenses of MLV adjusted to exclude the rental revenues earned, depreciation expense and interest on debt due to Magna all related to the two MLV properties not transferred to MVB; (c) the historic revenues and expenses of MGE; and (d) the historic revenues and expenses (which are limited to incidental costs of ownership the most significant of which is property taxes), net of amounts capitalized, related to the Aurora Downs golf course, the Aurora lands and the vacant land portfolio and other non-automotive properties transferred to the Company.

The historic administrative costs associated with managing the Aurora lands, the vacant land portfolio and other non-automotive properties were borne by Magna International Inc.’s real estate management division (the “Division”). The Division was also responsible for administering Magna’s automotive related real estate portfolio, none of which has been transferred to the Company. The administrative costs of the Division include personnel costs (salary, benefits, travel), administration office costs and other overheads. Further, the Company has paid no fees to Magna International Inc. for services provided (including accounting, tax, legal, treasury services and other incidental costs associated with establishing the Company and its operations). An allocation of the Division and Magna International Inc.’s historic administrative costs has been included in these consolidated financial statements based on an estimate of the services provided.

Interest expense as presented in the consolidated statements of income (loss) and comprehensive income (loss) includes interest on external debt and amounts due to Magna (included in Magna’s net investment) held by SAC, LATC, Gulfstream, MLV (adjusted as described above), and MGE. No interest has been charged on Magna’s net investment in the Aurora Downs golf course, the Aurora lands and the vacant land portfolio and the other non-automotive properties transferred to the Company. Under the Reorganization, the transfer of these assets by Magna to the Company is by way of an equity investment.

Income taxes for SAC, LATC, Gulfstream, MVB (from January 1, 1999), MGE and other separate tax paying legal entities at September 30, 1999 have been recorded based on their separate tax positions using the liability method of tax allocation. Income taxes with respect to the other components of the consolidated statements of income (loss) and comprehensive income (loss) have been recorded at statutory rates based on income before taxes as included in the consolidated statements of income (loss) and comprehensive income (loss) as though such components were separate tax paying entities. Given that the revenues and expenses of this latter component of the consolidated statements of income (loss) and comprehensive income (loss) have been prepared on a carve out basis from Magna, the resulting income taxes payable and deferred income tax assets and liabilities have been included in Magna’s net investment.

Magna’s net investment also includes Magna’s net long term debt investments (subsequently converted into equity investments as part of the Reorganization) and equity investments in the Company created as part of the Reorganization, the accumulated net income (loss) of the Company, contributions by, less distributions to, Magna and the currency translation adjustment.

As a result of the basis of presentation described above, the consolidated statements of income (loss) and comprehensive income (loss) may not necessarily be indicative of the revenues and expenses that would have resulted had the Company historically operated as a stand alone entity.

As of January 14, 2000, the Company and its subsidiaries are comprised of the following entities:

	<u>% Included</u>
<i>United States</i>	
MI Entertainment Corp.	100
The Santa Anita Companies, Inc.	100
Los Angeles Turf Club, Inc.	100
SLRD Thoroughbred Training Center, Inc.	100
Gulfstream Park Racing Association, Inc.	100
Pacific Racing Association.	100
Ladbroke Land Holdings, Inc.	100
Remington Park, Inc.	100
Thistledown, Inc.	100
MI Racing, Inc.	100
5321 Industries Inc.	100
DLR, Inc.	100
OTL, Inc.	100
Vista Hospitality, Inc.	100
<i>Canada</i>	
MI Venture (Canada) Inc.	100
1207032 Ontario Inc.	100
1180482 Ontario Inc.	100
<i>Europe</i>	
MI Entertainment Holding GmbH	100
Magna Ventures Management GmbH	100
SDP Landholding GmbH	100
Steyr-Barter Handels GmbH	100
Steyr-Industrie-Commerz und Handels GmbH	100
Gemeinnutzige Wohnungs-Gesellschaft, “Steyr-Daimler-Puch” GmbH & Co. KG	100
MI Air Flugbetriebs GmbH	100
Magna Vierte Beteiligungs AG	100
Magna Projektentwicklungs AG	100
Magna Grundstücksentwicklungs GmbH	100

Magna changed its fiscal year end from July 31 to December 31, effective December 31, 1998. The periods presented in these consolidated financial statements conform to those presented by Magna.

Cash and Cash Equivalents

Cash and cash equivalents include cash on account, demand deposits and short-term investments with original maturities of less than three months and excludes outstanding cheques, which are classified as accounts payable.

Impairment of Long-Lived Assets

Statement of Financial Accounting Standards No. 121 (“SFAS 121”) “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of” establishes accounting standards for the impairment of long-lived assets, including real estate properties, fixed and other assets. The Company evaluates impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

For long-lived assets not held for sale, the Company assesses the recoverability by determining whether the carrying value of such assets can be recovered through projected undiscounted cash flows. If the sum of

expected future cash flows, undiscounted and without interest charges, is less than net book value, the excess of the net book value over the estimated fair value is charged to operations in the period in which such impairment is determined by management.

When long-lived assets are identified by the Company as held for sale, the Company discontinues depreciating the asset and the carrying value is reduced, if necessary, to the estimated fair value less costs of disposal. Fair value is determined based upon discounted cash flows of the assets at rates deemed reasonable for the type of property and prevailing market conditions, appraisals and, if appropriate, current estimated net sales proceeds from pending offers.

Real Estate Properties

Residential development inventory

Residential development inventory is valued at cost which includes acquisition and construction costs. Construction costs include all direct construction costs, capitalized interest and indirect costs wholly attributable to construction.

Revenue producing properties

Revenue producing properties are valued at cost which includes acquisition and development costs. Development costs include all direct construction costs, capitalized interest and indirect costs wholly attributable to development. Buildings are depreciated on a straight-line basis over 40 years.

Properties under and held for development

Properties under and held for development are valued at cost which includes acquisition and development costs. Development costs include all direct construction costs, capitalized interest and indirect costs wholly attributable to development.

Properties available for sale

Properties available for sale are valued at the lower of cost, which includes acquisition and development costs, and fair value less costs of disposal (“fair value”). The Company evaluates the lower of cost and fair value whenever events or changes in circumstance indicate possible impairment.

Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation.

Depreciation is provided on a straight-line basis over the estimated useful lives of fixed assets at annual rates of 7% to 20% for machinery and equipment and 15% to 20% for furniture and fixtures.

Racing Licenses

Racing licenses are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over 20 years, representing the estimated useful lives of such racing licenses.

Revenue Recognition

Revenues from the sale of residential development inventory are recognized when the collection of the sale proceeds is reasonably assured and all other significant conditions are met. Properties which have been sold, but for which these criteria have not been satisfied, are included in residential development inventory.

The Company records operating revenues associated with horse racing on a daily basis, except for season admissions which are recorded ratably over the racing season. Racetrack wagering revenues and direct operating costs are shown net of state and local taxes, stakes, purses and awards.

Golf course annual membership fee revenues are recognized as revenue ratably over the applicable season. Member deposits received on admission to membership to the Austrian golf course are refundable and are, therefore, not recognized in revenues but are recorded as refundable deposits.

Deferred Revenues

Deferred revenues associated with racetrack operations consist of prepaid admission tickets and parking, which are recognized as revenue ratably over the period of the related race meet. Also, deferred revenue includes prepaid rent from another thoroughbred horse racing corporation, Oak Tree Racing Association, which utilizes the Company's racetrack for a portion of the year. Prepaid rent is recognized over the remaining term of the lease.

Deferred revenues of the real estate operations consist of advance payments received from the purchaser relating to new home construction.

Seasonality of Revenues

The racetrack industry is seasonal in nature. Generally, horseracing revenues are greater in the first and fourth quarters of the calendar year than in the second and third quarters of the calendar year. This seasonality can be expected to cause quarterly fluctuations in revenue, profit margins and net income.

Advertising

Costs incurred for producing and communicating advertising associated with horse racing are generally expensed when incurred. Advertising costs for the nine-month period ended September 30, 1999 and the five-month period ended December 31, 1998 were \$2.3 million and \$0.2 million, respectively. Costs incurred with respect to promotions for specific live race days are expensed on the applicable race day.

Foreign Exchange

Assets and liabilities of self-sustaining foreign operations are translated using the exchange rate in effect at the period-end and revenues and expenses are translated at the average rate during the period. Exchange gains or losses on translation of the Company's net equity investment in these operations are deferred in Magna's net investment. The appropriate amounts of exchange gains or losses accumulated in Magna's net investment are reflected in income when there is a sale or partial sale of the Company's investment in these operations or upon a complete or substantially complete liquidation of the investment.

Income Taxes

The Company follows the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the amounts reported and disclosed in the consolidated financial statements. Actual results could differ from those estimates.

Interim Financial Statements

In the opinion of management, the unaudited interim consolidated financial statements reflect all adjustments, which consist only of normal and recurring adjustments, necessary to present fairly the financial

position at September 30, 1999 and the results of operations and cash flows for the nine-month periods ended September 30, 1999 and 1998, in accordance with U.S. GAAP.

Impact of Recently Issued Accounting Standards

Under Staff Accounting Bulletin 74, the Company is required to disclose certain information related to new accounting standards, which have not yet been adopted due to delayed effective dates.

In June 1998, the Financial Accounting Standards Board issued Statement No. 133 (“SFAS 133”), “Accounting for Derivative Instruments and Hedging Activities”. This Statement is effective for the Company’s first quarter ended March 31, 2001. SFAS 133 requires that an entity recognize all derivative instruments either as assets or liabilities and measure those instruments at fair value. The Company has not determined the impact, if any, of this pronouncement on its consolidated financial statements.

MI ENTERTAINMENT CORP.

CONSOLIDATED BALANCE SHEETS
Incorporated under the laws of the State of Delaware
[U.S. dollars in thousands]

	<u>Note</u>	<u>September 30,</u> <u>1999</u> <u>[unaudited]</u>	<u>December 31,</u> <u>1998</u>	<u>July 31,</u>	
				<u>1998</u>	<u>1997</u>
ASSETS					
Current assets:					
Cash and cash equivalents		\$ 23,544	\$ 17,503	\$ 295	\$ 220
Accounts receivable		5,926	8,979	1,088	788
Inventories		527	1,050	461	438
Prepaid expenses and other		3,028	1,522	69	70
Note receivable from Magna	11	146,862			
		<u>179,887</u>	<u>29,054</u>	<u>1,913</u>	<u>1,516</u>
Real estate properties, net	3	441,797	326,690	181,003	109,500
Fixed assets, net	4	9,532	8,221	1,886	2,159
Other assets, net	5	62,239	—	—	—
Deferred income taxes	6	—	177	—	—
		<u>693,455</u>	<u>364,142</u>	<u>184,802</u>	<u>113,175</u>
LIABILITIES AND MAGNA'S NET INVESTMENT					
Current liabilities:					
Bank indebtedness		7,774	11,889	165	4,277
Accounts payable		4,373	15,409	2,700	1,823
Accrued salaries and wages		1,474	518	410	334
Refundable deposits		2,092	2,008	1,695	989
Other accrued liabilities		8,957	6,955	2,067	1,718
Income taxes payable	6	4,878	—	—	—
Long-term debt due within one year	7	10,157	3,655	3,446	3,052
Deferred revenue		4,699	3,098	160	1,456
Note payable to Magna	11	35,240	—	—	—
		<u>79,644</u>	<u>43,532</u>	<u>10,643</u>	<u>13,649</u>
Long-term debt	7	12,162	16,791	15,884	11,609
Other long-term liabilities	13	1,317	1,317	—	—
Deferred income taxes	6	54,444	—	—	—
Magna's net investment		545,888	302,502	158,275	87,917
		<u>\$693,455</u>	<u>\$364,142</u>	<u>\$184,802</u>	<u>\$113,175</u>

Commitments and contingencies [notes 7, 11 and 12]

On behalf of the Board:

(Signed) VINCENT GALIFI
 Director

(Signed) JAMES NICOL
 Director

See accompanying notes

MI ENTERTAINMENT CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN MAGNA'S NET INVESTMENT
[U.S. dollars in thousands]

	Note	Nine-month periods ended September 30,		Five-month period ended December 31, 1998	Years ended July 31,			
		1999	1998		1998	1997	1996	
		[unaudited]						
Magna's net investment, beginning of period		\$302,502	\$ 97,702	\$158,275	\$ 87,917	\$49,985	\$48,166	
Net income (loss)		3,000	(7,640)	(4,231)	(8,610)	(1,382)	(2,424)	
Net contribution by Magna		244,294	68,501	143,634	80,919	46,498	5,554	
Change in currency translation adjustment	8	(3,908)	3,831	4,824	(1,951)	(7,184)	(1,311)	
Magna's net investment, end of period		<u>\$545,888</u>	<u>\$162,394</u>	<u>\$302,502</u>	<u>\$158,275</u>	<u>\$87,917</u>	<u>\$49,985</u>	

See accompanying notes

MI ENTERTAINMENT CORP.
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND
COMPREHENSIVE INCOME (LOSS)
[U.S. dollars in thousands]

	Note	Nine-month periods ended September 30,		Five-month period ended December 31,	Years ended July 31,		
		1999	1998	1998	1998	1997	1996
		[unaudited]					
Revenue	10, 11, 14						
Racetrack							
Wagering		40,156	—	2,513	—	—	—
Non-wagering		18,798	—	1,439	—	—	—
Real estate		12,167	17,196	6,597	20,486	15,276	2,460
		<u>71,121</u>	<u>17,196</u>	<u>10,549</u>	<u>20,486</u>	<u>15,276</u>	<u>2,460</u>
Costs and expenses							
Racetrack							
Operating costs		42,299	—	3,461	—	—	—
General and administrative . .		3,993	—	164	—	—	—
Real estate							
Operating costs		11,197	20,968	7,293	24,778	13,232	4,084
General and administrative . .		1,299	978	1,169	1,086	647	529
Depreciation and amortization . .		4,676	1,737	1,649	1,852	1,824	330
Interest expense	7	1,259	1,177	1,236	1,399	955	116
Interest income	7	(995)	(24)	(15)	(19)	—	(175)
		<u>63,728</u>	<u>24,836</u>	<u>14,957</u>	<u>29,096</u>	<u>16,658</u>	<u>4,884</u>
Income (loss) before income taxes	10	7,393	(7,640)	(4,408)	(8,610)	(1,382)	(2,424)
Income tax provision (recovery) . .	6	4,393	—	(177)	—	—	—
Net income (loss)		<u>3,000</u>	<u>(7,640)</u>	<u>(4,231)</u>	<u>(8,610)</u>	<u>(1,382)</u>	<u>(2,424)</u>
Other comprehensive income (loss):							
Foreign currency translation adjustment		(3,908)	3,831	4,824	(1,951)	(7,184)	(1,311)
Comprehensive income (loss) . . .		<u>\$ (908)</u>	<u>\$(3,809)</u>	<u>\$ 593</u>	<u>\$(10,561)</u>	<u>\$(8,566)</u>	<u>\$(3,735)</u>

See accompanying notes

MI ENTERTAINMENT CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
[U.S. dollars in thousands]

	Note	Nine-month periods ended September 30,		Five-month period ended December 31, 1998	Years ended July 31,			
		1999	1998		1998	1997	1996	
		[unaudited]						
Cash provided from (used for):								
OPERATING ACTIVITIES								
Net income (loss)		\$ 3,000	\$(7,640)	\$ (4,231)	\$(8,610)	\$(1,382)	\$(2,424)	
Items not involving current cash flows								
Depreciation and amortization		4,676	1,737	1,649	1,852	1,824	330	
Deferred taxes	6	717	—	(177)	—	—	—	
		<u>8,393</u>	<u>(5,903)</u>	<u>(2,759)</u>	<u>(6,758)</u>	<u>442</u>	<u>(2,094)</u>	
Changes in non-cash items related to operations								
Residential development inventory		(3,958)	4,062	(1,797)	(1,256)	(7,620)	(1,608)	
Accounts receivable		3,112	(139)	(7,285)	(262)	(297)	(319)	
Inventories		494	111	(570)	(8)	(354)	(10)	
Prepaid expenses and other		(596)	(209)	244	3	(10)	20	
Accounts payable		(11,592)	853	8,526	786	693	(264)	
Accrued salaries and wages		923	235	84	61	195	134	
Refundable deposits		246	488	207	654	1,140	—	
Other accrued liabilities		999	68	681	266	758	602	
Income taxes payable		3,363	—	—	—	—	—	
Deferred revenue		(140)	(5,189)	1,381	(1,354)	1,159	(73)	
		<u>1,244</u>	<u>(5,623)</u>	<u>(1,288)</u>	<u>(7,868)</u>	<u>(3,894)</u>	<u>(3,612)</u>	
INVESTMENT ACTIVITIES								
Acquisition of businesses	2	(87,579)	—	(118,617)	—	—	—	
Real estate property additions, net of change in residential development inventory		(33,711)	(63,601)	(17,944)	(72,460)	(41,470)	(24,180)	
Fixed asset additions		(889)	(76)	(124)	(183)	(2,109)	(939)	
Increase in note receivable from Magna		(146,862)	—	—	—	—	—	
		<u>(269,041)</u>	<u>(63,677)</u>	<u>(136,685)</u>	<u>(72,643)</u>	<u>(43,579)</u>	<u>(25,119)</u>	
FINANCING ACTIVITIES								
Increase (decrease) in bank indebtedness		(2,489)	(2,721)	11,602	(4,280)	3,716	1,322	
Issues of long-term debt		—	6,274	48	6,553	—	21,491	
Repayment of long-term debt		(3,198)	(2,729)	(114)	(2,608)	(2,638)	—	
Increase in note payable to Magna		35,240	—	—	—	—	—	
Net contribution by Magna		244,294	68,501	143,634	80,919	46,498	5,554	
		<u>273,847</u>	<u>69,325</u>	<u>155,170</u>	<u>80,584</u>	<u>47,576</u>	<u>28,367</u>	
Effect of exchange rate changes on cash and cash equivalents		(9)	6	11	2	(16)	(24)	
Net increase (decrease) in cash and cash equivalents during the period		6,041	31	17,208	75	87	(388)	
Cash and cash equivalents, beginning of period		17,503	233	295	220	133	521	
Cash and cash equivalents, end of period		<u>\$ 23,544</u>	<u>\$ 264</u>	<u>\$ 17,503</u>	<u>\$ 295</u>	<u>\$ 220</u>	<u>\$ 133</u>	

See accompanying notes

MI ENTERTAINMENT CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(all amounts in U.S. dollars unless otherwise noted and all tabular amounts in thousands, except per share amounts)
(all amounts as at September 30, 1999 and for the nine-month periods ended September 30, 1999 and 1998 are unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Company are set out under "Significant Accounting Policies" preceding these consolidated financial statements.

2. BUSINESS ACQUISITIONS

The following acquisitions were accounted for using the purchase method:

[a] Acquisitions in the nine-month period ended September 30, 1999

Gulfstream Park

On September 1, 1999, the Company acquired all the outstanding capital stock of Gulfstream for a purchase price, including estimated transaction costs, of \$81.2 million (net of cash acquired of \$8.0 million) payable in cash. Gulfstream, which operates the Gulfstream Park racetrack, is located on approximately 255 acres of land in the cities of Hallandale and Aventura, Florida.

San Luis Rey Downs

In May 1999, the Company acquired the real estate assets of SLRD for cash consideration of \$6.4 million. SLRD, a horse boarding and training center located in San Diego California, owns approximately 202 acres of real estate.

The purchase price has been allocated to the assets and liabilities acquired as follows:

	<u>Gulfstream</u>	<u>SLRD</u>	<u>Total</u>
Non-cash working capital deficit	\$ (3,978)	\$ —	\$ (3,978)
Real estate properties	81,700	6,375	88,075
Fixed assets	1,643	—	1,643
Other assets	62,543	—	62,543
Debt due within one year	(6,800)	—	(6,800)
Deferred income tax liabilities	(53,904)	—	(53,904)
Net assets acquired and total purchase price, net of cash acquired	<u>\$81,204</u>	<u>\$6,375</u>	<u>\$87,579</u>

[b] Acquisition in the five-month period ended December 31, 1998

Santa Anita

In December 1998, the Company completed the acquisition of the Santa Anita racetrack operations and approximately 305 acres of related real estate for \$17.6 million and \$101.0 million, respectively, for total consideration of \$118.6 million.

MI ENTERTAINMENT CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(all amounts in U.S. dollars unless otherwise noted and all tabular amounts in thousands, except per share amounts)
(all amounts as at September 30, 1999 and for the nine-month periods ended September 30, 1999 and 1998 are unaudited)

The purchase price has been allocated to the assets and liabilities acquired as follows:

Net working capital deficit	\$ (7,428)
Building improvements	19,804
Fixed assets	6,513
Other long term liabilities	<u>(1,317)</u>
	17,572
Land and buildings	<u>101,045</u>
	<u>\$118,617</u>

Pro-forma Impact

If the acquisition of the Santa Anita racetrack and related real estate completed during the five-month period ended December 31, 1998 had occurred on August 1, 1997, the Company's unaudited pro forma revenue would have been \$22.0 million for the five-month period ended December 31, 1998 (for the year ended July 31, 1998—\$87.6 million) and pro forma net loss would have been \$8.5 million for the five-month period ended December 31, 1998 (for the year ended July 31, 1998—\$1.1 million net loss).

MI ENTERTAINMENT CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(all amounts in U.S. dollars unless otherwise noted and all tabular amounts in thousands, except per share amounts)
(all amounts as at September 30, 1999 and for the nine-month periods ended September 30, 1999 and 1998 are unaudited)

3. REAL ESTATE PROPERTIES

Real estate properties consist of:

	September 30, 1999	December 31, 1998	July 31,	
	<u>[unaudited]</u>		<u>1998</u>	<u>1997</u>
Residential development inventory	\$ 19,168	\$ 16,573	\$ 13,908	\$ 12,072
Revenue producing properties				
Cost				
Land and improvements	86,499	36,850	10,981	9,901
Buildings	78,087	56,840	14,922	12,586
Construction in progress	30,972	2,814	—	20
	<u>195,558</u>	<u>96,504</u>	<u>25,903</u>	<u>22,507</u>
Accumulated depreciation				
Buildings	(4,480)	(2,317)	(1,608)	(678)
Revenue producing properties, net	<u>191,078</u>	<u>94,187</u>	<u>24,295</u>	<u>21,829</u>
Properties under and held for development				
Cost				
Land and improvements	143,355	126,652	60,706	48,441
Buildings	796	517	524	—
Construction in progress	6,180	4,389	302	—
Properties under and held for development	<u>150,331</u>	<u>131,558</u>	<u>61,532</u>	<u>48,441</u>
Properties available for sale				
Cost				
Land and improvements	53,455	53,935	52,374	19,754
Buildings	28,408	30,256	28,070	6,181
Furniture and fixtures	1,725	1,725	1,725	1,725
	<u>83,588</u>	<u>85,916</u>	<u>82,169</u>	<u>27,660</u>
Accumulated depreciation				
Buildings	(1,651)	(871)	(325)	(79)
Furniture and fixtures	(717)	(673)	(576)	(423)
Properties available for sale, net	<u>81,220</u>	<u>84,372</u>	<u>81,268</u>	<u>27,158</u>
	<u>\$441,797</u>	<u>\$326,690</u>	<u>\$181,003</u>	<u>\$109,500</u>

The classifications of properties above represent the Company's current intentions with respect to future use (e.g. development or sale).

Depreciation has ceased on properties classified as available for sale.

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4. FIXED ASSETS

Fixed assets consist of:

	September 30, 1999 <u>[unaudited]</u>	December 31, 1998 <u> </u>	<u>July 31,</u>	
			1998	1997
Cost				
Machinery and equipment	\$9,785	\$7,632	\$3,036	\$2,724
Furniture and fixtures	<u>2,371</u>	<u>2,225</u>	<u>—</u>	<u>—</u>
	12,156	9,857	3,036	2,724
Accumulated depreciation				
Machinery and equipment	(2,391)	(1,610)	(1,150)	(565)
Furniture and fixtures	<u>(233)</u>	<u>(26)</u>	<u>—</u>	<u>—</u>
	<u>\$9,532</u>	<u>\$8,221</u>	<u>\$1,886</u>	<u>\$2,159</u>

5. OTHER ASSETS

Other assets consist of racing licenses as follows:

	September 30, 1999 <u>[unaudited]</u>	December 31, 1999 <u> </u>	<u>July 31,</u>	
			1998	1997
Licenses				
Cost	\$62,543	\$ —	\$ —	\$ —
Accumulated amortization	<u>(304)</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$62,239</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

6. INCOME TAXES

[a] Income taxes for SAC, LATC, Gulfstream, MVB (from January 1, 1999), MGE and other separate tax paying legal entities at September 30, 1999, have been recorded based on their separate tax positions using the liability method of tax allocation. Income taxes with respect to the other components of the consolidated statements of income (loss) and comprehensive income (loss) have been recorded at statutory rates based on income before taxes as included in the consolidated statements of income (loss) and comprehensive income (loss) as though such components were separate tax paying entities. Given that the revenues and expenses of this latter component of the consolidated statements of income (loss) and comprehensive income (loss) have been prepared on a carve out basis from Magna, the resulting income taxes payable and deferred income tax assets and liabilities have been included in Magna's net investment.

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[b] The provision for income taxes differs from the expense that would be obtained by applying United States federal statutory rates as a result of the following:

	Nine-month periods ended September 30,		Five-month period ended December 31, 1998	Years ended July 31,		
	1999	1998		1998	1997	1996
	[unaudited]					
Expected provision (recovery):						
Federal statutory income tax rate						
(35%)	\$2,588	\$(2,674)	\$(1,543)	\$(3,014)	\$(484)	\$(848)
State income tax	630	—	—	—	—	—
Losses not benefited	1,174	2,674	1,366	3,014	484	848
Foreign rate differentials	(10)	—	—	—	—	—
Other	11	—	—	—	—	—
Income tax provision (recovery) . . .	\$4,393	\$ —	\$ (177)	\$ —	\$ —	\$ —

The income tax provision relates entirely to the income of SAC and LATC less losses generated by Gulfstream and certain other U.S. legal entities. Other components of the Company are in a loss position. The tax benefits of certain of these losses have been utilized by Magna and are not available to the Company. However, the future tax benefits of the income tax loss carryforwards of MVB (from January 1, 1999), MGE and other separate tax paying entities at September 30, 1999 are available to the Company. These losses amount to \$7.1 million of which \$0.5 million expire in the year 2006 and the remainder have no expiry date.

[c] The details of income (loss) before income taxes by jurisdiction are as follows:

	Nine-month periods ended September 30,		Five-month period ended December 31, 1998	Years ended July 31,		
	1999	1998		1998	1997	1996
	[unaudited]					
United States	\$10,721	\$ (193)	\$ (540)	\$ (243)	\$ (92)	\$ (211)
Foreign	(3,328)	(7,447)	(3,868)	(8,367)	(1,290)	(2,213)
	\$ 7,393	\$(7,640)	\$(4,408)	\$(8,610)	\$(1,382)	\$(2,424)

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[d] The details of the income tax provision (recovery) are as follows:

	Nine-month periods ended September 30,		Five-month period ended December 31, 1998	Years ended July 31,		
	1999	1998		1998	1997	1996
	[unaudited]					
Current provision						
United States	\$3,676	\$—	\$ —	\$—	\$—	\$—
Foreign	—	—	—	—	—	—
	<u>3,676</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Deferred provision						
United States	717	—	(177)	—	—	—
Foreign	—	—	—	—	—	—
	<u>717</u>	<u>—</u>	<u>(177)</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$4,393</u>	<u>\$—</u>	<u>\$(177)</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>

[e] Deferred income taxes have been provided on temporary differences, which consist of the following:

	Nine-month periods ended September 30,		Five-month period ended December 31, 1998	Years ended July 31,		
	1999	1998		1998	1997	1996
	[unaudited]					
Tax depreciation in excess of book depreciation	\$ 540	\$—	\$ —	\$—	\$—	\$—
Tax benefit of loss carryforwards	(1,174)	(587)	(451)	(689)	(45)	—
Utilization of loss carryforwards	177	—	—	—	—	—
Increase in valuation allowance	1,174	587	274	689	45	—
	<u>\$ 717</u>	<u>\$—</u>	<u>\$(177)</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>

[f] Deferred tax assets and liabilities for SAC, LATC, Gulfstream, MVB (from January 1, 1999), MGE, and other separate tax paying entities at September 30, 1999 consist of the following temporary differences:

	September 30, 1999	December 31, 1998	July 31,	
	[unaudited]		1998	1997
Assets				
Tax benefit of loss carryforwards	\$ 2,419	\$ 1,288	\$ 787	\$ 39
Valuation allowance	(2,419)	(1,111)	(787)	(39)
	<u>\$ —</u>	<u>\$ 177</u>	<u>\$ —</u>	<u>\$—</u>
Liabilities				
Real estate properties book value in excess of tax value	\$27,005	\$ —	\$ —	\$—
Other assets book value in excess of tax value	27,546	—	—	—
Other	(107)	—	—	—
	<u>\$54,444</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$—</u>

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Included in Magna's net investment at September 30, 1999 are additional net deferred tax liabilities totaling \$3.8 million representing temporary differences on other assets and liabilities carved out from Magna (excluding assets and liabilities held by SAC, LATC, Gulfstream, MVB, MGE and other separate tax paying entities at September 30, 1999). Such temporary differences consist principally of real estate properties book value in excess of tax value.

7. DEBT AND COMMITMENTS

[a] The Company's long-term debt, consists of the following:

	<u>September 30,</u> <u>1999</u>	<u>December 31,</u> <u>1998</u>	<u>July 31,</u>	
	<u>[unaudited]</u>		<u>1998</u>	<u>1997</u>
Bank term line of credit with permitted borrowings of \$18.8 million (Austrian Schillings 240 million), bearing interest at VIBOR [Vienna Interbank Overnight Rate] plus 0.625% per annum, payable quarterly. The advance is repayable in six annual installments of principal of \$3.1 million (Austrian Schillings 40 million) beginning on July 31, 1997. The Company has provided two first mortgages on real estate properties as security for this facility.	\$ 9,346	\$13,567	\$12,784	\$14,661
Bank term line of credit, bearing interest at LIBOR [London Interbank Overnight Rate] plus 1.25% per annum, payable in annual installments with a final balloon payment due February 16, 2000. The Company has pledged the assets of one of its subsidiaries as security for this facility.	6,800	—	—	—
Mortgages outstanding with various Austrian banks and local governments (Austrian Schillings 76 million), bearing interest at rates ranging from 0.5% to 6.75% per annum, payable in semi-annual installments. The mortgages are repayable over various periods to 2037.	5,896	6,578	6,261	—
Term loan, bearing interest at a fixed rate of 4% per annum payable annually. The advance is repayable in 10 annual installments of principal of \$35 thousand (Austrian Schillings 0.4 million) commencing December 31, 1997.	<u>277</u>	<u>301</u>	<u>285</u>	<u>—</u>
	22,319	20,446	19,330	14,661
Less due within one year	<u>10,157</u>	<u>3,655</u>	<u>3,446</u>	<u>3,052</u>
	<u>\$12,162</u>	<u>\$16,791</u>	<u>\$15,884</u>	<u>\$11,609</u>

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[b] Future principal repayments on long-term debt at December 31, 1998 are as follows:

1999	\$ 3,655
2000	3,631
2001	3,624
2002	3,624
2003	232
Thereafter	5,680
	<u>\$20,446</u>

[c] Net interest expense (income) includes:

	Nine-month periods ended September 30,		Five-month period ended December 31, 1998	Years ended July 31,		
	1999	1998		1998	1997	1996
	[unaudited]					
Interest cost, gross						
External debt	\$ 909	\$ 760	\$ 371	\$1,021	\$ 829	\$136
Magna debt	679	864	1,055	986	520	256
	1,588	1,624	1,426	2,007	1,349	392
Less: Interest capitalized	329	447	190	608	394	276
Interest expense	1,259	1,177	1,236	1,399	955	116
Interest income						
External	216	24	15	19	—	175
Internal	779	—	—	—	—	—
Interest expense (income), net	\$ 264	\$1,153	\$1,221	\$1,380	\$ 955	\$(59)

Interest capitalized relates to real estate properties under or held for development.

Interest paid in cash for the nine-month period ended September 30, 1999 and the five-month period ended December 31, 1998 was \$1.8 million and \$1.2 million, respectively (for the years ended July 31, 1998—\$1.9 million; 1997—\$1.4 million; 1996—\$0.4 million).

[d] At September 30, 1999, the Company had commitments under operating leases requiring annual rental payments for the fiscal periods ending December 31 as follows:

1999 (remaining three months)	\$ 89
2000	312
2001	200
2002	20
	<u>\$621</u>

For the nine-month period ended September 30, 1999 and five-month period ended December 31, 1998, payments under operating leases amounted to approximately \$264 thousand and \$39 thousand, respectively (for the years ended July 31, 1998—\$44 thousand; 1997—\$49 thousand; 1996—\$7 thousand).

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8. CURRENCY TRANSLATION ADJUSTMENT

Unrealized translation adjustments arise on the translation to U.S. dollars of assets and liabilities of the Company's self-sustaining foreign operations. During the nine-month period ended September 30, 1999, the Company incurred an unrealized currency translation loss of \$3.9 million, primarily from the weakening of the Austrian Schilling against the U.S. dollar during the period (an unrealized gain of \$4.8 million for the five-month period ended December 31, 1998 and unrealized losses for the years ended July 31, 1998—\$2.0 million; 1997—\$7.2 million; 1996—\$1.3 million).

9. FINANCIAL INSTRUMENTS

[a] *Fair Value*

The methods and assumptions used to estimate the fair value of financial instruments are described below. Management has estimated the fair value of its financial instruments using available market information and appropriate valuation methodologies. Considerable judgement is required in interpreting market data to develop estimates of fair value. Accordingly, estimated fair values are not necessarily indicative of the amounts that could be realized in current market exchanges.

Cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable, income taxes payable, refundable deposits and accrued liabilities

Due to the short period to maturity of these instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of fair value.

Long-term debt

The fair value of the Company's long-term debt, based on current rates for debt with similar terms and maturities, are not materially different from their carrying value.

[b] *Credit Risk*

The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable.

Cash and cash equivalents, which consist of short-term investments, including commercial paper, is only invested in entities with an investment grade credit rating. Credit risk is further reduced by limiting the amount which is invested in any one government or corporation.

The Company, in the normal course of business, is exposed to credit risk from its customers. However, customer receivables are generally not a significant portion of the Company's total assets and are comprised of a large number of individual customers.

[c] *Interest Rate Risk*

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary current assets and current liabilities and its current levels of long-term debt balances.

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10. SEGMENTED INFORMATION

Operating Segments

The Company has two operating segments: racetrack and real estate operations.

The following summary presents key information by operating segment.

	Nine-month period ended September 30, 1999		
	Racetrack Operations	Real Estate Operations [unaudited]	Total
Revenue	\$ 58,954	\$ 12,167	\$ 71,121
Income (loss) before income taxes	10,637	(3,244)	7,393
Real estate properties and fixed asset additions	27,577	7,023	34,600
Real estate properties, fixed and other assets, net	304,907	208,661	513,568
Current assets			179,887
Deferred income tax assets			—
Total assets			\$693,455

	Nine-month period ended September 30, 1998		
	Racetrack Operations	Real Estate Operations [unaudited]	Total
Revenue	\$ —	\$ 17,196	\$ 17,196
Loss before income taxes	—	(7,640)	(7,640)
Real estate properties and fixed asset additions	—	63,677	63,677
Real estate properties, fixed and other assets, net	—	190,866	190,866
Current assets			2,291
Deferred income tax assets			—
Total assets			\$193,157

	Five-month period ended December 31, 1998		
	Racetrack Operations	Real Estate Operations	Total
Revenue	\$ 3,952	\$ 6,597	\$ 10,549
Loss before income taxes	(435)	(3,973)	(4,408)
Real estate properties and fixed asset additions	633	17,435	18,068
Real estate properties, fixed and other assets, net	127,767	207,144	334,911
Current assets			29,054
Deferred income tax assets			177
Total assets			\$364,142

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	Year ended July 31, 1998		
	Racetrack Operations	Real Estate Operations	Total
Revenue	\$—	\$ 20,486	\$ 20,486
Loss before income taxes	—	(8,610)	(8,610)
Real estate properties and fixed asset additions	—	72,643	72,643
Real estate properties, fixed and other assets, net	—	182,889	182,889
Current assets			1,913
Deferred income tax assets			—
Total assets			\$184,802

	Year ended July 31, 1997		
	Racetrack Operations	Real Estate Operations	Total
Revenue	\$—	\$ 15,276	\$ 15,276
Loss before income taxes	—	(1,382)	(1,382)
Real estate properties and fixed asset additions	—	43,579	43,579
Real estate properties, fixed and other assets, net	—	111,659	111,659
Current assets			1,516
Deferred income tax assets			—
Total assets			\$113,175

	Year ended July 31, 1996		
	Racetrack Operations	Real Estate Operations	Total
Revenue	\$—	\$ 2,460	\$ 2,460
Loss before income taxes	—	(2,424)	(2,424)
Real estate properties and fixed asset additions	—	25,119	25,119
Real estate properties, fixed and other assets, net	—	75,215	75,215
Current assets			1,004
Deferred income tax assets			—
Total assets			\$ 76,219

Geographic Segments

Revenue by geographic segment of the Company is as follows:

	Nine-month periods ended September 30,		Five-month period ended December 31, 1998	Years ended July 31,		
	1999	1998		1998	1997	1996
	[unaudited]					
United States	\$60,778	\$ 1,353	\$ 4,707	\$ 1,698	\$ 1,617	\$1,326
Europe	10,343	15,843	5,842	18,788	13,659	1,134
	\$71,121	\$17,196	\$10,549	\$20,486	\$15,276	\$2,460

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Real estate properties, fixed and other assets by geographic segment of the Company are as follows:

	September 30, 1999	December 31, 1998	July 31,	
	[unaudited]		1998	1997
United States	\$324,182	\$146,063	\$ 17,687	\$ 17,639
Canada	72,313	64,804	50,742	33,073
Europe	117,073	124,044	114,460	60,947
	<u>\$513,568</u>	<u>\$334,911</u>	<u>\$182,889</u>	<u>\$111,659</u>

11. TRANSACTIONS WITH RELATED PARTIES

- [a] During the five-month period ended December 31, 1998, Magna entered into an agreement to purchase from a company associated with members of the family of Mr. F. Stronach and Ms. B. Stronach, the Chairman of the Board and an Executive Vice-President, respectively, of Magna, approximately 200 acres of land and improvements in Aurora, Ontario for a purchase price of approximately \$11.0 million. This land is adjacent to land currently owned by Magna and other land subject to a conditional sale agreement by Magna to the Company. As at September 30, 1999, Magna had paid \$9.0 million to the vendor in connection with this transaction. The rights to acquire this land and improvements, as well as golf course construction in progress funded by Magna, have been transferred to the Company as part of the Reorganization. The total amount included in properties under and held for development on the consolidated balance sheet at September 30, 1999 for this project is \$18.1 million.

- [b] Properties under and held for development includes \$20.6 million which represents the book value of the Aurora lands transferred to the Company by Magna under a conditional sale agreement. The conditional sale agreement is subject to the successful severance of the affected properties. If severance is not obtained within a specified period such that Magna retains ownership of the Aurora lands, Magna must return \$20.6 million to the Company with interest. Prior to completion of the conditional sale, the property is being leased by the Company from Magna for a nominal amount.

- [c] Properties available for sale includes \$4.6 million, which represents the book value of vacant land, transferred to the Company by Magna under two conditional sale agreements. The conditional sale agreements are subject to the successful severance of the affected properties. If severance is not obtained within a specified period such that Magna retains ownership of the properties, Magna must return \$4.6 million to the Company with interest.

- [d] The Company has granted a limited term option to Magna to reacquire a real estate property for a fixed price equal to its book value of 50 million Austrian Schillings (\$3.9 million). This property is included in properties available for sale.

- [e] At September 30, 1999, the Company had a note outstanding due to Magna in the amount of \$35.2 million. On September 1, 1999, Magna invested an additional \$250.0 million in cash, by way of equity contribution, in the Company. Of this amount, \$146.9 million was loaned back to Magna and is reflected as a note receivable from Magna. The note is due on demand and bears interest at the U.S. prime rate less 1% per annum. Both the note payable and receivable with Magna were settled subsequent to September 30, 1999.

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- [f] Effective March 1, 1999, the Company began charging Magna an access fee for its use of the golf course and related facilities in Oberwaltersdorf, Austria. The yearly fee amounts to \$2.7 million. During the nine-months ended September 30, 1999, \$1.6 million has been recognized in revenue related to this fee.

The Company has granted Magna a right of first refusal to purchase the Company's two golf courses.

- [g] One of the Company's subsidiaries has been named as a defendant in a class action brought in a United States District Court by Gutwillig, et al. The plaintiffs in this action claim unspecified compensatory and punitive damages, for restitution and disgorgement of profits, all in relation to forced labor performed by the plaintiffs for such subsidiary and certain other Austrian and German corporate defendants at their facilities in Europe during World War II. As a result of the Reorganization, the Company acquired shares of such subsidiary. Under Austrian law, such subsidiary would be jointly and severally liable for the damages awarded in respect of this class action claim. An Austrian subsidiary of Magna has agreed to indemnify such subsidiary for any damages or expenses associated with this claim.
- [h] A subsidiary of Magna has agreed to indemnify the Company in respect of environmental remediation costs and expenses relating to existing conditions in certain of the Austrian real estate properties.

12. CONTINGENCIES

- [a] The Company generates a substantial amount of its revenue from wagering activities in Southern California and, therefore, it is subject to the risks inherent in the ownership and operation of a racetrack. These include, among others, the risks normally associated with changes in the general economic climate, trends in the gaming industry, including competition from other gaming institutions and state lottery commissions and changes in tax laws and gaming laws.
- [b] In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Company.

13. EMPLOYEE DEFINED BENEFIT PLANS

With the acquisition of the Santa Anita racetrack in December 1998, the Company assumed the assets and liabilities of the Retirement Income Plan discussed below.

This plan consists of a non-contributory defined benefit retirement plan for year-round employees who are at least 21 years of age, have one or more years of service, and are not covered by collective bargaining agreements. Plan assets consist of a group annuity contract with a life insurance company. Plan benefits are based primarily on years of service and qualifying compensation during the final years of employment. Funding requirements comply with federal requirements that are imposed by law. In the event of a "change in control," participants in the defined benefit retirement plan will become fully vested in plan benefits. This occurred on December 10, 1998.

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The Santa Anita racetrack was acquired in December 1998, and the Company had no defined benefit plans prior thereto. Accordingly, a reconciliation of the benefit obligation, plan assets, funded assets of the plan and the components of the net periodic benefit cost has not been provided for the five-month period ended December 31, 1998 or for any of the years in the three-year period ended July 31, 1998. The benefit obligation and fair value of plan assets as of December 31, 1998 was \$7.0 million and \$5.7 million, respectively.

The accrued pension cost is included in other long-term liabilities in the consolidated balance sheets.

Assumptions used in determining the funded status of the retirement income plan are as follows:

	December 31, 1998
Weighted average discount rate	6.0%
Weighted average rate of increase in compensation levels	3.5%
Expected long-term rate of return	8.0%

The measurement date and related assumptions for the funded status of the retirement income plan were as of December 31, 1998.

14. SUPPLEMENTARY FINANCIAL INFORMATION

[a] Quarterly Information (unaudited)

Summarized quarterly financial information of the Company for the nine-months ended September 30, 1999 and the years ended December 31, 1998 and 1997 is as follows:

For the nine-months ended September 30, 1999	March 31	June 30	September 30		
Revenue	\$39,907	\$20,795	\$10,419	Total	
Gross profit (loss)	19,277	1,750	(3,402)	\$ 71,121	
Net income (loss)	\$ 9,325	\$ (1,235)	\$ (5,090)	\$ 3,000	
For the year ended December 31, 1998	March 31	June 30	September 30	December 31	Total
Revenue	\$ 5,748	\$ 4,995	\$ 6,453	\$ 7,995	\$ 25,191
Gross profit (loss)	(1,292)	(1,300)	(1,180)	154	(3,618)
Net loss	\$ (2,300)	\$ (2,464)	\$ (2,876)	\$ (2,806)	\$ (10,446)
For the year ended December 31, 1997	March 31	June 30	September 30	December 31	Total
Revenue	\$ 2,297	\$ 2,249	\$ 7,026	\$ 3,983	\$ 15,555
Gross profit (loss)	1,042	489	931	91	2,553
Net income (loss)	\$ (579)	\$ (1,057)	\$ 533	\$ (1,460)	\$ (2,563)

MI ENTERTAINMENT CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(all amounts in U.S. dollars unless otherwise noted and all tabular amounts in thousands, except per share amounts)
 (all amounts as at September 30, 1999 and for the nine-month periods ended September 30, 1999 and 1998 are unaudited)

[b] Comparative Information (unaudited)

Summarized comparative financial information for the five-month period ended December 31, 1997 is as follows:

Revenue	\$ 5,844
Real estate costs and expenses	
Operating costs	6,723
General and administrative	248
Depreciation and amortization	742
Interest expense	<u>526</u>
Loss before income taxes	(2,395)
Income taxes	<u>—</u>
Net loss	<u><u>\$(2,395)</u></u>

[c] Racetrack wagering revenues are shown net of state and local taxes, stakes, purses and awards as follows:

	Nine-month periods ended September 30,		Five-month period ended December 31, 1998	Years ended July 31,		
	1999	1998		1998	1998	1997
	[unaudited]					
Total live race day handle less patrons' winning tickets	207,224	—	14,385	—	—	—
State and local taxes and other fees	132,897	—	9,845	—	—	—
Horsemen stakes, purses, and awards	<u>38,463</u>	<u>—</u>	<u>2,320</u>	<u>—</u>	<u>—</u>	<u>—</u>
	35,864	—	2,220	—	—	—
Company share of non-live race day handle and other	<u>4,292</u>	<u>—</u>	<u>293</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u><u>40,156</u></u>	<u><u>—</u></u>	<u><u>2,513</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

15. CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company's accounting policies as reflected in these consolidated financial statements do not materially differ from accounting principles generally accepted in Canada ("Canadian GAAP") except for:

- [a] For purposes of reconciling to Canadian GAAP, the Company has early adopted the provisions of the Canadian Institute of Chartered Accountant Handbook Section 3461 "Employee Future Benefits" on a retroactive basis. Accordingly, net pension expense and accrued pension liabilities are the same as those determined by the application of U.S. GAAP.

- [b] Under Canadian GAAP, the Company is required to comment on its Year 2000 readiness.
 The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems, which use certain dates in 1999 to represent something other than a date.

MI ENTERTAINMENT CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(all amounts in U.S. dollars unless otherwise noted and all tabular amounts in thousands, except per share amounts)
 (all amounts as at September 30, 1999 and for the nine-month periods ended September 30, 1999 and 1998 are unaudited)

The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect the Company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

[c] Under Canadian GAAP, there is no requirement to disclose comprehensive income (loss).

16. SUBSEQUENT EVENTS

[a] At September 30, 1999, the components of Magna's net investment were as follows:

Deferred income tax assets	\$ 3,041
Deferred income tax liabilities	(6,859)
Share capital	(542,070)
	<u><u>\$ (545,888)</u></u>

On November 5, 1999, Magna completed the Reorganization described in the Principles of Consolidation section set out under "Significant Accounting Policies" preceding these consolidated financial statements. In addition, the Company's capital structure was established creating Class A Subordinate Voting Stock with one vote per share and Class B Stock with 20 votes per share. As of November 5, 1999, 78,535,328 Class B Stock and nil Class A Subordinate Voting Stock were issued and outstanding.

On December 30, 1999, a further amendment to the Company's capital structure was effected. On this date, MI Venture (Canada) Inc., a wholly owned Canadian subsidiary of the Company, amended its Articles of Incorporation to create a new class of shares, referred to as Exchangeable Shares. Each Exchangeable Share may be exchanged by the holder for one share of Class A Subordinate Voting Stock of the Company. The Exchangeable Shares entitle holders to dividend and other rights economically equivalent to shares of the Company's Class A Subordinate Voting Stock and, through a Voting and Exchange Agreement between Magna, the Company and MI Venture (Canada) Inc., to vote at meetings of shareholders of the Company. If not previously exchanged by holders for Class A Subordinate Voting Stock of the Company, the Exchangeable Shares will remain outstanding until October 1, 2001 (or a date after October 1, 2001 but prior to April 1, 2003, as determined by the board of directors of MI Venture (Canada) Inc. upon notice to holders of Exchangeable Shares), at which time any Exchangeable Shares still outstanding will be automatically redeemed. The redemption price at such time will be satisfied by the delivery of one share of Class A Subordinate Voting Stock of the Company for each Exchangeable Share.

On December 30, 1999, 14,823,187 shares of the Company's Class B Stock held by Magna were repurchased by the Company for \$110,000,000. On this same date, \$110,000,000 was invested by Magna in MI Venture (Canada) Inc. in return for 14,823,187 Exchangeable Shares. All of the common shares of MI Venture (Canada) Inc. continue to be held by the Company. Given that the Exchangeable Shares are economically equivalent to Class A Subordinate Voting Shares of the Company, the Exchangeable Shares will be included in shareholders' equity in the Company's consolidated balance sheet.

Assuming the above issuances of shares occurred at the beginning of the periods presented, basic and diluted earnings (loss) per share would have been as follows:

MI ENTERTAINMENT CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(all amounts in U.S. dollars unless otherwise noted and all tabular amounts in thousands, except per share amounts)
 (all amounts as at September 30, 1999 and for the nine-month periods ended September 30, 1999 and 1998 are unaudited)

	Nine-month periods ended September 30,		Five-month period ended December 31,	Years ended July 31,		
	1999	1998	1998	1998	1997	1996
	[unaudited]					
Earnings (loss) per share of						
Class A Subordinate Voting						
and Class B Stock and						
Exchangeable Shares:						
Basic and diluted	\$ 0.04	\$ (0.10)	\$ (0.05)	\$ (0.11)	\$ (0.02)	\$ (0.03)
Average number of shares of						
Class A Subordinate Voting						
and Class B Stock and						
Exchangeable Shares						
outstanding during the period						
[in thousands]:						
Basic and diluted	78,535	78,535	78,535	78,535	78,535	78,535

- [b] On November 12, 1999, the Company completed the acquisition of the Thistledown and Remington Park racetracks in North Randall, Ohio and Oklahoma City, Oklahoma, respectively, for a total purchase price of \$24.0 million. Of the total purchase price, \$19.5 million was paid in cash and the balance of \$4.5 million was paid through the issuance of 650,695 shares of Class A Subordinate Voting Stock.
- [c] On December 10, 1999, the Company completed the acquisition of Golden Gate Fields racetrack in Albany and Berkeley, California for a total purchase price of \$87.0 million. Of the total purchase price, \$60.0 million was paid in cash, \$7.0 million was paid through the issuance of 1,012,195 shares of Class A Subordinate Voting Stock and \$20.0 million was paid by way of an interest-free promissory note payable, \$10.0 million of which matures on the first anniversary of the date of closing and \$5.0 million of which matures on each of the second and third anniversaries.
- [d] The Company has signed a definitive agreement to acquire the assets and assume certain liabilities of Great Lakes Downs, Inc. racetrack in Muskegon, Michigan for a purchase price of \$1.7 million. The total purchase price of \$1.7 million will be paid by the issuance of 246,287 shares of Class A Subordinate Voting Stock.
- [e] On January 14, 2000, the Company filed a registration statement with the United States Securities and Exchange Commission and a prospectus in Ontario and certain other provinces of Canada in connection with Magna's planned distribution, by way of dividend, of approximately 15.7 million shares comprised of a combination of:
 - (i) Exchangeable Shares of MI Venture (Canada) Inc. to be distributed to Magna shareholders resident in Canada; and
 - (ii) Class A Subordinate Voting Stock of the Company to be distributed to Magna shareholders not resident in Canada.

Magna will convert the necessary amount of shares of Class B Stock to shares of Class A Subordinate Voting Stock to effect the dividend.

- [f] On December 22, 1999, the Company successfully completed the negotiation of two credit facilities—a \$63 million three year term loan facility and a \$10 million revolving line of credit, both of which bear interest at rates ranging between the U.S. prime rate and LIBOR plus 2.2% per annum.

SCHEDULE III

MI ENTERTAINMENT CORP.
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 1998
(Amounts in thousands, U.S. dollars)

Description	Encumbrance	Initial Costs to Company		Costs Capitalized Subsequent to Acquisition		Foreign Exchange Impact		Gross Amount at which Carried at Close of Period			Accumulated Depreciation	Date of Construction	Date Acquired	Life on which Depreciation in Latest income statement is Computed(1)
		Land	Building and Improvements	Land	Building and Improvements	Land	Building and Improvements	Land	Building and Improvements	Total				
RACETRACK OPERATIONS														
Santa Anita Racing facilities California, U.S.A.	—	25,072	43,277	—	504	—	—	25,072	43,781	68,853	123	n/a	1998	40 years
Land held for development California, U.S.A.	—	52,500	—	—	120	—	—	52,500	120	52,620	—	n/a	1998	n/a
REAL ESTATE OPERATIONS														
Golf Course Facilities														
Niederosterreich, Austria	—	3,721	—	7,120	19,992	937	(4,120)	11,778	15,872	27,650	2,194	1996	1994	25 years
Ontario, Canada	—	11,008	—	11	4,273	33	(4)	11,052	4,269	15,321	—	Ongoing	1998	n/a
Land														
Ontario, Canada	—	13,479	—	8,478	—	(2,227)	—	19,730	—	19,730	—	—	—	—
Ontario, Canada	—	11,314	—	96	—	(768)	—	10,642	—	10,642	—	n/a	1998	n/a
Ontario, Canada	—	2,963	—	225	524	(324)	(7)	2,864	517	3,381	—	n/a	1996	n/a
Ontario, Canada	—	4,452	—	98	—	(303)	—	4,247	—	4,247	—	n/a	1997	n/a
Ontario, Canada	—	986	—	48	—	(68)	—	966	—	966	—	n/a	1997	n/a
Ontario, Canada	—	1,645	—	47	—	(111)	—	1,581	—	1,581	—	n/a	1997	n/a
Ontario, Canada	—	1,868	—	56	—	(203)	—	1,721	—	1,721	—	n/a	1997	n/a
Ontario, Canada	—	377	—	1	—	(42)	—	336	—	336	—	n/a	1985	n/a
Ontario, Canada	—	861	—	10	—	(94)	—	777	—	777	—	n/a	1985	n/a
Ontario, Canada	—	1,189	—	779	—	(214)	—	1,754	—	1,754	—	n/a	1985	n/a
Ontario, Canada	—	2,559	—	201	—	(280)	—	2,480	—	2,480	—	n/a	1997	n/a
Ontario, Canada	—	1,669	—	240	—	(207)	—	1,702	—	1,702	—	n/a	1987	n/a
Kentucky, U.S.A.	—	2,847	—	13	—	—	—	2,860	—	2,860	—	n/a	1997	n/a
Michigan, U.S.A.	—	1,161	—	65	—	—	—	1,226	—	1,226	—	n/a	1996	n/a
Michigan, U.S.A.	—	2,782	—	8	—	—	—	2,790	—	2,790	—	n/a	1996	n/a
Maryland, U.S.A.	—	997	—	18	—	—	—	1,015	—	1,015	—	n/a	1994	n/a
Florida, U.S.A.	—	1,918	—	12	—	—	—	1,930	—	1,930	—	n/a	1994	n/a
New York, U.S.A.	—	725	—	—	—	—	—	725	—	725	—	n/a	1998	n/a
Niederosterreich, Austria	—	7,099	—	49	—	(343)	—	6,805	—	6,805	—	n/a	1994	n/a
Niederosterreich, Austria	—	21,449	—	2,010	—	(1,122)	—	22,337	—	22,337	—	n/a	1996	n/a
Austria	—	6,239	—	4	—	434	—	6,677	—	6,677	—	n/a	1998	n/a
Steienmark, Austria	—	2,229	—	—	—	155	—	2,384	—	2,384	—	n/a	1998	n/a
Commercial/Industrial properties														
Colorado, U.S.A.	—	—	1,045	—	—	—	—	—	1,045	1,045	505	n/a	1992	n/a
Oberoesterreich, Austria	—	4,011	8,193	—	—	279	571	4,290	8,764	13,054	482	n/a	1998	n/a
Oberoesterreich, Austria	—	3	3,193	—	821	—	223	3	4,237	4,240	—	n/a	1998	n/a
Wien, Austria	—	4,888	2,277	—	—	341	159	5,229	2,436	7,665	35	n/a	1998	n/a
Residential properties														
Ontario, Canada	—	70	112	—	6	(5)	(8)	65	110	175	6	n/a	1998	n/a
Colorado, U.S.A.	—	—	1,557	—	60	—	—	—	1,617	1,617	83	n/a	1992	n/a
Colorado, U.S.A.	—	—	3,600	—	—	—	—	—	3,600	3,600	—	n/a	1995	n/a
Florida, U.S.A.	—	669	1,242	—	402	—	—	669	1,644	2,313	267	n/a	1994	n/a
Austria	5,839	8,595	7,941	(2)	34	599	552	9,192	8,527	17,719	165	n/a	1998	n/a
Other	—	40	—	—	—	(2)	2	38	2	40	1	—	—	—
	<u>5,839</u>	<u>201,385</u>	<u>72,437</u>	<u>19,587</u>	<u>26,736</u>	<u>(3,535)</u>	<u>(2,632)</u>	<u>217,437</u>	<u>96,541</u>	<u>313,978</u>	<u>3,861</u>			

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(1) Depreciation has ceased on properties available for sale. See note 3 to the Company's Consolidated Financial Statements.

SCHEDULE III

MI ENTERTAINMENT CORP.

REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 1998

[Amounts in thousands, U.S. dollars]

	Five-month period ended December 31, 1998	Years ended July 31,		
		1998	1997	1996
COST				
Balance at beginning of period	169,604	98,608	67,719	44,842
Additions during the period:				
Acquisitions	132,578	66,194	33,843	5,998
Improvements	6,250	6,099	6,346	17,996
Foreign exchange impact	5,546	(1,297)	(9,300)	(1,117)
Balance at close of period	<u>313,978</u>	<u>169,604</u>	<u>98,608</u>	<u>67,719</u>
ACCUMULATED DEPRECIATION				
Balance at beginning of period	2,509	1,180	319	151
Additions during the period:				
Depreciation and amortization	1,233	1,289	966	169
Foreign exchange impact	119	40	(105)	(1)
Balance at close of period	<u>3,861</u>	<u>2,509</u>	<u>1,180</u>	<u>319</u>
Net book value	310,117	167,095	97,428	67,400
Residential development inventory	16,573	13,908	12,072	6,858
Real estate properties, net	<u>326,690</u>	<u>181,003</u>	<u>109,500</u>	<u>74,258</u>

FINANCIAL STATEMENTS

Los Angeles Turf Club, Inc.

**For the periods from January 1, 1998 to December 10, 1998,
November 6, 1997 to December 31, 1997, January 1, 1997
to November 5, 1997 and for the year ended December 31, 1996**

INDEPENDENT AUDITORS' REPORT

To the Shareholder and Board of Directors
Los Angeles Turf Club, Inc.

We have audited the accompanying balance sheets of the Los Angeles Turf Club, Inc. (the Company) as of December 10, 1998 and December 31, 1997, and the related statements of operations, shareholder's equity (deficit) and cash flows for the periods from January 1, 1998 through December 10, 1998, November 6, 1997 through December 31, 1997, January 1, 1997 through November 5, 1997, and for the year ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 10, 1998 and December 31, 1997 and the results of its operations and its cash flows for the periods from January 1, 1998 through December 10, 1998, November 6, 1997 through December 31, 1997, January 1, 1997 through November 5, 1997, and for the year ended December 31, 1996, in conformity with accounting principles generally accepted in the United States.

Los Angeles, California
June 11, 1999

Certified Public Accountants

LOS ANGELES TURF CLUB, INC.

BALANCE SHEETS
(in thousands, except share data)

	<u>December 10, 1998</u>	<u>December 31, 1997</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 221	\$ 15,632
Accounts receivable, net of allowance of \$238 at December 10, 1998, and \$367 at December 31, 1997	2,204	2,417
Prepaid expenses and other assets	<u>1,221</u>	<u>1,393</u>
Total current assets	<u>3,646</u>	<u>19,442</u>
Equipment	11,928	10,805
Accumulated depreciation	<u>(1,424)</u>	<u>(224)</u>
	<u>10,504</u>	<u>10,581</u>
Other assets	<u>1,699</u>	<u>1,699</u>
Total assets	<u>\$ 15,849</u>	<u>\$ 31,722</u>
LIABILITIES AND SHAREHOLDER'S DEFICIT		
Current liabilities:		
Accounts payable	\$ 1,730	\$ 10,736
Accrued deferred compensation cost	3,850	3,977
Accrued benefit plan cost	1,304	1,304
Other liabilities	6,201	10,033
Borrowing under line of credit	2,500	—
Due to affiliates	<u>20,719</u>	<u>23,718</u>
Total current liabilities	36,304	49,768
Deferred revenue	1,812	1,349
Deferred income taxes	<u>2,265</u>	<u>2,265</u>
Total liabilities	<u>40,381</u>	<u>53,382</u>
Shareholder's deficit:		
Common stock, \$1,000 par value; 25 shares authorized, issued and outstanding	25	25
Additional paid-in capital	8,314	6,960
Receivable from parent	(15,868)	(13,355)
Retained earnings (deficit)	<u>(17,003)</u>	<u>(15,290)</u>
Total shareholder's deficit	<u>(24,532)</u>	<u>(21,660)</u>
Total liabilities and shareholder's deficit	<u>\$ 15,849</u>	<u>\$ 31,722</u>

On behalf of the Board:

(Signed) FRANK STRONACH
Director

(Signed) LONNY POWELL
Director

See accompanying notes.

LOS ANGELES TURF CLUB, INC.
STATEMENTS OF OPERATIONS
(in thousands)

	Period From January 1, 1998 through December 10, 1998	Period From November 6, 1997 through December 31, 1997	Period From January 1, 1997 through November 5, 1997	Year Ended December 31, 1996
Revenues:				
Wagering commissions	\$41,043	\$ 2,950	\$39,701	\$44,781
Admission related	21,940	2,278	20,334	23,825
Interest and other	179	39	615	581
	<u>63,162</u>	<u>5,267</u>	<u>60,650</u>	<u>69,187</u>
Costs and expenses:				
Horse racing operating costs	48,437	6,407	49,279	48,735
Depreciation and amortization	1,200	171	2,570	3,212
General and administrative	3,965	742	4,821	6,353
Interest and other	1,089	30	110	788
Rental expense	10,184	740	9,895	10,861
	<u>64,875</u>	<u>8,090</u>	<u>66,675</u>	<u>69,949</u>
Loss before income taxes	(1,713)	(2,823)	(6,025)	(762)
Income taxes	—	—	—	—
Net loss	<u>\$ (1,713)</u>	<u>\$ (2,823)</u>	<u>\$ (6,025)</u>	<u>\$ (762)</u>
Basic and diluted loss per share	<u>\$ (68.5)</u>	<u>\$ (112.9)</u>	<u>\$ (241.0)</u>	<u>\$ (30.5)</u>

See accompanying notes.

LOS ANGELES TURF CLUB, INC.

STATEMENTS OF SHAREHOLDER'S EQUITY (DEFICIT)
For the Periods January 1, 1998 through December 10, 1998, November 6, 1997
through December 31, 1997, January 1, 1997 through November 5, 1997, and
the Year Ended December 31, 1996
(in thousands, except share data)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Receivable From Parent</u>	<u>Retained Earnings (Deficit)</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>				
Balance, December 31, 1995	25	\$ 25	\$1,895	\$(16,417)	\$ 22,053	\$ 7,556
Addition to receivable from parent	—	—	—	(325)	—	(325)
Contributed capital	—	—	3,208	—	—	3,208
Net loss	—	—	—	—	(762)	(762)
Balance, December 31, 1996	25	25	5,103	(16,742)	21,291	9,677
Payment of receivable from parent	—	—	—	4,015	—	4,015
Contributed capital	—	—	1,494	—	—	1,494
Net loss	—	—	—	—	(6,025)	(6,025)
Balance, November 5, 1997	25	25	6,597	(12,727)	15,266	9,161
Purchase accounting adjustment	—	—	—	—	(27,733)	(27,733)
Addition to receivable from parent	—	—	—	(628)	—	(628)
Contributed capital	—	—	363	—	—	363
Net loss	—	—	—	—	(2,823)	(2,823)
Balance, December 31, 1997	25	25	6,960	(13,355)	(15,290)	(21,660)
Addition to receivable from parent	—	—	—	(2,513)	—	(2,513)
Contributed capital	—	—	1,354	—	—	1,354
Net loss	—	—	—	—	(1,713)	(1,713)
Balance, December 10, 1998	25	\$ 25	\$8,314	\$(15,868)	\$(17,003)	\$(24,532)

See accompanying notes.

LOS ANGELES TURF CLUB, INC.
STATEMENTS OF CASH FLOWS
(in thousands)

	Period from January 1, 1998 through December 10, 1998	Period from November 6, 1997 through December 31, 1997	Period from January 1, 1997 through November 5, 1997	Year Ended December 31, 1996
Cash flows from operating activities:				
Net loss	\$ (1,713)	\$ (2,823)	\$ (6,025)	\$ (762)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:				
Depreciation and amortization	1,200	171	2,570	3,212
Deferred income taxes	—	—	—	(327)
Decrease (increase) in accounts receivable, net . . .	213	55	(88)	665
Decrease (increase) in prepaid expenses and other assets	172	231	(224)	(658)
(Decrease) increase in accounts payable	(9,006)	7,148	(7,243)	1,758
(Decrease) increase in other liabilities, deferred compensation and permanent employee compensation	(3,959)	(2,831)	764	(842)
Increase (decrease) in deferred revenues	463	540	(1,030)	(540)
Net cash (used in) provided by operating activities . .	<u>(12,630)</u>	<u>2,491</u>	<u>(11,276)</u>	<u>2,506</u>
Cash flows from investing activities:				
Additions to equipment	(1,123)	(1,805)	(7,051)	(4,550)
Net cash used in investing activities	<u>(1,123)</u>	<u>(1,805)</u>	<u>(7,051)</u>	<u>(4,550)</u>
Cash flows from financing activities:				
Repayment of bank loans payable	—	(82)	(785)	(868)
Borrowing under line of credit	2,500	—	—	—
(Decrease) increase in due to/from affiliates	(2,999)	10,985	7,823	(2,050)
Contributed capital	1,354	366	1,494	3,208
(Increase) decrease in receivable from parent	(2,513)	(628)	4,015	(325)
Net cash (used in) provided by financing activities . .	<u>(1,658)</u>	<u>10,641</u>	<u>12,547</u>	<u>(35)</u>
Net (decrease) increase in cash and cash equivalents . .	(15,411)	11,327	(5,780)	(2,079)
Cash and cash equivalents at beginning of period	<u>15,632</u>	<u>4,305</u>	<u>10,085</u>	<u>12,164</u>
Cash and cash equivalents at end of period	<u>\$ 221</u>	<u>\$15,632</u>	<u>\$ 4,305</u>	<u>\$10,085</u>
Supplemental Cash Flow Information (see Notes 3 and 9):				
Interest paid for the period	<u>\$ 58</u>	<u>\$ —</u>	<u>\$ 111</u>	<u>\$ 288</u>

See accompanying notes.

LOS ANGELES TURF CLUB, INC.
NOTES TO FINANCIAL STATEMENTS
December 10, 1998, December 31, 1997 and 1996

1. Basis of Presentation

Los Angeles Turf Club, Inc. ("LATC" or the "Company") was incorporated in 1979 and is a successor of a corporation originally organized in 1934 to conduct thoroughbred horse racing at Santa Anita Racetrack ("Santa Anita") in Southern California. Prior to November 5, 1997, LATC was a wholly owned subsidiary of Santa Anita Operating Company and Subsidiaries ("SAOC" or "Parent"). On November 5, 1997, Meditrust Acquisition Company ("Meditrust") merged with SAOC and changed its name to Meditrust Operating Company. The merger has been accounted for as a purchase and the assets and liabilities of LATC were recorded at their fair market value as of November 5, 1997. A complete change in accounting basis is appropriate because of the change in control of voting interests. The financial statements for the periods subsequent to November 5, 1997 present the financial position of the Company and its results of operations after the allocation of the purchase price relating to the Meditrust acquisition. The accompanying financial statements for the periods prior to and including November 5, 1997 do not include the effects of Meditrust's purchase accounting for the acquisition (Note 3). On December 10, 1998, LATC was acquired by a wholly-owned subsidiary of Magna International Inc.

The accompanying financial statements include the balance sheet and income statement accounts of LATC. Certain costs incurred by LATC's Parent on the Company's behalf have been allocated to LATC on the specific identification basis. The statement of operations may not necessarily be indicative of the revenues and expenses that would have resulted had LATC operated as a stand alone entity.

2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America, which conform, in all material respects, with accounting principles generally accepted in Canada except as described in Note 11 to these financial statements.

Property, Plant and Equipment

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("FAS No. 121"). FAS No. 121 requires that impairment losses be recorded on long-lived assets used in operations when events or changes in circumstances indicate that the undiscounted cash flows to be generated by these assets are less than their carrying amount. No such impairment losses were recorded during the periods January 1, 1998 through December 10, 1998, November 6, 1997 through December 31, 1997, January 1, 1997 through November 5, 1997 or for the year ended December 31, 1996.

Depreciation of property, plant and equipment is provided primarily on the straight-line method generally over the following estimated useful lives:

Machinery and other equipment	5 to 15 years
Leasehold improvements	5 to 15 years

Expenditures which materially increase property lives are capitalized. The cost of maintenance and repairs is charged to expense as incurred. When depreciable property is retired or disposed of, the related cost and accumulated depreciation is removed from the accounts and any gain or loss reflected in current operations.

LOS ANGELES TURF CLUB, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

Deferred Revenues

Deferred revenues consist of prepaid admission tickets and parking, which are recognized as income ratably over the period of the related race meet. Also, deferred revenue includes prepaid rent from another thoroughbred horse racing corporation, Oak Tree Racing Association (“OTRA”), which utilizes the Company’s racetrack for a portion of the year. Prepaid rent is recognized over the remaining term of the lease.

Cash and Cash Equivalent

Highly liquid short-term investments, with remaining maturities of three months or less at the date of acquisition, are considered cash equivalents.

Allowance for Bad Debts

Management periodically evaluates the collectibility of accounts receivable and adjusts the allowance for doubtful accounts to reflect the amounts estimated to be uncollectible .

Advertising

Costs incurred for production and communicating advertising are generally expensed when incurred. Costs incurred for promotions for specific live race days are expensed on the applicable race day. Advertising cost of \$3,175,000, \$262,000, \$2,331,000, and \$1,773,000 were incurred for the periods of January 1, 1998 through December 10, 1998, November 6, 1997 through December 31, 1997, January 1, 1997 through November 5, 1997 and the year ended December 31, 1996, respectively and are included in horse racing operating costs in the accompanying financial statements.

Revenues and Costs

The Company records operating revenues associated with thoroughbred horse racing at Santa Anita Racetrack on a daily basis, except for season admissions which are recorded ratably over the racing season.

Horse Racing Revenues and Direct Operating Costs

Horse racing revenues and direct operating costs are shown net of state and local taxes, stakes, purses and awards.

Earnings Per Share

Basic earnings per share is computed by dividing the Company’s net income or loss by the weighted average number of common shares outstanding during the period which was 25 shares for each of the periods presented. The Company does not have any dilutive securities.

New Accounting Standards

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (“SFAS”) No. 130, “Reporting Comprehensive Income” and SFAS No. 131, “Disclosure about Segments of an Enterprise and Related Information.” SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components. SFAS 130 became effective in the first quarter of 1998 and had no impact on the Company’s financial statements. SFAS No. 131 establishes new standards on reporting information about operating segments in both annual and interim financial statements. It also establishes standards for related disclosures about products and services, geographic areas, and major

LOS ANGELES TURF CLUB, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

customers. The adoption of the new requirements of SFAS No. 131 did not impact the Company's disclosure of segment information because the Company operates in one line of business.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No.133, "Accounting for Derivative Instruments" ("SFAS No. 133"). SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133 requires that an entity recognize all derivatives either as assets or liabilities and measure those instruments at fair market value. Presently, the Company does not use derivative instruments either in hedging activities or as investments. Accordingly, the Company believes that adoption of SFAS No. 133 will have no impact on its financial position or results of operations.

Concentration of Risk

Financial instruments which potentially subject the Company to concentrations of credit risk are primarily cash investments and receivables. The Company places its cash investments in investment grade short-term instruments and limits the amount of credit exposure to any one commercial issuer. Concentrations of credit risk with respect to accounts receivable are limited due to the number of satellite locations and Santa Anita group event patrons.

The Company generates the majority of its revenue from wagering activities in Southern California and therefore it is subject to the risks inherent in the ownership and operation of a racetrack. These include, among others, the risks normally associated with changes in the general economic climate, trends in the gaming industry, including competition from other gaming institutions and state lottery commissions and changes in tax laws and gaming laws.

Fair Value of Financial Instruments

Management has estimated the fair value of its financial instruments using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the estimated values for the Company as of December 10, 1998 and December 31, 1997 are not necessarily indicative of the amounts that could be realized in current market exchanges.

For those financial instruments for which it is practicable to estimate value, management has determined that the carrying amounts of the Company's financial instruments approximate their fair value as of December 10, 1998 and December 31, 1997.

Risks and Uncertainties

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates in the near term.

3. Acquisition of the Company by Meditrust Acquisition Company

On November 5, 1997, Meditrust acquired LATC. Accordingly, the Company has adjusted the carrying value of its assets and liabilities to reflect the cost of Meditrust's investment in LATC in accordance with Accounting Principle Board Opinion No. 16. As a result, \$19,100,000 was allocated to assets and \$37,672,000 was allocated to liabilities, with the remaining balance being recorded as a reduction to shareholder's equity.

LOS ANGELES TURF CLUB, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

The Company's statement of operations reflects depreciation and amortization based on a historic basis through November 5, 1997 and incorporates the adjusted basis of the Company's assets and liabilities subsequent to November 5, 1997.

4. Executive Severance

During the period of January 1, 1997 through November 5, 1997 and the year ended December 31, 1996, pursuant to resignation agreements with certain executive officers, the Company incurred \$351,000 and \$851,000, respectively, in executive severance costs which have been charged to general and administrative expenses in the statements of operations.

5. Loans Payable

The Company entered into a sale-leaseback transaction related to the financing of certain television, video monitoring and production equipment under a five-year lease which expired in December 1997. This financing arrangement was accounted for as a capital lease.

6. Borrowing Under Line of Credit

At December 10, 1998, the Company had \$2,500,000 outstanding under an unsecured line of credit. Interest on the line of credit was based on prime plus 0.5% (8.25% at December 10, 1998). The outstanding balance under the line of credit was paid off subsequent to December 10, 1998.

7. Income Taxes

Income taxes are calculated on a separate return basis. Historically, the Company has filed consolidated returns with its Parent. Deferred income taxes arise from temporary differences in the recognition of certain items of revenue and expense for financial statement and tax reporting purposes. The sources of temporary differences and their related tax effects for the periods of January 1, 1998 through December 10, 1998, November 6, 1997 through December 31, 1997, January 1, 1997 through November 5, 1997 and the year ended December 31, 1996 are as follows:

	<u>January 1, 1998 through December 10, 1998</u>	<u>November 6, 1997 through December 31, 1997</u>	<u>January 1, 1997 through November 5, 1997</u>	<u>Year ended December 31, 1996</u>
Accelerated depreciation and amortization methods utilized for tax reporting purposes	\$ 308,000	\$ (233,000)	\$ (498,000)	\$ 675,000
Net operating loss carryovers	(879,000)	(1,029,000)	(2,197,000)	(784,000)
Deductions previously deducted for book purposes, deductible for tax purposes currently	53,000	71,000	150,000	435,000
Income previously included for book purposes, not includable for tax purposes currently	—	—	—	(326,000)
Increase in valuation allowance for deferred tax assets	518,000	1,191,000	2,545,000	—
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

A reconciliation of the Company's total income tax provision for the periods of January 1, 1998 through December 10, 1998, November 6, 1997 through December 31, 1997, January 1, 1997 through November 5, 1997 and the year ended December 31, 1996 to the statutory federal corporate income tax rate of 34% and the

LOS ANGELES TURF CLUB, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

state rate of 9.3% for the year ended December 31, 1996 and 8.84% for the periods of January 1, 1997 through November 5, 1997, November 6, 1997 through December 31, 1997 and January 1, 1998 through December 10, 1998, is as follows:

	<u>January 1, 1998 through December 10, 1998</u>	<u>November 6, 1997 through December 31, 1997</u>	<u>January 1, 1997 through November 5, 1997</u>	<u>Year ended December 31, 1996</u>
Computed "expected" tax recovery for federal income taxes, net of state income taxes	\$(734,000)	\$(1,209,000)	\$(2,581,000)	\$(330,000)
Nondeductible political contributions	73,000	2,000	5,000	82,000
Unrecognized tax net operating loss carryforwards, net	661,000	1,207,000	2,576,000	194,000
Other, net	—	—	—	54,000
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The deferred tax assets and liabilities as of December 10, 1998 and December 31, 1997 consist of the following:

	<u>December 10, 1998</u>	<u>December 31, 1997</u>
Deferred tax assets:		
Compensation deductible for tax purposes when paid	\$ 125,000	\$ 180,000
Pension contribution deductible for tax purposes when paid	581,000	581,000
Contribution carryover	8,000	7,000
Other	452,000	452,000
Federal tax benefit of state deferred liabilities	562,000	562,000
Federal net operating loss carryovers	3,664,000	2,876,000
State net operating loss carryovers	441,000	350,000
Valuation allowance	<u>(5,413,000)</u>	<u>(4,895,000)</u>
Total deferred assets	<u>420,000</u>	<u>113,000</u>
Deferred tax liabilities:		
Difference between tax and book depreciation	(1,028,000)	(721,000)
Income previously included for book purposes, not includable for tax purposes	(11,000)	(11,000)
State income tax deductible when paid for federal tax purposes	<u>(1,646,000)</u>	<u>(1,646,000)</u>
Total deferred tax liabilities	<u>(2,685,000)</u>	<u>(2,378,000)</u>
Net liability for deferred income taxes	<u>\$(2,265,000)</u>	<u>\$(2,265,000)</u>

There were no taxes paid for the periods of January 1, 1998 through December 10, 1998, November 6, 1997 through December 31, 1997, January 1, 1997 through November 5, 1997 and the year ended December 31, 1996.

8. Commitments and Contingencies

Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the Company. In the opinion of management, all such matters are adequately covered by

LOS ANGELES TURF CLUB, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

insurance or, if not covered, are without merit or are of such a nature or involve minor damages that would not have a significant effect on the financial position or results of operations if disposed of unfavorably.

The Company leases the racetrack from an affiliate. The lease agreement covers the period through December 31, 2010 (see note 10). The Company has sublet the racetrack for certain periods during the year to OTRA through 2010 (see Note 10).

9. Employee Benefit Plans

Stock Option Program

Prior to December 10, 1998, SAOC and its successor Meditrust Operating Company were part of a “paired shared real estate investment trust” structure. As such SAOC and Meditrust Operating Company’s shares were traded as a single unit with Santa Anita Realty Enterprises, Inc. (SARE) and Meditrust Corporation, respectively, under a stock-pairing agreement.

Stock options granted by LATC’s parent were matched with the corresponding paired share of SARE or its successor Meditrust Corporation once the employees exercised their option. On November 5, 1997, the stock options outstanding were deemed exercised and accordingly, a liability for these stock options were recorded as part of the Meditrust purchase price adjustment.

Restricted Stock Awards

Under the 1995 Share Award Plan, SAOC granted 126,647 shares of common stock as a Restricted Stock Award at a value of \$15.50 per paired share. Of the shares issued in 1995; 59,291 shares vested in 1996, and 8,065 shares vested in 1995. Based on the Restricted Stock Award agreement SAOC purchased 43,161 shares back in 1997. The remaining 16,130 shares vested in 1997 upon change in control. Compensation of \$61,000 and \$524,000 for the years ended December 31, 1997 and 1996, respectively, are included in the general and administrative expenses in the accompanying statements of operations.

Retirement Income Plan

The Company’s parent has a non-contributory defined benefit retirement plan for year-round employees who are at least 21 years of age, have one or more years of service, and are not covered by collective bargaining agreements. Plan assets consist of a group annuity contract with a life insurance company. Plan benefits are based primarily on years of service and qualifying compensation during the final years of employment. Funding requirements comply with federal requirements that are imposed by law. In the event of a “change in control,” participants in the defined benefit retirement plan become fully vested in plan benefits, which occurred at November 5, 1997.

LOS ANGELES TURF CLUB, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

The net periodic pension cost allocated to the Company by its Parent for the periods of January 1, 1998 through December 10, 1998, November 6, 1997 through December 31, 1997, January 1, 1997 through November 5, 1997 and the year ended December 31, 1996 for the retirement income plan included the following components:

<u>Components of Net Periodic Pension Cost</u>	<u>January 1, 1998 through December 10, 1998</u>	<u>November 6, 1997 through December 31, 1997</u>	<u>January 1, 1997 through November 5, 1997</u>	<u>Year ended December 31, 1996</u>
Service cost	\$ 327,000	\$ 38,000	\$ 211,000	\$ 277,000
Interest cost on projected benefit obligation	429,000	65,000	361,000	441,000
Actual return on plan assets	(490,000)	(68,000)	(377,000)	(387,000)
Net amortization and deferral	171,000	19,000	106,000	101,000
Net periodic pension cost	<u>\$ 437,000</u>	<u>\$ 54,000</u>	<u>\$ 301,000</u>	<u>\$ 432,000</u>

The following provides a reconciliation of benefits obligations, plan assets and funded status of the plan.

	<u>December 10, 1998</u>	<u>December 31, 1997</u>
Change in benefit obligation:		
Benefit obligation at beginning of period	\$ 6,603,000	\$ 5,999,000
Service cost	327,000	249,000
Interest cost	429,000	427,000
Benefits paid	(384,000)	(362,000)
Actuarial losses	22,000	290,000
Benefit obligation at end of period	<u>6,997,000</u>	<u>6,603,000</u>
Change in plan assets:		
Fair value of plan assets at beginning of period	5,299,000	4,868,000
Actual return on plan assets	490,000	445,000
Company contributions	288,000	348,000
Benefits paid	(384,000)	(362,000)
Fair value of plan assets at end of period	<u>\$ 5,693,000</u>	<u>\$ 5,299,000</u>
Funded status of the plan (underfunded)	<u>\$(1,304,000)</u>	<u>\$(1,304,000)</u>

Assumptions used in determining the funded status of the retirement income plan are as follows:

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Weighted average discount rate	6.0%	6.8%	7.5%
Weighted average rate of increase in compensation levels	3.5%	3.5%	3.5%
Expected long-term rate of return	8.0%	8.0%	8.0%

The measurement date and related assumptions for the funded status of the Company's retirement income plan were as of the end of the year.

The Company also participates in several multi-employer pension plans for the benefit of its employees who are union members. Company contributions to these plans were \$4,391,000 for the period of January 1, 1998 to December 10, 1998, \$672,000 for the period of November 6, 1997 through December 31, 1997, \$3,709,000 for the period of January 1, 1997 through November 5, 1997, and \$4,377,000 for the year ended

LOS ANGELES TURF CLUB, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

December 31, 1996. The data available from administrators of the multi-employer pension plans is not sufficient to determine the accumulated benefit obligations, nor the net assets attributable to the multi-employer plans in which Company employees participate.

Deferred Compensation Plan

The Company's parent has defined benefit deferred compensation agreements which provide selected prior management employees with a fixed benefit at retirement age. During 1995, the outstanding agreements for active employees were curtailed and replaced by awards of restricted stock under the 1995 Share Award Plan. Plan benefits are based primarily on years of service and qualifying compensation.

Net periodic pension cost for the periods of January 1, 1998 to December 10, 1998, November 6, 1997 through December 31, 1997, January 1, 1997 through November 5, 1997 and for the year ended December 31, 1996 for the deferred compensation plan included the following components:

<u>Components of Net Periodic Pension Cost</u>	<u>January 1, 1998 through December 10, 1998</u>	<u>November 6, 1997 through December 31, 1997</u>	<u>January 1, 1997 through November 5, 1997</u>	<u>Year ended December 31, 1996</u>
Service costs	\$ —	\$ —	\$ —	\$ —
Interest cost on projected benefit obligation	237,000	43,000	240,000	231,000
Amortization of unrecognized net obligation and experience losses	66,000	—	—	—
Net periodic pension cost	<u>\$303,000</u>	<u>\$43,000</u>	<u>\$240,000</u>	<u>\$231,000</u>

The following provides a reconciliation of benefit obligations and funded status of the plan. The plan has no assets.

	<u>December 10, 1998</u>	<u>December 31, 1997</u>
Change in benefit obligation:		
Benefit obligation at beginning of period	\$ 3,977,000	\$ 3,737,000
Service cost	—	—
Interest cost	237,000	283,000
Benefits paid	(532,000)	(539,000)
Actuarial losses	168,000	496,000
Benefit obligation at end of period	<u>\$ 3,850,000</u>	<u>\$ 3,977,000</u>
Funded status of the plan (underfunded)	<u>\$(3,850,000)</u>	<u>\$(3,977,000)</u>

Assumptions used in determining the funded status of the deferred compensation plan are as follows:

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Weighted average discount rate	6.0%	6.8%	7.5%

The measurement date and related assumptions for the funded status of the Company's deferred compensation plan were as of the end of the year.

LOS ANGELES TURF CLUB, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

10. Related Party Transactions

The Company leases the racetrack from an affiliate for the full year for a fee of 1.5% of the on-track wagering on live races at Santa Anita Racetrack, which includes the OTRA meet. In addition, the Company pays to the affiliate 26.5% of its wagering commissions from satellite wagering (not to exceed 1.5% of such wagering). When the Company operates as a satellite for Hollywood Park Racetrack, Del Mar Racetrack and Pomona Fairplex, the Company pays 26.5% of its wagering commissions as additional rent to the affiliate. For the periods January 1, 1998 through December 10, 1998, November 6, 1997 through December 31, 1997, January 1, 1997 through November 5, 1997 and the year ended December 31, 1996, LATC paid the affiliate (including charity days) \$10,184,000, \$740,000, \$9,895,000, and \$10,861,000 in rent.

The lease arrangement between the Company and the affiliate requires the Company to assume costs attributable to utilities, taxes, maintenance and insurance.

The Company has sublet the racetrack to OTRA (through 2010) to conduct OTRA's annual thoroughbred horse racing meet, which commences in late September or early October. OTRA races five weeks in even-numbered years and six weeks in odd-numbered years. The Company received \$5,233,462, \$7,446, \$3,797,266 and \$4,807,724, included in wagering commissions, respectively, in rent from OTRA for the periods January 1, 1998 through December 10, 1998, November 6, 1997 through December 31, 1997, January 1, 1997 through November 5, 1997 and the year ended December 31, 1996.

As of December 31, 1997, due to affiliates consists of \$23,718,000 due to Meditrust Corporation including \$5,500,000 loan payable to Meditrust Corporation. The loan bore interest at 7% and was repaid in 1998. The affiliate started charging 7% interest to the Company beginning January 1, 1998 on a portion of the payable balance. No interest was charged on borrowing from affiliates prior to January 1, 1998.

As of December 10, 1998, due to affiliates consists of \$20,719,000 due to Meditrust Corporation. Interest of \$880,000 was incurred on borrowings from affiliates and is included in interest and other expenses in the accompanying statement of operations.

Costs incurred by LATC's parent have been allocated to LATC on the specific identification basis and were \$1,354,000, \$363,000, \$1,494,000 and \$3,208,000 for the periods January 1, 1998 through December 10, 1998, November 6, 1997 through December 31, 1997, January 1, 1997 through November 5, 1997 and the year ended December 31, 1996, respectively. Such costs are included in the accompanying statement of operations.

11. Canadian Generally Accepted Accounting Principles

The Company's accounting policies as reflected in these financial statements do not differ materially from accounting principles generally accepted in Canada ("Canadian GAAP") except for:

- (a) The receivable from parent is shown as a deduction from shareholder's deficit. Under Canadian GAAP, the receivable from parent would be presented as a non-current asset. Under Canadian GAAP, total assets at December 10, 1998 and December 31, 1997 would be \$31,717,000 and \$45,077,000, respectively, and shareholder's deficit would be \$8,664,000 and \$8,305,000, respectively.
- (b) For purposes of reconciling to Canadian GAAP, the Company has early adopted the provisions of the Canadian Institute of Chartered Accountants Handbook Section 3461, "Employee Future Benefits," on a retroactive basis. Accordingly, net pension expense and accrued pension liabilities are the same as those determined by the application of U.S. GAAP.

CONSOLIDATED FINANCIAL STATEMENTS

**GULFSTREAM PARK RACING ASSOCIATION, INC.
AND SUBSIDIARY**

For the years ended December 31, 1998, 1997 and 1996

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders
Gulfstream Park Racing Association, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of Gulfstream Park Racing Association, Inc. and Subsidiary (the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of income, stockholders' deficit and cash flows for each of the years in the three-year period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Gulfstream Park Racing Association, Inc. and Subsidiary at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with accounting principles generally accepted in the United States.

Miami, Florida
March 10, 1999, except for Note 9 as to
which the date is September 1, 1999

Certified Public Accountants

GULFSTREAM PARK RACING ASSOCIATION, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	August 31, 1999	December 31, 1998	December 31, 1997
	(unaudited)		
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 7,832,459	\$ 2,375,511	\$ 605,194
Restricted cash and cash equivalents	163,884	292,721	592,285
Accounts receivable, less allowance for doubtful accounts of \$101,012 at August 31, 1999 and \$0 and \$191,012 at December 31, 1998 and 1997, respectively	156,441	121,445	128,135
Note receivable	93,250	93,250	—
Prepaid expenses	911,364	451,144	767,285
Total current assets	9,157,398	3,334,071	2,092,899
Property, plant and equipment:			
Land and improvements	9,401,638	9,401,638	9,012,699
Buildings and improvements	24,214,826	23,323,001	22,485,253
Furniture, fixtures and equipment	5,070,935	5,089,592	4,138,418
	38,687,399	37,814,231	35,636,370
Less accumulated depreciation	25,842,336	24,575,672	22,787,284
Net property, plant and equipment	12,845,063	13,238,559	12,849,086
Other assets:			
Investments, at cost	2,500	2,500	2,500
Deposits	12,450	12,450	12,480
Deferred financing costs, net of accumulated amortization of \$321,124 at August 31, 1999 and \$295,948 and \$231,614 at December 31, 1998 and 1997, respectively	546	25,722	90,056
Total other assets	15,496	40,672	105,036
Total assets	\$ 22,017,957	\$ 16,613,302	\$ 15,047,021
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current Liabilities:			
Accounts Payable:			
Trade	\$ 751,477	\$ 1,869,022	\$ 1,079,003
Unearned income	1,844,036	512,187	428,458
Mutuel tickets outstanding	48,833	32,798	23,891
Accrued liabilities:			
Interest	—	127,092	—
Underpaid purses	163,884	292,721	592,285
Other accrued expenses	824,146	381,107	507,511
Income taxes payable	1,506,420	399,454	—
Notes payable	6,800,000	500,000	—
Total current liabilities	11,938,796	4,114,381	2,631,148
Deferred income tax	694,270	586,809	731,159
Term note payable	—	6,800,000	7,800,000
Long-term debt	48,000,000	48,000,000	48,000,000
Total Liabilities	60,633,066	59,501,190	59,162,307
Commitments and contingencies (Note 5)			
Stockholders' deficit:			
Common stock, \$1 par value, authorized and issued 13,040 shares; outstanding 11,232 shares	13,040	13,040	13,040
Additional paid-in capital	22,991,259	22,991,259	22,991,259
Accumulated deficit	(59,853,908)	(64,126,687)	(65,354,085)
	(36,849,609)	(41,122,388)	(42,349,786)
Less:			
Treasury stock, 1,808 common shares at cost	(1,765,500)	(1,765,500)	(1,765,500)
Total stockholders' deficit	(38,615,109)	(42,887,888)	(44,115,286)
Total liabilities and stockholders' deficit	\$ 22,017,957	\$ 16,613,302	\$ 15,047,021

On behalf of the Board:

(Signed) VINCENT GALIFI
Director

(Signed) JAMES NICOL
Director

The accompanying notes are an integral part of these financial statements

GULFSTREAM PARK RACING ASSOCIATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

	Eight Months Ended August 31,		Year Ended December 31,		
	1999	1998	1998	1997	1996
	(unaudited)	(unaudited)			
REVENUES:					
On-track wagering commissions	\$21,166,704	\$21,064,663	\$21,064,663	\$20,896,273	\$19,710,687
Intertrack wagering commissions	4,327,102	4,134,875	4,110,273	4,370,064	3,766,721
Interstate wagering and simulcast fees	15,370,575	14,177,930	14,178,719	13,803,677	13,322,237
Breakage income	930,803	983,233	983,233	949,286	891,837
Escheated mutuel tickets	551,106	546,823	546,823	576,608	422,991
Stake fees for purses	966,140	989,750	989,750	941,545	953,410
	<u>43,312,430</u>	<u>41,897,274</u>	<u>41,873,461</u>	<u>41,537,453</u>	<u>39,067,883</u>
Less: Stakes, purses, trophies and awards	21,835,696	20,923,313	20,954,428	20,550,496	19,067,874
Net pari-mutuel income	21,476,734	20,973,961	20,919,033	20,986,957	20,000,009
Admissions					
General	997,752	1,036,942	1,036,957	1,080,379	1,121,186
Season boxes, passes and memberships	539,618	503,534	505,887	548,232	557,415
Program sales	192,746	209,038	209,038	201,015	174,759
Parking	158,527	137,503	137,503	144,274	151,744
Other revenues	664,396	632,813	839,849	560,876	749,476
	<u>24,029,773</u>	<u>24,493,791</u>	<u>23,648,267</u>	<u>23,521,733</u>	<u>22,754,589</u>
EXPENSES:					
Departmental expenses	11,983,727	11,663,616	14,343,052	13,977,248	12,981,229
Property taxes	462,753	460,752	660,922	657,947	649,268
Payroll taxes and licenses	645,127	580,559	726,003	740,943	650,911
Insurance	386,681	395,216	567,662	427,374	736,396
Utilities	191,652	140,987	219,312	232,202	187,477
Contributions	10,545	37,875	87,975	79,107	86,689
Depreciation	1,266,664	1,289,600	1,795,401	1,877,575	2,031,431
Amortization	25,176	42,889	64,334	64,334	64,334
Other	—	—	107,644	51,530	72,993
	<u>14,972,325</u>	<u>14,611,494</u>	<u>18,572,305</u>	<u>18,108,260</u>	<u>17,460,728</u>
Operating Income	9,057,448	8,882,297	5,075,962	5,413,473	5,293,861
OTHER INCOME (EXPENSE):					
Interest income	284,797	354,258	463,449	471,127	449,855
Interest expense	(2,325,559)	(2,571,445)	(3,771,610)	(3,880,246)	(3,946,487)
Gain (loss) on sale of property	—	—	5,000	—	1,818,422
Other	66,133	255,850	315,195	19,760	378,752
Other expense, net	(1,974,629)	(1,961,337)	(2,987,966)	(3,389,359)	(1,299,458)
Income before provision for income taxes	7,082,819	6,920,960	2,087,996	2,024,114	3,994,403
Provision for income taxes	2,810,040	2,852,575	860,598	918,299	1,631,200
Net Income	<u>\$ 4,272,779</u>	<u>\$ 4,068,385</u>	<u>\$ 1,227,398</u>	<u>\$ 1,105,815</u>	<u>\$ 2,363,203</u>
Basic and diluted earnings per share	<u>\$ 380.41</u>	<u>\$ 362.21</u>	<u>\$ 109.28</u>	<u>\$ 98.45</u>	<u>\$ 210.40</u>

The accompanying notes are an integral part of these financial statements.

GULFSTREAM PARK RACING ASSOCIATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Treasury Stock</u>	<u>Total Deficit</u>
Balances at December 31, 1995	\$13,040	\$22,991,259	\$(68,823,103)	\$(1,765,500)	\$(47,584,304)
Net income, year ended December 31, 1996	—	—	2,363,203	—	2,363,203
Balance at December 31, 1996	13,040	22,991,259	(66,459,900)	(1,765,500)	(45,221,101)
Net income, year ended December 31, 1997	—	—	1,105,815	—	1,105,815
Balances at December 31, 1997	13,040	22,991,259	(65,354,085)	(1,765,500)	(44,115,286)
Net income, year ended December 31, 1998	—	—	1,227,398	—	1,227,398
Balances at December 31, 1998	13,040	22,991,259	(64,126,687)	(1,765,500)	(42,887,888)
Net income, eight months ended August 31, 1999 (unaudited)	—	—	4,272,779	—	4,272,779
Balances at August 31, 1999 (unaudited)	<u>\$13,040</u>	<u>\$22,991,259</u>	<u>\$(59,853,908)</u>	<u>\$(1,765,500)</u>	<u>\$(38,615,109)</u>

The accompanying notes are an integral part of these financial statements.

GULFSTREAM PARK RACING ASSOCIATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Eight months ended August 31,		Year Ended December 31,		
	1999 (unaudited)	1998 (unaudited)	1998	1997	1996
Cash flows from operating activities:					
Net income	\$ 4,272,779	\$4,068,386	\$1,227,398	\$1,105,815	\$2,363,203
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation	1,266,664	1,289,600	1,795,401	1,877,575	2,031,431
Amortization of deferred financing costs	25,176	42,889	64,334	64,334	64,334
Gain on sale of property and equipment	—	—	(5,000)	—	(1,818,422)
Provision for bad debt	—	—	63,378	21,535	45,485
Deferred income taxes	107,462	(478,470)	(144,350)	153,819	520,245
Changes in assets and liabilities:					
Accounts receivable	(34,996)	(58,342)	(56,688)	(106,087)	42,798
Note receivable	—	(193,250)	(93,250)	—	—
Restricted cash and cash equivalents	128,837	353,491	299,564	(167,734)	(334,587)
Prepaid expenses	(460,220)	585,215	316,141	(126,981)	(56,185)
Deposits	—	—	30	70,000	(70,000)
Accounts payable—trade	(1,117,545)	(314,114)	790,019	(772,323)	800,308
Accounts payable—unearned income	1,331,849	(343,164)	83,729	(100,874)	117,244
Mutuel tickets outstanding	16,035	10,399	8,907	9,032	4,482
Accrued liabilities—interest and other accrued expenses	315,947	742,200	688	231,126	107,386
Accrued liabilities—underpaid purses	(128,837)	(353,491)	(299,564)	165,999	345,284
Income tax payable	1,106,965	2,216,745	399,454	(550,538)	431,191
Total adjustments	2,557,337	3,499,708	3,222,793	768,883	2,230,994
Net cash provided by operating activities	6,830,116	7,568,094	4,450,191	1,874,698	4,594,197
Cash flows from investing activities:					
Proceeds from sale of property and equipment	—	—	—	—	3,291,126
Acquisition of property and equipment	(873,168)	(351,335)	(2,179,874)	(1,774,061)	(1,728,721)
Net cash provided by (used in) investing activities	(873,168)	(351,335)	(2,179,874)	(1,774,061)	1,562,405
Cash flows from financing activities:					
Repayments of term note payable	(500,000)	(500,000)	(500,000)	(1,500,000)	(3,200,000)
Repayments under line of credit	—	—	—	—	(2,000,000)
Net cash (used in) financing activities	(500,000)	(500,000)	(500,000)	(1,500,000)	(5,200,000)
Net increase (decrease) in cash and cash equivalents	5,456,948	6,716,759	1,770,317	(1,399,363)	956,602
Cash and cash equivalents, beginning of period	2,375,511	605,194	605,194	2,004,557	1,047,955
Cash and cash equivalents, end of period	\$ 7,832,459	\$7,321,953	\$2,375,511	\$ 605,194	\$2,004,557
Supplemental disclosure of cash flow information:					
Cash paid during the period for income taxes	\$ 1,068,072	\$ 878,096	\$ 896,831	\$1,705,041	\$ 589,000
Cash paid during the period for interest	\$ 2,390,864	\$1,889,306	\$3,578,926	\$3,882,003	\$3,966,307

The accompanying notes are an integral part of these financial statements

GULFSTREAM PARK RACING ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts as at August 31, 1999 and for the eight month periods ended August 31, 1999 and 1998 are unaudited)

1. Description of Business:

Gulfstream Park Racing Association, Inc. and its wholly-owned subsidiary (the "Company"), operate a pari-mutuel horse racing facility in Broward County, Florida. As provided in the Florida statutes, the Company was authorized to operate 63 day racing meets during the years ended December 31, 1998 and 1997 and 64 day racing meets during the year ended December 31, 1996. The Company operates during the prime winter racing season under current Florida pari-mutuel legislation. A change in legislation could affect the Company's operating dates and significantly impact future operations.

Ownership

Until August 31, 1999, the Company was a wholly-owned subsidiary of Gulfstream Holdings, Inc. ("Gulfstream").

2. Significant Accounting Policies:

The significant accounting policies used by the Company in the preparation of the accompanying consolidated financial statements are as follows:

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, which conform, in all material respects, with accounting principles generally accepted in Canada.

Principles of Consolidation

The consolidated financial statements include the accounts of Gulfstream Park Racing Association and its subsidiary. All significant intercompany balances and transactions have been eliminated on consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, which at times may exceed FDIC insurance limits. As of December 31, 1998, the Company had approximately \$3 million of cash in excess of these limits. The Company places its cash and cash equivalents with high credit quality financial institutions and, by policy, limits the amount of credit exposure to any one financial institution.

GULFSTREAM PARK RACING ASSOCIATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(All amounts as at August 31, 1999 and for the eight month periods ended
August 31, 1999 and 1998 are unaudited)

Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated on the straight-line method over the estimated useful lives of the assets:

Buildings	25 years
Improvements	7 to 15 years
Furniture, fixtures and equipment	5 years

When assets are retired or otherwise disposed of, the costs and accumulated depreciation are removed from the respective accounts and any related gain or loss is recognized in current operations. Maintenance and repair costs are charged to expense as incurred, and renewals and improvements are capitalized.

Deferred Financing Costs

The Company capitalized costs associated with the acquisition of the \$15,000,000 credit facility, as described in Note 4, and is amortizing these costs using the straight-line method over the term of the financing.

Income Taxes

The Company utilizes the liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using tax rates in effect for the year which the differences are expected to reverse.

Purses

The Company is required to distribute a specific amount of purses and owners' awards based on a percentage of the pari-mutuel handle, plus additional other amounts. At December 31, 1998 and 1997, purses and owners' awards were underpaid by \$292,721 and \$592,285, respectively, as shown in the accompanying consolidated balance sheets. At December 31, 1998 and 1997, \$292,721 and \$592,285, respectively, was held in restricted cash accounts in connection with this liability.

Asset Impairment

The Company evaluates impairment whenever events or changes in circumstances indicate that the carrying amount in an asset may not be recoverable. Management of the Company assesses the recoverability of long-lived assets by determining whether the depreciation and amortization of such assets over their remaining lives can be recovered through projected undiscounted cash flows. The amount of impairment, if any, is measured based on fair value (projected discounted cash flows) and is charged to operations in the period in which such impairment is determined by management.

Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period which was 11,232 shares for the periods presented. The Company does not have any dilutive securities.

GULFSTREAM PARK RACING ASSOCIATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(All amounts as at August 31, 1999 and for the eight month periods ended
August 31, 1999 and 1998 are unaudited)

Fair Value of Financial Instruments

Management has estimated that the fair market value of its financial instruments using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop estimates of fair market. Accordingly, the estimated fair values are not necessarily indicative of the amounts that could be realized in current market exchanges.

Cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, note receivable, prepaid expenses, accounts payable and accrued liabilities, mutuel tickets outstanding income taxes payable and notes payable —

Due to the short period to maturity of the instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of fair value.

Term note payable and long-term debt —

The fair value of the Company's term note payable and long-term debt based on current rates for debt with similar terms and maturities, are not materially different from their carrying value.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk are primarily cash investments and receivables. The Company places its cash investments in investment grade short-term instruments and limits the amount of credit exposure to any one commercial issuer. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of receivable accounts.

Unaudited Interim Consolidated Financial Statements

In the opinion of management, the unaudited interim consolidated financial statements reflect all adjustments, which consist only of normal and recurring adjustments, necessary to present fairly the financial position at August 31, 1999 and the results of operations and cash flows for the eight months ended August 31, 1999 and 1998.

New Accounting Standards

In June, 1998, the Financial Accounting Standards Board issued Statement No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities". This Statement is effective for the Company's first quarter ended March 31, 2001. SFAS 133 requires that an entity recognize all derivative instruments either as assets or liabilities and measure those instruments at fair value. The Company has not determined the impact, if any, of this pronouncement on its consolidated financial statements.

Reclassification

Certain amounts have been reclassified to conform to the December 31, 1998 presentation.

GULFSTREAM PARK RACING ASSOCIATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(All amounts as at August 31, 1999 and for the eight month periods ended
August 31, 1999 and 1998 are unaudited)

3. Income Taxes:

The provision for income taxes consists of the following:

	Eight months ended August 31,		Year ended December 31,		
	1999 (unaudited)	1998 (unaudited)	1998	1997	1996
Current provision:					
Federal	\$2,307,569	\$2,844,179	\$ 858,065	\$652,744	\$ 942,601
State	395,009	486,866	146,883	111,736	168,355
	<u>2,702,578</u>	<u>3,331,045</u>	<u>1,004,948</u>	<u>764,480</u>	<u>1,110,956</u>
Deferred provision:					
Federal	91,755	(408,536)	(123,252)	131,337	450,183
State	15,702	(69,934)	(21,098)	22,482	70,061
	<u>107,462</u>	<u>(478,470)</u>	<u>(144,350)</u>	<u>153,819</u>	<u>520,244</u>
	<u>\$2,810,040</u>	<u>\$2,852,575</u>	<u>\$ 860,598</u>	<u>\$918,299</u>	<u>\$1,631,200</u>

The significant components of the net deferred tax liability as of August 31, 1999, December 31, 1998 and 1997 were as follows:

	August 31, 1999 (unaudited)	December 31, 1998	December 31, 1997
Deferred tax assets:			
Deferred income	\$ 3,393	\$ 205,335	\$ 169,241
State deferred taxes	34,501	29,161	36,334
Other	168,232	164,062	139,119
Valuation allowance	(99,219)	(99,219)	(99,219)
	106,907	299,339	245,475
Deferred tax liabilities:			
Property and equipment	(801,177)	(886,148)	(976,634)
Net deferred tax liability	<u>\$(694,270)</u>	<u>\$(586,809)</u>	<u>\$(731,159)</u>

The Company provides a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company has established a valuation allowance against deferred tax assets of \$99,219 at December 31, 1998.

GULFSTREAM PARK RACING ASSOCIATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(All amounts as at August 31, 1999 and for the eight month periods ended
August 31, 1999 and 1998 are unaudited)

The reconciliation between the statutory income tax provision and the actual tax provision for the eight month periods ended August 31, 1999 and 1998 and the years ended December 31, 1998, 1997 and 1996 is shown as follows:

	Eight months ended August 31,		Years ended December 31,		
	1999 (unaudited)	1998 (unaudited)	1998	1997	1996
Income tax at Federal statutory rate	\$2,478,987	\$2,422,336	\$746,248	\$708,441	\$1,398,041
State taxes, net of federal benefit	266,965	271,006	81,760	87,242	154,971
Other	64,088	159,233	32,590	122,616	78,188
Income tax provision	<u>\$2,810,040</u>	<u>\$2,852,575</u>	<u>\$860,598</u>	<u>\$918,299</u>	<u>\$1,631,200</u>

4. Notes Payable:

During the year, the Company had a \$15,000,000 credit facility from a financial institution. The credit facility consists of a \$2,000,000 revolving line of credit and a \$13,000,000 term loan. The line of credit expired on May 31, 1998, and bore interest at LIBOR plus .55%, plus a commitment fee of .2%. As of December 31, 1998, the outstanding balances on the term loan was \$7,300,000. The term loan calls for annual principal payments of \$500,000 with a balloon payment due at maturity. The line of credit and the term loan are collateralized by the assets of the Company, and a nonrecourse guarantee and pledge agreement by Gulfstream. The credit facility contains covenants which restrict borrowings and the payment of dividends, requires the maintenance of certain financial ratios and limits capital expenditures. The term loan, with interest rates indexed to market rates, approximates fair-market value at December 31, 1998 and August 31, 1999.

On February 16, 1999, the Company amended its term loan arrangement through February 16, 2000 with interest at LIBOR plus 1.25%. All other terms of the arrangement are substantially identical to the previous terms.

5. Long-Term Debt:

At December 31, 1998, the Company had \$48,000,000 in long-term debt outstanding to Orient Corporation (USA). This debt is collateralized by substantially all of the Company's assets, and is subordinate to the credit facility. The Company pays interest at TIBOR plus .80% (5.3% at December 31, 1998). The Company entered into an interest rate agreement which limits the applicable interest rate through December 31, 1999. This debt matures on December 31, 2004, with annual payments of \$500,000 commencing in 2000 with a balloon payment due at maturity. The long-term debt, with interest rates indexed to market rates, approximates fair market value at December 31, 1998. (see Note 9)

6. Commitments and Contingencies:

Contracts

(i) Concession contract

During 1998, the Company entered into a five-year concession contract. Under the terms of the agreement, the concessionaire is entitled to a guarantee of \$125,000 in the first year and \$100,000 thereafter in return for their services. In the event profits from concessions in a given year exceed guaranteed amounts (the "excess"), the Company is entitled to receive a portion of the excess. The Company's entitlement is the first \$100,000 of the excess plus a portion of any additional excess earned above \$100,000. (see Note 9)

GULFSTREAM PARK RACING ASSOCIATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(All amounts as at August 31, 1999 and for the eight month periods ended
August 31, 1999 and 1998 are unaudited)

(ii) Service agreements

The Company is engaged in a totalisator service agreement that provides that the Company pay a minimum service charge that is based on a multiple applied to all wagers plus a \$1,000 fee for each racing day. This agreement will expire at December 31, 1999.

The Company is committed to a service agreement to provide on-track audio and video support operations through December 31, 2001. The service charge paid by the Company for each racing day is \$3,730.

In December, 1998, the Company entered into a five-year operating lease agreement for phone equipment. Under the terms of the agreement, the Company is obligated to pay \$13,402 per month with a fair market value purchase option at the end of the third and fifth year.

Litigation and Other

The Company is a defendant in certain legal and other actions arising in the normal course of business. Management believes that the outcome of these actions will not have a material effect on the Company's financial position or results of operations.

7. Related Party Transactions:

An officer of the Company is a partner in a law firm which performed various legal services for the Company. Charges from this law firm for legal services and other reimbursable costs amounted to approximately \$44,900 and \$21,400 for the eight month periods ended August 31, 1999 and 1998 and approximately \$29,100, \$94,300 and \$34,300 for the years ended December 31, 1998, 1997 and 1996, respectively.

The Company has an agreement to pay a consulting fee and loan guarantee fee to Gulfstream. Such payments amounted to \$39,659 and \$122,772 for the eight month periods ended August 31, 1999 and 1998 and \$244,772, \$255,368 and \$256,980 in the years ended December 31, 1998, 1997 and 1996, respectively.

8. Employee Benefit Plan:

Effective January 1, 1995, the Company adopted a 401(k) profit sharing plan (the "Plan") to provide retirement benefits for its employees. All employees who meet certain eligibility requirements are able to participate in the Plan. Discretionary matching contributions are determined each year by the Company. The Company contributed to the Plan approximately \$54,600 and \$71,300 during the eight month periods ended August 31, 1999 and 1998 and approximately \$85,100, \$82,900 and \$86,700, during the years ended December 31, 1998, 1997 and 1996, respectively.

9. Subsequent Events:

a) On September 1, 1999, Entertainment Corp., a wholly-owned subsidiary of Magna International Inc., acquired all of the outstanding common stock of the Company. Under the terms of the purchase and sale agreement, \$48,000,000 in long-term debt was repaid immediately before the sale, with funds provided by the seller through an addition to paid-up capital. The interest rate agreements associated with this long-term debt were cancelled.

b) The concession contract (Note 6 (i)) was waived in 1999 due to losses incurred. These losses were shared by the Company and the concessionaire.

FINANCIAL STATEMENTS

REMINGTON PARK, INC.

For the years ended December 31, 1998, 1997 and 1996

INDEPENDENT AUDITORS' REPORT

Board of Directors
Remington Park, Inc.

We have audited the accompanying balance sheets of Remington Park, Inc. (the "Company") as of December 31, 1998 and 1997 and the related statements of operations and accumulated deficit, stockholder's equity (deficit) and cash flows for each of the years in the three-year period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Remington Park, Inc. as of December 31, 1998 and 1997 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1998 in conformity with accounting principles generally accepted in the United States.

Youngstown, Ohio
February 19, 1999 (except
Note K for which the date
is October 21, 1999)

Certified Public Accountants

REMINGTON PARK, INC.

BALANCE SHEETS

	September 30, 1999	December 31, 1998	December 31, 1997
	(unaudited)		
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents—NOTE F	\$ 750,319	\$ 697,037	\$ 501,209
Restricted cash	2,420,961	446,664	400,609
Trade accounts receivable, less allowance for doubtful accounts of \$27,246 at September 30, 1999, \$26,433 at December 31, 1998 and \$0 at December 31, 1997	706,785	306,743	890,243
Inventories	160,075	162,833	202,791
Prepaid expenses and other assets	222,212	180,268	270,056
Total Current Assets	4,260,352	1,793,545	2,264,908
PROPERTY AND EQUIPMENT—NOTES B AND I			
Land improvements	4,042,534	3,989,282	4,527,282
Buildings and structures	29,825,932	30,135,806	32,047,806
Machinery and equipment	7,996,937	7,953,549	7,921,772
Furniture and fixtures	1,654,963	1,649,747	1,638,081
	43,520,366	43,728,384	46,134,941
Less accumulated depreciation	34,763,202	34,621,473	32,078,706
Net Property and Equipment	8,757,164	9,106,911	14,056,235
OTHER ASSETS			
Land lease and other costs less amortization—NOTES E AND I	1,322,601	1,392,987	1,943,765
	<u>\$ 14,340,117</u>	<u>\$ 12,293,443</u>	<u>\$ 18,264,908</u>
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)			
CURRENT LIABILITIES			
Accounts payable	\$ 1,886,155	\$ 1,374,870	\$ 2,851,255
Unredeemed pari-mutuel tickets	249,321	445,909	465,585
Advances payable to The Edward J. DeBartolo Corporation—NOTE G	156,674	453,771	5,934,012
Accrued liabilities	1,176,728	926,162	782,715
Percentage entitlements in excess of purses paid—NOTE C	1,916,210	292,293	700,911
Deferred revenue	517,925	6,972	90,974
Total Current Liabilities	5,903,013	3,499,977	10,825,452
OTHER LIABILITIES			
Long-term debt less principal due within one year—NOTE B	—	—	30,000,000
Other	18,711	—	—
Total Other Liabilities	18,711	—	30,000,000
STOCKHOLDER'S EQUITY (DEFICIT)—NOTE G			
Common stock—\$1.00 par value per share:			
Authorized 10,000 shares; issued and outstanding 500 shares	500	500	500
Additional paid-in capital	48,148,592	47,991,918	7,409,500
Accumulated deficit	(39,730,699)	(39,198,952)	(29,970,544)
Total Stockholder's Equity (Deficit)	8,418,393	8,793,466	(22,560,544)
	<u>\$ 14,340,117</u>	<u>\$ 12,293,443</u>	<u>\$ 18,264,908</u>

On behalf of the Board:

(Signed) VINCENT GALIFI
Director

(Signed) JAMES NICOL
Director

See accompanying notes to financial statements

REMINGTON PARK, INC.

STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

	Nine Months Ended September 30,		Years Ended December 31,		
	1999	1998	1998	1997	1996
	(unaudited)	(unaudited)			
REVENUES					
Pari-Mutuel income	\$ 21,471,901	\$ 23,079,261	\$ 29,095,338	\$ 33,085,838	\$ 33,461,803
Less:					
Purses paid to horsemen	7,376,329	7,754,755	9,819,313	11,438,288	11,450,284
Amounts paid to the State of Oklahoma	2,509,253	2,674,986	3,362,670	3,801,826	3,620,381
Breakage and breeders awards paid to the Oklahoma Breeding and Development Revolving Fund	690,455	778,825	990,960	1,157,359	775,645
Commissions paid to host tracks	2,824,435	2,779,730	3,420,305	3,680,734	2,833,637
	<u>13,400,472</u>	<u>13,988,296</u>	<u>17,593,248</u>	<u>20,078,207</u>	<u>18,679,947</u>
Net Pari-Mutuel Income	8,071,429	9,090,965	11,502,090	13,007,631	14,781,856
Concession revenue	1,165,511	1,338,775	1,851,686	2,168,490	2,517,449
Other non-wagering revenues	1,026,041	1,564,829	2,138,306	2,644,010	3,515,199
Total Revenues	10,262,981	11,994,569	15,492,082	17,820,131	20,814,504
Operating costs and expenses—					
NOTES E and G	10,405,855	12,920,768	16,994,450	20,177,827	21,064,646
Depreciation and amortization	486,871	2,029,313	2,706,547	2,723,763	2,800,681
Provision for impairment of long- lived assets—NOTE I	—	2,837,000	2,837,000	5,077,918	—
LOSS FROM OPERATIONS	<u>(629,745)</u>	<u>(5,792,512)</u>	<u>(7,045,915)</u>	<u>(10,159,377)</u>	<u>(3,050,823)</u>
OTHER INCOME (EXPENSES)					
Interest income	102,800	90,392	122,477	116,336	106,130
Interest expense—NOTE G	(4,802)	(1,907,474)	(2,304,970)	(2,539,923)	(2,481,557)
	<u>97,998</u>	<u>(1,817,082)</u>	<u>(2,182,493)</u>	<u>(2,423,587)</u>	<u>(2,375,427)</u>
NET LOSS	(531,747)	(7,609,594)	(9,228,408)	(12,582,964)	(5,426,250)
ACCUMULATED DEFICIT					
Beginning of period	(39,198,952)	(29,970,544)	(29,970,544)	(17,387,580)	(11,961,330)
End of period	<u>\$(39,730,699)</u>	<u>\$(37,580,138)</u>	<u>\$(39,198,952)</u>	<u>\$(29,970,544)</u>	<u>\$(17,387,580)</u>
Basic and diluted loss per share of common stock	<u>\$ (1,063)</u>	<u>\$ (15,219)</u>	<u>\$ (18,457)</u>	<u>\$ (25,166)</u>	<u>\$ (10,853)</u>

See accompanying notes to financial statements

REMINGTON PARK, INC.
STATEMENTS OF STOCKHOLDER'S EQUITY (DEFICIT)

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total Equity (Deficit)</u>
Balance at December 31, 1995	\$500	\$ 7,409,500	\$(11,961,330)	\$ (4,551,330)
Net loss, year ended December 31, 1996	—	—	(5,426,250)	(5,426,250)
Balance at December 31, 1996	500	7,409,500	(17,387,580)	(9,977,580)
Net loss, year ended December 31, 1997	—	—	(12,582,964)	(12,582,964)
Balance at December 31, 1997	500	7,409,500	(29,970,544)	(22,560,544)
1998 Contributions (NOTE J)	—	40,582,418	—	40,582,418
Net loss, year ended December 31, 1998	—	—	(9,228,408)	(9,228,408)
Balance at December 31, 1998	500	47,991,918	(39,198,952)	8,793,466
1999 Contributions (NOTE J) (unaudited)	—	156,674	—	156,674
Net loss, nine months ended September 30, 1999 (unaudited)	—	—	(531,747)	(531,747)
Balance at September 30, 1999 (unaudited)	<u>\$500</u>	<u>\$48,148,592</u>	<u>\$(39,730,699)</u>	<u>\$ 8,418,393</u>

See accompanying notes to financial statements

REMINGTON PARK, INC.
STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,		Years Ended December 31,		
	1999	1998	1998	1997	1996
	(unaudited)	(unaudited)			
CASH FLOWS FROM OPERATING ACTIVITIES					
Net loss	\$ (531,747)	\$(7,609,594)	\$(9,228,408)	\$(12,582,964)	\$(5,426,250)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:					
Provision for impairment of long-lived assets	—	2,837,000	2,837,000	5,077,918	—
Depreciation and amortization	486,871	2,029,313	2,706,547	2,723,763	2,800,681
Provision for doubtful accounts	27,246	25,000	26,433	—	—
Gain on sale of equipment	—	—	—	(8,341)	—
(Increase) decrease in restricted cash	(1,974,297)	(416,662)	(46,055)	346,569	(97,411)
(Increase) decrease in accounts receivable	(427,288)	282,266	557,067	(479,114)	14,450
Increase (decrease) in inventories, prepaid expenses and other assets	(39,861)	(99,765)	129,746	32,081	(72,787)
Increase (decrease) in accounts payable and purse liability	2,127,673	(1,386,886)	(1,885,003)	1,106,833	1,169,862
Increase (decrease) in accrued liabilities and unredeemed pari-mutuel tickets	53,978	333,057	123,771	(43,980)	195,555
Increase in advances due to The Edward J. DeBartolo Corporation	(540,423)	1,825,165	2,502,177	2,164,757	2,481,557
Increase (decrease) in deferred revenue	510,953	214,150	(84,002)	(20,850)	(35,090)
Net cash provided by (used in) operating activities	<u>(306,895)</u>	<u>(1,966,956)</u>	<u>(2,360,727)</u>	<u>(1,683,328)</u>	<u>1,030,567</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of improvements and equipment	(66,063)	(41,948)	(43,445)	(118,293)	(326,020)
Proceeds from sale of property and equipment	—	—	—	292,770	—
Net cash provided by (used in) investing activities	<u>(66,063)</u>	<u>(41,948)</u>	<u>(43,445)</u>	<u>174,477</u>	<u>(326,020)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Net advances from The Edward J. DeBartolo Corporation	400,000	2,600,000	2,600,000	900,000	302,919
Proceeds from (payments on) note payable	26,240	—	—	—	(1,350,000)
Net cash provided by (used in) financing activities	<u>426,240</u>	<u>2,600,000</u>	<u>2,600,000</u>	<u>900,000</u>	<u>(1,047,081)</u>
Net increase (decrease) in cash and cash equivalents	53,282	591,096	195,828	(608,851)	(342,534)
CASH AND CASH EQUIVALENTS					
Beginning of period	697,037	501,209	501,209	1,110,060	1,452,594
End of period	<u>\$ 750,319</u>	<u>\$ 1,092,305</u>	<u>\$ 697,037</u>	<u>\$ 501,209</u>	<u>\$ 1,110,060</u>

See accompanying notes to financial statements

REMINGTON PARK, INC.

NOTES TO FINANCIAL STATEMENTS

**(All amounts as at September 30, 1999 and for the nine month periods ended
September 30, 1999 and 1998 are unaudited)**

NOTE A—Summary of Significant Accounting Policies

Basis of Presentation:

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States, which conform, in all material respects, with accounting principles generally accepted in Canada.

Nature of Operations:

The Company operates a thoroughbred horse racing track in Oklahoma City, Oklahoma. The Company operated 136, 147 and 156 days of live racing in 1998, 1997 and 1996, respectively, and has been awarded live race meetings totalling 123 days for 1999.

Cash and Cash Equivalents:

Restricted cash represents primarily amounts restricted for futurity purse escrow and supplement purse escrow to be paid during future live meets.

The Company considers highly liquid debt instruments purchased with maturity dates of three months or less to be cash equivalents.

Inventories:

Inventories, consisting primarily of concession food items, are stated at lower of cost or market on the first-in, first-out method.

Property and Equipment:

Property and equipment are stated at cost less provision for impairment of long-lived assets (see Note I). Depreciation is computed on the straight-line method over the estimated useful lives of the assets:

Buildings	15 to 25 years
Improvements	5 to 15 years
Furniture, fixtures and equipment	5 to 10 years

The Company evaluates impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management of the Company assesses the recoverability of long-lived assets by determining whether the depreciation and amortization of such assets over their remaining lives can be recovered through projected undiscounted cash flows. The amount of impairment, if any, is measured based on fair value (projected discounted cash flows) and is charged to operations in the period in which such impairment is determined by management.

Land Lease Costs:

Land lease costs are stated net of amortization less provision for impairment of long-lived asset (see Note I). Land lease costs are being amortized on the straight-line method over the term of the lease.

Deferred Revenue:

Deferred revenue consists primarily of advance payments received on catering functions which are recognized as revenue when earned.

REMINGTON PARK, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
(All amounts as at September 30, 1999 and for the nine month periods ended
September 30, 1999 and 1998 are unaudited)

Income Taxes:

The Company has been included in the consolidated federal income tax return of its parent, The Edward J. DeBartolo Corporation through December 1, 1998 (see Note G). Subsequent to December 1, 1998, the company files a separate federal income tax return. Income taxes of the Company are computed utilizing the separate return method. Under this method, the provision for income taxes is generally determined as if the Company filed a separate income tax return. The Company files a separate state income tax return.

Income taxes are provided for amounts currently due and deferred amounts arising from temporary differences between the financial accounting and income tax basis of assets and liabilities.

Advertising:

Advertising costs are charged to operations when incurred and are included in operating expenses. The amounts charged to operations are as follows:

Year ended December 31:	
1998	\$1,584,636
1997	2,193,659
1996	2,292,339
Nine months ended September 30 (unaudited):	
1999	\$ 749,011
1998	1,268,719

Earnings Per Share:

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period which was 500 shares for all periods presented. The Company does not have any dilutive securities.

Revenue Recognition:

The Company records revenues associated with horse racing on a daily basis. Horse racing revenues are shown net of state and local taxes, stakes, purses and awards.

Fair Value of Financial Instruments:

Management has estimated the fair value of its financial instruments using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the estimated fair values are not necessarily indicative of the amounts that could be realized in current market exchanges.

Cash and Cash Equivalents, Restricted Cash, Accounts Receivable, Accounts Payable and Accrued Liabilities—Due to the short period to maturity of these instruments, the carrying values as presented in the balance sheets are reasonable estimates of fair value.

Use of Estimates:

The preparation of financial statements in conformity with 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. Actual results could differ from those estimates.

REMINGTON PARK, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
(All amounts as at September 30, 1999 and for the nine month periods ended
September 30, 1999 and 1998 are unaudited)

Interim Financial Statements:

In the opinion of management, the unaudited interim financial statements reflect all adjustments, which consist only of normal and recurring adjustments, necessary to present fairly the financial position at September 30, 1999 and the results of operations and cash flows for the nine months ended September 30, 1999 and 1998.

New Accounting Standards:

In June 1998, the Financial Accounting Standards Board issued Statement No. 133 (“SFAS 133”), “Accounting for Derivative Instruments and Hedging Activities”. This Statement is effective for the Company’s first quarter ended March 31, 2001. SFAS 133 requires that an entity recognize all derivative instruments either as assets or liabilities and measure those instruments at fair value. The Company has not determined the impact, if any, of this pronouncement on its financial statements.

Reclassification:

The financial statements for 1997 and 1996 have been reclassified to conform with the presentation for December 31, 1998. Such reclassifications had no effect on net results of operations.

NOTE B—Long-term Debt

At December 31, 1997, long-term debt represented a note agreement payable to The Edward J. DeBartolo Corporation (“DeBartolo”) with interest at the prime rate, and principal and interest payments due quarterly based on available cash flow as defined with all unpaid principal due December 31, 2001, collateralized by substantially all buildings, improvements and equipment. The principal balance at December 31, 1997 was \$30,000,000.

Effective December 1, 1998, DeBartolo made a capital contribution (see Note J) which in part was used to reduce the entire principal balance of this note agreement.

NOTE C—Purse Over/Under Payments

The Oklahoma Horse Racing Commission (OHRC) Rules of Racing contain provisions relating to future purse overpayments and underpayments and specifically address how such amounts will be adjusted in purse distributions during future race meetings.

At September 30, 1999, purses were underpaid during the thoroughbred race meeting which totalled \$2,282,698. Also, at September 30, 1999, purses were overpaid during the quarter horse race meeting which totalled \$366,488. The Company will include these amounts in its purse distribution during future race meetings.

At December 31, 1998, purses were underpaid during the thoroughbred race meeting which totalled \$161,014. Also, at December 31, 1998, purses were underpaid during the quarter horse race meeting which totalled \$131,279. The Company included these amounts in its purse distribution during the 1999 race meetings.

At December 31, 1997, purses were underpaid during the thoroughbred race meeting which totalled \$277,619. Also at December 31, 1997, purses were underpaid during the quarter horse race meeting which totalled \$423,292. The Company included these amounts in its purse distribution during the 1998 race meetings.

REMINGTON PARK, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
(All amounts as at September 30, 1999 and for the nine month periods ended
September 30, 1999 and 1998 are unaudited)

NOTE D—Income Taxes

Following is a summary of deferred tax assets and liabilities:

	<u>September 30,</u> <u>1999</u>	<u>December 31,</u>	
	<u>(unaudited)</u>	<u>1998</u>	<u>1997</u>
Deferred tax assets:			
Provision for impairment of long-lived assets	\$ 13,565,000	\$ 13,565,000	\$ 12,606,000
Net operating loss carryforward	1,445,000	1,100,000	18,893,000
Nondeductible accrued vacation and sick pay	66,000	66,000	61,500
Income deferred for financial reporting purposes	<u>—</u>	<u>2,000</u>	<u>31,500</u>
Total Deferred Tax Assets	15,076,000	14,733,000	31,592,000
Deferred tax liability:			
Excess tax depreciation and amortization over financial reporting depreciation and amortization	<u>(2,900,000)</u>	<u>(2,733,000)</u>	<u>(2,719,500)</u>
Net Deferred Tax Assets Before Valuation			
Allowance	12,176,000	12,000,000	28,872,500
Valuation Allowance	<u>(12,176,000)</u>	<u>(12,000,000)</u>	<u>(28,872,500)</u>
Net Deferred Tax Assets	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

At December 31, 1998, the Company had an unused net operating tax loss carryover of approximately \$3,300,000 with various expiration dates through 2013. These amounts are available for federal income tax purposes for offset against future taxable income based on filing a separate return effective December 1, 1998 (see Note G).

NOTE E—Leases

The Company occupies land for the racing facility under an operating lease which extends through 2013. The lease also contains options to renew for five 10-year periods after the initial term. Under the lease agreement, the Company made an initial payment of \$4,000,000 which is being amortized over the initial lease term. In addition to the initial payment, the Company is obligated to pay additional rent based on minimum annual rental payments ranging from \$110,710 to \$132,850 and one-half of one percent of the “handle” in excess of \$187,000,000 during each race season.

REMINGTON PARK, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
(All amounts as at September 30, 1999 and for the nine month periods ended
September 30, 1999 and 1998 are unaudited)

The Company uses significant amounts of equipment under operating leases as part of its daily business operations. This equipment includes totalisator equipment, satellite uplink equipment, closed circuit color television equipment, track maintenance equipment and photofinish equipment. The majority of the equipment is leased on a raceday basis, with minimum rentals per live raceday as follows:

	<u>Minimum rental per live raceday</u>	<u>Minimum daily rental for on track simulcasting cards</u>	<u>Minimum daily rental for Off-track betting parlors</u>
Year ended December 31:			
1998	\$5,700	\$600	\$200
1997	3,000	600	800
1996	3,000	575	800
Nine months ended September 30 (unaudited):			
1999	5,700	630	150
1998	5,700	600	200

Following is a summary of future minimum rental payments under operating leases that have initial or remaining noncancellable terms in excess of one year as of December 31, 1998:

1999	\$ 177,000
2000	171,000
2001	168,000
2002	168,000
2003	168,000
Later years	<u>1,195,000</u>
Total	<u>\$2,047,000</u>

Rent expense charged to operations is summarized below:

Year ended December 31:	
1998	\$2,039,598
1997	2,913,829
1996	2,281,613
Nine months ended September 30 (unaudited):	
1999	1,458,933
1998	1,549,651

NOTE F—Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk are primarily cash investments and receivables. The Company places its cash investments in investment grade short-term instruments and limits the amount of credit exposure to any one commercial issuer. The Company maintains significantly all of its bank deposit accounts in one financial institution in Oklahoma City, Oklahoma. These accounts at times exceed the federally insured limits. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Company grants credit to other racetracks throughout the country and suite and season-seat rental customers in the ordinary course of business. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers.

REMINGTON PARK, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
(All amounts as at September 30, 1999 and for the nine month periods ended
September 30, 1999 and 1998 are unaudited)

NOTE G—Controlling Interest and Related Party Transactions

Controlling Interest:

The Company was a wholly-owned subsidiary of DeBartolo. Effective December 1, 1998, Oklahoma Racing, LLC. (a newly formed company owned by an affiliated individual) acquired all of the common stock owned by DeBartolo. The common stock acquired has been pledged to secure an acquisition note payable to DeBartolo. See Note K regarding subsequent event.

Related Party Transactions:

Included in the operating costs are certain expenses paid or incurred on behalf of the Company by DeBartolo. The Company reimbursed DeBartolo for these general and administrative expenses on a current basis as follows:

Year ended December 31:	
1998	\$208,002
1997	309,751
1996	738,169
Nine months ended September 30 (unaudited):	
1999	81,097
1998	181,063

Effective December 1, 1998, DeBartolo contributed \$10,582,418 of the advances and interest to the capital of the Company. Advances and interest payable to DeBartolo totalled \$453,771 at December 31, 1998 and \$5,934,012 at December 31, 1997. DeBartolo has agreed to advance an additional \$3,000,000 in loans at the prime rate plus one percent to the company during 1999 to fund operating deficits as needed.

Interest charged by DeBartolo on the note agreement referred to in Note B is summarized below:

Year ended December 31:	
1998	\$2,308,356
1997	2,532,740
1996	2,481,557
Nine months ended September 30 (unaudited):	
1999	—
1998	1,907,055

No interest was charged by DeBartolo on net operating advances. Management fees charged by DeBartolo totalled \$50,000 annually.

NOTE H—Investment Savings Retirement Plan

Effective February 1, 1998, the Company along with an affiliated company formed a defined contribution 401(k) pension plan, which covers substantially all of its employees. Individuals employed as of the effective date of the plan are eligible to participate in the pension plan. Employees hired after the effective date of the plan, must meet minimum service and age requirements in order to participate. The plan provides for discretionary company matching contributions. No discretionary contributions to the plan were made during 1998 or nine months ended September 30, 1999.

REMINGTON PARK, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
(All amounts as at September 30, 1999 and for the nine month periods ended
September 30, 1999 and 1998 are unaudited)

NOTE I—Impairment of Long-lived Assets

During 1998, the company provided an additional \$2,837,000 provision for the impairment in the value of the racing facilities due to the continued deterioration in attendance and pari-mutuel handle in recent years. The provision was allocated to land improvements, buildings and structures and land lease costs on a pro rata basis. The company recorded a provision for the impairment of the racing facility of \$5,077,918 and \$NIL for the years ended December 31, 1997 and 1996 respectively. At December 31, 1998, the impairment reserve totalled \$39,914,918.

NOTE J—Noncash Investing Activities

Effective December 1, 1998, DeBartolo made a capital contribution of \$40,582,418 which was used to reduce the note agreement and the advances and interest payable to DeBartolo as discussed in Notes B and G. In addition, at September 30, 1999, DeBartolo made an additional capital contribution of \$156,674 which was used to reduce the advances payable to DeBartolo.

NOTE K—Subsequent Event

On October 21, 1999, Oklahoma Racing, LLC entered into a definitive agreement to sell 100% of the outstanding common stock of the Company to MI Entertainment Corp., a wholly-owned subsidiary of Magna International Inc., for \$10,000,000. As part of the agreement, DeBartolo agreed to contribute \$156,674 of advances to additional paid-in capital. This contribution to capital was reflected as of September 30, 1999 in the accompanying financial statements.

FINANCIAL STATEMENTS

THISTLEDOWN, INC.

For the years ended December 31, 1998, 1997 and 1996

INDEPENDENT AUDITORS' REPORT

Board of Directors
Thistledown, Inc.

We have audited the accompanying balance sheets of Thistledown, Inc. as of December 31, 1998 and 1997 and the related statements of operations and accumulated deficit, stockholder's deficit and cash flows for each of the years in the three year period ended December 31, 1998. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Thistledown, Inc. as of December 31, 1998 and 1997 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 1998 in conformity with accounting principles generally accepted in the United States.

Youngstown, Ohio
October 12, 1999 (except Note I for
which the date is October 21, 1999)

Certified Public Accountants

THISTLEDOWN, INC.
BALANCE SHEETS

	<u>September 30, 1999</u>	<u>December 31, 1998</u>	<u>December 31, 1997</u>
	<u>(unaudited)</u>		
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 2,366,651	\$ 1,779,565	\$ 895,292
Restricted cash	2,256,828	1,562,770	1,581,885
Trade accounts receivable (less allowance for doubtful accounts of \$89,624 at September 30, 1999, \$89,830 at December 31, 1998 and \$56,599 at December 31, 1997)	2,296,486	2,027,847	1,665,173
Inventories	163,576	143,103	155,923
Purses paid in excess of percentage entitlements—NOTE C	176,317	—	—
Prepaid expenses and other assets	32,295	176,061	50,123
Total Current Assets	<u>7,292,153</u>	<u>5,689,346</u>	<u>4,348,396</u>
Property And Equipment			
Land	1,002,700	1,002,700	1,002,700
Land improvements	1,010,522	1,010,522	1,010,522
Parking lot improvements	198,007	198,007	198,007
Buildings and structures	39,600,666	39,591,161	39,576,955
Furniture and equipment	2,319,321	2,209,950	2,104,442
	<u>44,131,216</u>	<u>44,012,340</u>	<u>43,892,626</u>
Less accumulated depreciation	34,439,953	33,359,365	31,893,794
Net Property and Equipment	<u>9,691,263</u>	<u>10,652,975</u>	<u>11,998,832</u>
Other Assets			
Deferred racetrack improvement fund rebate—NOTE B	1,085,964	792,131	503,587
Deposits	47,398	33,944	31,222
Total other assets	<u>1,133,362</u>	<u>826,075</u>	<u>534,809</u>
	<u>\$18,116,778</u>	<u>\$17,168,396</u>	<u>\$16,882,037</u>
LIABILITIES AND STOCKHOLDER'S DEFICIT			
Current Liabilities			
Accounts payable	\$ 3,579,044	\$ 2,785,348	\$ 2,737,170
Unredeemed pari-mutuel tickets	683,528	639,306	651,091
Due to The Edward J. DeBartolo Corporation	2,757	35,611	850,700
Accrued liabilities	814,042	593,868	600,925
Percentage entitlements in excess of purses paid—NOTE C	—	526,592	337,515
Deferred revenue	11,872	1,684	6,822
Total Current Liabilities	<u>5,091,243</u>	<u>4,582,409</u>	<u>5,184,223</u>
Due to The Edward J. DeBartolo Corporation—NOTES G and I	61,628,370	61,221,811	60,034,612
Deferred Income Taxes—NOTE D	1,262,000	1,253,000	1,000,000
Stockholder's Deficit—Notes G And I			
Common stock—no par value per share: Authorized 500 shares; issued and outstanding 250 shares	500	500	500
Additional paid-in capital	100,000	100,000	100,000
Accumulated deficit	(49,965,335)	(49,989,324)	(49,437,298)
Total Stockholder's Deficit	<u>(49,864,835)</u>	<u>(49,888,824)</u>	<u>(49,336,798)</u>
	<u>\$18,116,778</u>	<u>\$17,168,396</u>	<u>\$16,882,037</u>

On behalf of the Board:

(Signed) VINCENT GALIFI
Director

(Signed) JAMES NICOL
Director

See accompanying notes to financial statements

THISTLEDOWN, INC.

STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

	Nine Months Ended September 30,		Years Ended December 31,		
	1999 (unaudited)	1998 (unaudited)	1998	1997	1996
REVENUES					
Pari-Mutuel income	\$ 25,781,914	\$ 25,643,540	\$ 34,283,820	\$ 31,912,780	\$ 26,933,567
Less:					
Purses paid to horsemen	9,170,440	9,040,027	12,115,337	10,970,292	9,509,854
State of Ohio pari-mutuel taxes—net of racetrack improvement fund rebate	2,821,673	2,987,503	3,937,712	3,597,768	3,991,419
Breakage paid to Thoroughbred Health and Retirement Fund	254,045	274,471	356,977	351,631	303,161
Amount paid to the Horsemen's Benevolent & Protection Association	64,368	62,540	87,046	84,826	89,822
Commission paid to host tracks	2,687,816	2,687,562	3,575,538	3,165,904	1,457,258
	<u>14,998,342</u>	<u>15,052,103</u>	<u>20,072,610</u>	<u>18,170,421</u>	<u>15,351,514</u>
Net Pari-Mutuel Income	10,783,572	10,591,437	14,211,210	13,742,359	11,582,053
Non-wagering revenues	2,654,188	2,537,033	3,469,119	3,345,817	3,332,165
Total Revenues	13,437,760	13,128,470	17,680,329	17,088,176	14,914,218
Operating costs and expenses—					
NOTES E, G and H	12,020,154	12,275,347	16,027,163	16,234,915	14,903,093
Depreciation and amortization	1,080,587	1,087,028	1,465,571	1,497,966	1,482,331
INCOME (LOSS) FROM OPERATIONS	<u>337,019</u>	<u>(233,905)</u>	<u>187,595</u>	<u>(644,705)</u>	<u>(1,471,206)</u>
OTHER INCOME (EXPENSES)					
Interest earned	102,529	69,580	89,108	72,923	22,763
Interest expense—NOTE G	(406,559)	(448,910)	(575,729)	(742,836)	(545,736)
	<u>(304,030)</u>	<u>(379,330)</u>	<u>(486,621)</u>	<u>(669,913)</u>	<u>(522,973)</u>
NET INCOME (LOSS) BEFORE INCOME TAXES	32,989	(613,235)	(299,026)	(1,314,618)	(1,994,179)
Deferred income taxes—NOTE D	9,000	168,667	253,000	354,000	321,000
NET INCOME (LOSS)	23,989	(781,902)	(52,026)	(1,668,618)	(2,315,179)
ACCUMULATED DEFICIT					
Beginning of period	(49,989,324)	(49,437,298)	(49,437,298)	(47,768,680)	(45,453,501)
End of period	<u>\$(49,965,335)</u>	<u>\$(50,219,200)</u>	<u>\$(49,989,324)</u>	<u>\$(49,437,298)</u>	<u>\$(47,768,680)</u>
Basic and diluted earnings (loss) per share of common stock	<u>\$ 96</u>	<u>\$ (3,128)</u>	<u>\$ (2,208)</u>	<u>\$ (6,674)</u>	<u>\$ (9,261)</u>

See accompanying notes to financial statements

THISTLEDOWN, INC.
STATEMENTS OF STOCKHOLDER'S DEFICIT

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Deficit</u>
Balance at December 31, 1995	\$500	\$100,000	\$(45,453,501)	\$(45,353,001)
Net loss, year ended December 31, 1996	—	—	(2,315,179)	(2,315,179)
Balance at December 31, 1996	500	100,000	(47,768,680)	(47,668,180)
Net loss, year ended December 31, 1997	—	—	(1,668,618)	(1,668,618)
Balance at December 31, 1997	500	100,000	(49,437,298)	(49,336,798)
Net loss, year ended December 31, 1998	—	—	(552,026)	(552,026)
Balance at December 31, 1998	500	100,000	(49,989,324)	(49,888,824)
Net income, nine months ended September 30, 1999 (unaudited)	—	—	23,989	23,989
Balance at September 30, 1999 (unaudited)	<u>\$500</u>	<u>\$100,000</u>	<u>\$(49,965,335)</u>	<u>\$(49,864,835)</u>

See accompanying notes to financial statements

THISTLEDOWN, INC.
STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,		Years ended December 31,		
	1999	1998	1998	1997	1996
	(unaudited)	(unaudited)			
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income (loss)	\$ 23,989	\$ (781,902)	\$ (552,026)	\$(1,668,618)	\$(2,315,179)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:					
Depreciation and amortization	1,080,587	1,087,028	1,465,571	1,497,966	1,482,331
Provision for doubtful accounts	26,003	—	39,098	46,467	19,560
Deferred income taxes	9,000	168,667	253,000	354,000	321,000
(Increase) decrease in restricted cash	(694,058)	(315,496)	19,115	(241,656)	(1,340,229)
Increase in accounts receivable	(294,642)	(64,810)	(401,773)	(247,808)	(1,082,062)
(Increase) decrease in inventories	(20,473)	(16,251)	12,820	1,083	(11,185)
(Increase) decrease in prepaid expenses	143,766	(32,265)	(125,938)	47,845	(25,647)
Increase in purses paid in excess of percentage entitlements . .	(176,317)	—	—	—	—
Increase in other assets	(307,287)	(193,712)	(291,266)	(372,160)	(152,226)
Increase (decrease) in accounts payable and accrued liabilities	1,013,870	287,022	41,121	(339,485)	2,192,388
Increase (decrease) in unredeemed pari-mutuel tickets	44,222	117,510	(11,785)	218,318	92,059
Increase (decrease) in percentage entitlements in excess of purses paid	(526,592)	345,742	189,077	1,733	335,782
Increase (decrease) in deferred revenue	10,188	29,848	(5,138)	5,118	1,704
Net cash provided by (used in) operating activities	<u>332,256</u>	<u>631,381</u>	<u>631,876</u>	<u>(697,197)</u>	<u>(481,704)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment	(118,873)	(117,318)	(119,714)	(228,315)	(332,592)
Net cash used in investing activities	<u>(118,873)</u>	<u>(117,318)</u>	<u>(119,714)</u>	<u>(228,315)</u>	<u>(332,592)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Net advances from The Edward J. DeBartolo Corporation . . .	373,703	421,379	372,111	989,948	1,364,585
Net cash provided by financing activities	<u>373,703</u>	<u>421,379</u>	<u>372,111</u>	<u>989,948</u>	<u>1,364,585</u>
Net Increase in cash and cash equivalents	587,086	935,442	884,273	64,436	550,289
CASH AND CASH EQUIVALENTS					
Beginning of period	<u>1,779,565</u>	<u>895,292</u>	<u>895,292</u>	<u>830,856</u>	<u>280,567</u>
End of period	<u>\$2,366,651</u>	<u>\$1,830,734</u>	<u>\$1,779,565</u>	<u>\$ 895,292</u>	<u>\$ 830,856</u>

See accompanying notes to financial statements

THISTLEDOWN, INC.

NOTES TO FINANCIAL STATEMENTS

**(All amounts as at September 30, 1999 and for the nine month periods ended
September 30, 1999 and 1998 are unaudited)**

NOTE A—Summary of Significant Accounting Policies

Basis of Presentation:

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States, which conform, in all material respects, with accounting principles generally accepted in Canada.

Nature of Operations:

The company formally changed its name from Carat Company, Inc. to Thistledown, Inc. on February 26, 1998. On January 9, 1998, Raceway Properties, Inc., a wholly-owned subsidiary of The Edward J. DeBartolo Corporation, was merged into the company. Raceway Properties, Inc. owned the land under the racing facility, certain buildings and equipment used by the company. The merger was accounted for using the pooling-of-interests method of accounting and all intercompany transactions have been eliminated.

The company operates a thoroughbred horse racing track in Cleveland, Ohio. The company operated 187, 186 and 195 days of live racing in 1998, 1997 and 1996, respectively, and has been awarded live race meetings totalling 187 days for 1999.

Cash and Cash Equivalents:

The company considers highly liquid debt instruments purchased with maturity dates of three months or less to be cash equivalents.

Restricted cash represents primarily amounts restricted for purse escrow and simulcast settlement escrow.

Inventories:

Inventories, consisting primarily of concession food items, are stated at lower of cost or market on the first-in, first-out method.

Property and Equipment:

Property and equipment are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets:

Buildings	15 to 25 years
Improvements	5 to 15 years
Furniture, fixtures and equipment	5 to 10 years

Statement of Financial Accounting Standards No. 121 (“SFAS 121”), “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of”, establishes accounting standards for the impairment of long-lived assets. The company evaluates impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management of the company assesses the recoverability of long-lived assets by determining whether the depreciation and amortization of such assets over their remaining lives can be recovered through projected undiscounted cash flows. The amount of impairment, if any, is measured based on fair value (projected discounted cash flows) and is charged to operations in the period in which such impairment is determined by management.

Income Taxes:

The company has been included in the consolidated federal income tax return of its parent, The Edward J. DeBartolo Corporation (“DeBartolo”). Income taxes of the company are computed utilizing the separate return

THISTLEDOWN, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
(All amounts as at September 30, 1999 and for the nine month periods ended
September 30, 1999 and 1998 are unaudited)

method. Under this method, the provision for income taxes is generally determined as if the company filed a separate income tax return. The company files a separate state income tax return.

Income taxes are provided for amounts currently due and deferred amounts arising from temporary differences between the financial accounting and income tax basis of assets and liabilities.

Advertising:

Advertising costs are charged to operations when incurred and are included in operating expenses. The amounts charged to operations are as follows:

Year ended December 31:	
1998	\$1,324,955
1997	1,475,192
1996	1,375,741
Nine months ended September 30 (unaudited):	
1999	1,111,920
1998	1,147,844

Earnings Per Share:

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period which was 250 shares for all periods presented. The company does not have any dilutive securities.

Revenue Recognition:

The Company records revenue associated with horse racing on a daily basis. Horse racing revenues are shown net of state and local taxes, stakes, purses and awards.

Fair Value of Financial Instruments:

Management has estimated the fair value of its financial instruments using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the estimated fair values are not necessarily indicative of the amounts that could be realized in current market exchanges.

Cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities—Due to the short period to maturity of these instruments, the carrying values as presented in the balance sheets are reasonable estimates of fair value.

Deferred Racetrack Improvement Fund Rebate—It is not practicable to estimate the fair value of the deferred racetrack improvement fund rebate due to the uncertainty of the timing of the realization of this instrument.

Use of Estimates:

The preparation of financial statements in conformity with 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. Actual results could differ from those estimates.

THISTLEDOWN, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
(All amounts as at September 30, 1999 and for the nine month periods ended
September 30, 1999 and 1998 are unaudited)

Interim Financial Statements:

In the opinion of management, the unaudited interim financial statements reflect all adjustments, which consist only of normal and recurring adjustments, necessary to present fairly the financial position at September 30, 1999 and the results of operations and cash flows for the nine months ended September 30, 1999 and 1998.

New Accounting Standards:

In June 1998, the Financial Accounting Standards Board issued Statement No. 133 (“SFAS 133”), “Accounting for Derivative Instruments and Hedging Activities”. This Statement is effective for the company’s first quarter ended March 31, 2001. SFAS 133 requires that an entity recognize all derivative instruments either as assets or liabilities and measure those instruments at fair value. The company has not determined the impact, if any, of this pronouncement on its financial statements.

NOTE B—Racetrack Improvement Fund Rebate

The State of Ohio has enacted a Capital Improvement—Tax Reduction bill (Ohio Revised Code 3769.20) to encourage the renovation of existing racing facilities. During 1999, the State extended the rebate period from December 31, 2004 to December 31, 2014. The rebates are approved by the State based on expenditures made on major improvements plus interest on the borrowed funds used for the project. During April 1998, the State approved a \$9,801,163 rebate related to debt service on a 1986 major improvement project.

The tax credit earned is equal to one percent of gross on-track pari-mutuel handle up to the amount of the approved rebate. As a result of limits on the amount of rebates earned that can be used to reduce current pari-mutuel taxes, not all earned rebates are realized currently. Any rebates earned and not realized currently will be available for offset against future pari-mutuel taxes until fully realized. The company’s policy is to recognize the rebates as they are earned based on one percent of gross on track pari-mutuel handle.

Following is a summary of (1) the approved rebate which is unearned, (2) the tax rebate earned and (3) the tax rebate credited to pari-mutuel taxes:

	<u>Approved Rebate</u>		<u>Rebate Credited Ohio Pari- Mutuel Taxes</u>
	<u>Unearned</u>	<u>Earned</u>	
Year ended December 31:			
1998	\$8,682,282	\$1,413,191	\$1,124,647
1997	294,310	1,434,814	1,056,468
1996	1,729,124	1,232,647	1,115,348
Nine months ended September 30 (unaudited):			
1999	7,551,298	1,124,985	831,115
1998	9,063,184	1,049,096	862,403

NOTE C—Percentage Entitlements and Purse Distributions

Ohio State Statutes require the company to distribute as purses an amount equal to the track’s commission less 1.875% of gross pari-mutuel handle times 50% plus 20% of breakage. In addition, the company must pay 45% of breakage to the Thoroughbred Health and Retirement Fund. Purse overpayments and underpayments will be adjusted in purse distributions during future race meetings.

THISTLEDOWN, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
(All amounts as at September 30, 1999 and for the nine month periods ended
September 30, 1999 and 1998 are unaudited)

Purses were underpaid at the end of each period as follows:

December 31, 1998	<u>\$526,592</u>
December 31, 1997	<u>\$337,515</u>

Purses were overpaid at the end of:

September 30, 1999 (unaudited)	<u>\$176,317</u>
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NOTE D—Income Taxes

Following is a summary of deferred tax liabilities:

	<u>September 30,</u> <u>1999</u> <u>(unaudited)</u>	<u>December 31,</u> <u>1998</u> <u>1997</u>	
Deferred tax liabilities:			
Excess tax depreciation and amortization over financial statement reporting depreciation and amortization ..	\$ 893,000	\$ 984,000	\$ 829,000
Racetrack improvement fund rebate recognized for financial statement reporting in excess of tax reporting	<u>369,000</u>	<u>269,000</u>	<u>171,000</u>
Total Deferred Tax Liabilities	<u>\$1,262,000</u>	<u>\$1,253,000</u>	<u>\$1,000,000</u>

The primary reason for the difference between the expected tax benefit and the income tax provision is that the company did not receive a benefit for the company's net operating losses utilized by its parent company in its consolidated tax return.

NOTE E—Leases

The company uses significant amounts of equipment under operating leases as part of its daily business operations. This equipment includes totalisator equipment, satellite uplink equipment, closed circuit color television equipment, track maintenance equipment and photofinish equipment. The majority of the equipment is leased on a raceday basis, with minimum rentals as follows:

	<u>Minimum Rental per Live Raceday</u>	<u>Minimum Rental for On-Track Simulcasting Cards</u>
Year ended December 31:		
1998	\$4,292	\$1,296
1997	4,059	1,406
1996	3,701	1,110
Nine months ended September 30 (unaudited):		
1999	3,844	1,535
1998	4,292	1,296

Following is a summary of future minimum rental payments under operating leases that have initial or remaining noncancellable terms in excess of one year as of December 31, 1998:

1999	\$ 98,500
2000	<u>4,000</u>
Total	<u>\$102,500</u>

THISTLEDOWN, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
(All amounts as at September 30, 1999 and for the nine month periods ended
September 30, 1999 and 1998 are unaudited)

Rent expense charged to operations is summarized below:

Year ended December 31:		
1998		\$1,765,940
1997		1,619,099
1996		1,524,921
Nine months ended September 30 (unaudited):		
1999		1,283,199
1998		1,295,697

NOTE F—Concentration of Credit Risk

Financial instruments which potentially subject the company to concentrations of credit risk are primarily cash investments and receivables. The company places its cash investments in investment grade short-term instruments and limits the amount of credit exposure to any one commercial issuer. The company maintains significantly all of its bank deposit accounts in one financial institution in Cleveland, Ohio. These accounts at times exceed the federally insured limits. The company believes it is not exposed to any significant credit risk on cash and cash equivalents.

The company grants credit to other racetracks throughout the country. The company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers.

NOTE G—Controlling Interest and Related Party Transactions

Controlling Interest:

The company is a wholly-owned subsidiary of DeBartolo. See Note I regarding subsequent event.

Related Party Transactions:

Included in the accompanying financial statements are certain expenses paid or incurred on behalf of the company by DeBartolo. The company reimburses DeBartolo for salaries and wages and related expenses and general and administrative expenses as follows:

	<u>Salaries, Wages and Related Expenses</u>	<u>General and Administrative Expenses</u>	<u>Total</u>
Year ended December 31:			
1998	\$8,508,074	\$558,112	\$9,066,186
1997	8,156,565	815,126	8,971,691
1996	7,740,070	503,288	8,243,358
Nine months ended September 30 (unaudited):			
1999	5,807,765	373,517	6,181,282
1998	6,061,420	703,048	6,764,468

THISTLEDOWN, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)
(All amounts as at September 30, 1999 and for the nine month periods ended
September 30, 1999 and 1998 are unaudited)

The accompanying balance sheets include notes, advances and related accrued interest payable to DeBartolo (see Note I) as summarized below:

	<u>Current Portion</u>	<u>Long-term Portion</u>
December 31, 1998	\$ 35,611	\$61,221,811
December 31, 1997	<u>\$850,700</u>	<u>\$60,034,612</u>
September 30, 1999 (unaudited).	<u>\$ 2,757</u>	<u>\$61,628,370</u>

The current portion of the amount payable to DeBartolo at September 30, 1999 is to be repaid. The long-term portion of the amount payable to DeBartolo at September 30, 1999 will be contributed to additional paid-in capital (see Note I).

DeBartolo charged interest at the applicable federal rate (AFR) on a note payable related to the financing of certain racetrack improvements. Interest charged by DeBartolo is summarized as follows:

Year ended December 31:	
1998	\$575,617
1997	740,309
1996	544,681
Nine months ended September 30 (unaudited):	
1999	406,459
1998	448,778

No interest was charged by DeBartolo on net operating advances. Management fees charged by DeBartolo totalled \$50,000 annually.

NOTE H—Investment Savings Retirement Plan

Effective February 1, 1998, the company along with an affiliated company formed a defined contribution 401(k) pension plan, which covers substantially all of its employees that are not covered by a collective bargaining agreement or another retirement plan. Individuals employed as of the effective date of the plan are eligible to participate in the pension plan. Employees hired after the effective date of the plan, must meet minimum service and age requirements in order to participate. The plan provides for discretionary company matching contributions. No discretionary contributions to the plan were made during 1998 or 1999.

NOTE I—Subsequent Event

On October 21, 1999, DeBartolo entered into a definitive agreement to sell 100% of the outstanding common stock of the company to MI Entertainment Corp., a wholly-owned subsidiary of Magna International Inc., for \$14,000,000. As part of the agreement, DeBartolo agreed to contribute \$61,628,370 of notes, advances and related accrued interest to additional paid-in capital. These amounts are reflected as noncurrent liabilities in the accompanying balance sheets.

COMBINED FINANCIAL STATEMENTS

**GOLDEN GATE FIELDS (CONSISTING OF
PACIFIC RACING ASSOCIATION'S OPERATIONS
SUBJECT TO THE LICENSING PROVISIONS OF THE
CALIFORNIA HORSE RACING BOARD,
LADBROKE RACING CALIFORNIA, INC.
AND LADBROKE LAND HOLDINGS, INC.
(WHOLLY OWNED SUBSIDIARIES OF
LADBROKE RACING CORPORATION))**

Years ended December 31, 1998, 1997 and 1996

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholder
Pacific Racing Association,
Ladbroke Racing California, Inc. and
Ladbroke Land Holdings, Inc.

We have audited the accompanying combined statement of assets and liabilities of Pacific Racing Association's operations subject to the licensing provisions of the California Horse Racing Board ("Pacific Racing Association"), Ladbroke Racing California, Inc. and Ladbroke Land Holdings, Inc. (collectively, "Golden Gate Fields" or the "Company") as of December 31, 1998, and 1997, and the related combined statements of operations, stockholder's equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying combined financial statements present the financial position and results of operations of the Golden Gate Fields racetrack facility and are not intended to include a complete presentation of the financial position and results of operations of Pacific Racing Association.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined assets and liabilities of Pacific Racing Association, Ladbroke Racing California, Inc. and Ladbroke Land Holdings, Inc. at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with accounting principles generally accepted in the United States.

Walnut Creek, California
October 4, 1999, except paragraph 1 of Note 5,
as to which the date is
October 19, 1999

Certified Public Accountants

**Golden Gate Fields consisting of
Pacific Racing Association's operations subject to the
licensing provisions of the California Horse Racing Board
Ladbroke Racing California, Inc.
and Ladbroke Land Holdings, Inc.
(wholly owned subsidiaries of Ladbroke Racing Corporation)
COMBINED STATEMENTS OF ASSETS AND LIABILITIES**

	September 30, 1999	December 31,	
	(unaudited)	1998	1997
Assets			
Current assets:			
Cash and cash equivalents	\$ 739,839	\$ 714,691	\$ 1,426,313
Equity in pooled cash and cash equivalents	45,991,536	41,117,870	34,998,292
Accounts receivable, net of allowance for doubtful accounts of \$20,989 in 1997, \$236,687 in 1998 and \$160,092 at September 30, 1999	822,479	3,100,143	3,661,060
Other current assets	127,386	479,827	779,343
Total current assets	47,681,240	45,412,531	40,865,008
Racetrack properties and equipment, net	48,532,678	48,429,435	24,070,678
Intangible assets, net	2,473,259	3,044,009	14,380,010
Total assets	<u>\$ 98,687,177</u>	<u>\$96,885,975</u>	<u>\$79,315,696</u>
Liabilities and stockholder's equity			
Current liabilities:			
Notes payable to affiliate, current portion	\$ 2,594,191	\$ 1,448,415	\$ —
Accounts payable	703,270	4,055,475	4,301,635
Accrued compensation	1,265,620	1,743,079	1,772,730
Other accrued liabilities	2,216,315	1,213,890	1,440,484
Due to affiliates	20,657,507	17,149,343	4,414,034
Total current liabilities	27,436,903	25,610,202	11,928,883
Note payable to affiliate	59,591,322	58,183,681	42,722,954
Notes payable	—	—	10,025,915
Stockholder's equity:			
Common stock, authorized 111,000 shares, issued and outstanding 80,347 shares	1,494,000	1,494,000	1,494,000
Paid-in capital	13,360,000	13,360,000	13,360,000
Accumulated deficit	(3,195,048)	(1,761,908)	(216,056)
Total stockholder's equity	11,658,952	13,092,092	14,637,944
Total liabilities and stockholder's equity	<u>\$ 98,687,177</u>	<u>\$96,885,975</u>	<u>\$79,315,696</u>

On behalf of the Board:

(Signed) VINCENT GALIFI
Director

(Signed) JAMES NICOL
Director

See accompanying notes.

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COMBINED STATEMENTS OF OPERATIONS

	<u>Nine months ended September 30,</u>		<u>Years ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
	(unaudited)				
Operating revenues:					
Mutual commission and breakage	\$14,202,234	\$12,470,873	\$17,362,961	\$16,555,897	\$15,786,982
Admissions	982,313	1,026,560	1,347,652	1,717,753	1,923,166
Catering operations	1,860,094	1,742,275	2,269,092	2,288,534	2,313,021
Parking	700,497	707,180	937,434	922,325	954,876
Programs	959,955	905,408	1,227,601	1,272,416	1,269,256
Indirect revenues	2,194,208	2,142,788	2,506,497	2,754,653	2,684,698
	<u>20,899,301</u>	<u>18,995,084</u>	<u>25,651,237</u>	<u>25,511,578</u>	<u>24,931,999</u>
Operating expenses:					
Salaries, wages, benefits and other payroll-related expenses	8,777,260	8,465,979	11,895,359	11,401,172	10,689,267
Rental of facilities and equipment	277,386	501,806	654,927	749,870	1,661,174
Operating and maintenance services	2,821,788	2,756,420	4,997,209	4,508,930	3,921,650
Depreciation and amortization	1,902,154	3,131,997	3,621,315	3,828,330	3,987,359
Taxes and licenses	677,488	615,012	726,613	789,325	707,031
Advertising and public relations	1,371,491	968,036	1,269,124	1,301,954	1,294,999
General and administrative . . .	2,268,537	2,316,127	2,047,403	1,494,073	2,327,842
Charity days expense	66,841	64,183	86,976	96,815	98,356
	<u>18,162,945</u>	<u>18,819,560</u>	<u>25,298,926</u>	<u>24,170,469</u>	<u>24,687,678</u>
Income from operations	2,736,356	175,524	352,311	1,341,109	244,321
Other income (expense):					
Interest income, principally from affiliate	1,667,796	1,609,183	2,148,526	1,976,792	1,714,396
Interest expense to affiliate . . .	(3,501,074)	(2,648,491)	(3,845,028)	(2,516,408)	(2,310,728)
Income (loss) before income taxes	903,078	(863,784)	(1,344,191)	801,493	(352,011)
Provision for federal and state income taxes	(2,336,218)	(88,749)	(201,661)	(1,888,195)	(1,000,490)
Net loss	<u>\$ (1,433,140)</u>	<u>\$ (952,533)</u>	<u>\$ (1,545,852)</u>	<u>\$ (1,086,702)</u>	<u>\$ (1,352,501)</u>

See accompanying notes.

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Pacific Racing Association's operations subject to the
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Ladbroke Racing California, Inc.
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COMBINED STATEMENTS OF STOCKHOLDER'S EQUITY**

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings (Deficit)</u>	<u>Total Stockholder's Equity</u>
Balance at December 31, 1995	\$1,494,000	\$13,360,000	\$ 2,223,147	\$17,077,147
Net loss	—	—	(1,352,501)	(1,352,501)
Balance at December 31, 1996	1,494,000	13,360,000	870,646	15,724,646
Net loss	—	—	(1,086,702)	(1,086,702)
Balance at December 31, 1997	1,494,000	13,360,000	(216,056)	14,637,944
Net loss	—	—	(1,545,852)	(1,545,852)
Balance at December 31, 1998	1,494,000	13,360,000	(1,761,908)	13,092,092
Net loss (unaudited)	—	—	(1,433,140)	(1,433,140)
Balance at September 30, 1999 (unaudited)	<u>\$1,494,000</u>	<u>\$13,360,000</u>	<u>\$(3,195,048)</u>	<u>\$11,658,952</u>

See accompanying notes.

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COMBINED STATEMENTS OF CASH FLOWS

	<u>Nine months ended September 30,</u>		<u>Years ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
	(unaudited)				
Operating activities					
Net loss	\$ (1,433,140)	\$ (952,533)	\$ (1,545,852)	\$ (1,086,702)	\$ (1,352,501)
Adjustments to reconcile net loss to net cash provided by operating activities:					
Depreciation	1,331,404	1,545,747	1,097,814	952,329	1,111,358
Amortization	570,750	1,586,250	2,523,501	2,876,001	2,876,001
Provision for doubtful accounts	—	—	215,698	13,239	—
Changes in operating assets and liabilities:					
Accounts receivable	2,277,664	2,661,289	345,219	(1,356,568)	(1,672,357)
Other current assets	352,441	175,602	299,516	(355,913)	(79,900)
Accrued interest on notes payable to affiliate	3,405,136	2,648,491	3,363,540	2,502,802	1,882,816
Accounts payable	(3,352,205)	199,610	(246,160)	(1,409,619)	4,333,346
Accrued compensation	(477,459)	424,042	(29,651)	387,530	93,023
Other accrued liabilities	1,002,425	441,023	(226,594)	141,458	283,112
Due to affiliates	2,220,046	(2,891,340)	2,709,394	1,608,121	534,269
Net cash provided by operating activities	<u>5,897,062</u>	<u>5,838,181</u>	<u>8,506,425</u>	<u>4,272,678</u>	<u>8,009,167</u>
Investing activities					
Purchase of racetrack properties and equipment	(998,248)	(6,646,593)	(16,644,071)	(19,582,404)	(1,910,089)
Net cash used in investing activities	<u>(998,248)</u>	<u>(6,646,593)</u>	<u>(16,644,071)</u>	<u>(19,582,404)</u>	<u>(1,910,089)</u>
Financing activities					
Borrowings from affiliates for racetrack property purchase	—	6,195,469	13,545,602	7,879,398	—
Issuance of note payable	—	—	—	10,025,915	—
Net cash provided by financing activities	<u>—</u>	<u>6,195,469</u>	<u>13,545,602</u>	<u>17,905,313</u>	<u>—</u>
Increase in cash and cash equivalents and equity in pooled cash and cash equivalents	4,898,814	5,387,057	5,407,956	2,595,587	6,099,078
Cash and cash equivalents and equity in pooled cash and cash equivalents at beginning of period	<u>41,832,561</u>	<u>36,424,605</u>	<u>36,424,605</u>	<u>33,829,018</u>	<u>27,729,940</u>
Cash and cash equivalents and equity in pooled cash and cash equivalents at end of period	<u>\$46,731,375</u>	<u>\$41,811,662</u>	<u>\$41,832,561</u>	<u>\$36,424,605</u>	<u>\$33,829,018</u>

See accompanying notes.

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**NOTES TO COMBINED FINANCIAL STATEMENTS
(All amounts as at September 30, 1999 and for the nine month periods ended
September 30, 1999 and 1998 are unaudited)**

1. Business and Basis of Presentation

Business

Pacific Racing Association's operations subject to the licensing provisions of the California Horse Racing Board ("PRA"), Ladbroke Racing California, Inc. ("LRCA") and Ladbroke Land Holdings, Inc. ("LLH") (collectively, "Golden Gate Fields" or the "Company") wholly owned subsidiaries of Ladbroke Racing Corporation ("LRC"), are engaged in operating the Golden Gate Fields racetrack facility for thoroughbred horse racing, the conduct of which is subject to the licensing provisions of the California Horse Racing Board. PRA operates the racetrack facility, LRCA leased the racetrack facility from a third party through October 1998 and LLH purchased the racetrack facility from a third party effective October 1998.

Basis of Presentation

The accompanying combined financial statements present the financial position and results of operations of the Golden Gate Fields racetrack facility and include the accounts of LRCA, LLH and those components of PRA's operations subject to the licensing provisions of the California Horse Racing Board. The components of PRA's operations not included in the combined financial statements are two subsidiaries (Ladbroke Gaming California, Inc. and Golden Gate Catering Company) as these are not associated with the operations of the Golden Gate Fields racetrack facility and are not being acquired by MI Entertainment Corp. (see Note 10). The accompanying financial statements are not intended to include a complete presentation of the financial position and results of operations of Pacific Racing Association.

In addition, LRCA is not being acquired by MI Entertainment Corp. although its results are included in these combined financial statements. Through October 1998, LRCA leased the Golden Gate Fields racetrack facility from a third party and then subleased the facility to PRA. This lease was cancelled in October 1998 when LLH purchased the racetrack facility. In order to more fairly present the results of operations of the Golden Gate Fields racetrack facility prior to October 1998, LRCA has been included in these combined financial statements.

All significant intercompany accounts and transactions between PRA, LRCA and LLH have been eliminated.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States which conform in all material respects with accounting principles generally accepted in Canada.

2. Summary of Significant Accounting Policies

Equity in Pooled Cash and Cash Equivalents

The Company participates in a pooled cash and cash equivalents management system sponsored by its ultimate U.S. parent, Ladstock Holding Corporation. Monies included in the pool are from the Company, the parent and other U.S. affiliates. Cash and cash equivalents recorded by the Company are based on the parent's

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tracking of each subsidiary's cash activity. The balance at year end represents cash and cash equivalents, less outstanding checks.

The Company earns interest income based on its net daily position in the pool. The Company was allocated interest income of approximately \$2.1 million, \$2.0 million and \$1.7 million for the years ended December 31, 1998, 1997 and 1996, respectively, and \$1.6 million and \$1.6 million for the nine months ended September 30, 1999 and 1998, respectively.

For purposes of financial statement presentation, the Company considers all highly liquid investment instruments with original maturities of three months or less to be cash equivalents.

Racetrack Properties and Equipment

Racetrack properties, buildings, improvements and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 3 years to 30 years.

Long-Lived Assets Including Intangible Assets

In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("FAS 121"), the carrying value of long-lived assets and related goodwill and other intangibles is reviewed if the facts and circumstances suggest that they may be impaired. If this review indicates that the carrying value of these assets will not be recoverable, as determined based on the undiscounted net cash flows of the entity over the remaining amortization period, the Company's carrying value is reduced to its estimated fair value (based on an estimate of discounted future net cash flows).

Income Taxes

The Company files a consolidated federal income tax return with its parent and other affiliated companies. The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109"), which requires the use of the liability method in accounting for income taxes. Under FAS 109, deferred tax assets and liabilities are measured based on differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Revenue Recognition

Revenues from mutuel commissions are recognized when earned upon the completion of each thoroughbred horse race. Revenues from the operations of the Golden Gate Fields racetrack facility (primarily admissions, catering, and event programs) are recognized when the service is rendered or the goods are delivered which generally corresponds to the receipt of cash from the customer.

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**NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)
(All amounts as at September 30, 1999 and for the nine month periods ended
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Advertising

Costs incurred for production and communicating advertising are expensed when incurred. Costs incurred for promotions for specific live race days are expensed on the applicable race day.

Concentration of Risk

The Company's accounts receivable balances related primarily to amounts due from other non-affiliated racetrack facilities throughout the United States for simulcast and off-track activities. The Company performs ongoing credit evaluations of its customers and does not require collateral. The Company maintains reserves for estimated potential credit losses and such losses to date have not been material.

The Company generates the majority of its revenue from wagering activities in Northern California and therefore it is subject to the risks inherent in the ownership and operation of a racetrack. These include, among others, the risks normally associated with changes in the general economic climate, trends in the gaming industry, including competition from other gaming institutions and state lottery commissions and change in tax laws and gaming laws.

Fair Value of Financial Instruments

Management has estimated the fair value of its financial instruments using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the estimated fair values are not necessarily indicative of the amounts that could be realized in current market exchanges.

The carrying values of cash and cash equivalents, equity in pooled cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and due to affiliates approximate fair value due to the short term nature of the instruments.

The carrying value of the Company's note payable to affiliate approximates fair value as interest on these notes is variable and based on LRC's borrowing rate.

Common Stock

The combined common stock consists of the following:

	<u>Authorized Shares</u>	<u>Issued and Outstanding Shares</u>
Pacific Racing Association, no par value	100,000	69,347
Ladbroke Racing California, \$1 par value	10,000	10,000
Ladbroke Land Holdings, Inc., no par value	1,000	1,000
	<u>111,000</u>	<u>80,347</u>

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(All amounts as at September 30, 1999 and for the nine month periods ended
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Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board issued Statement No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. SFAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS 133 requires that an entity recognize all derivatives either as assets or liabilities and measure those instruments at fair market value. Presently, the Company does not use derivative instruments either in hedging activities or as investments. Accordingly, the Company believes that adoption of SFAS 133 will have no impact on its financial position or results of operations.

Interim Financial Information

The interim financial information at September 30, 1999 and for the nine-month periods ended September 30, 1998 and 1999 is unaudited but, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, which management considers necessary for a fair presentation of the financial position and results of operations for the interim periods. The results of operations for the nine months ended September 30, 1999 are not necessarily indicative of the results to be expected for the full fiscal year.

3. Racetrack Properties and Equipment

Racetrack properties and equipment consist of the following:

	<u>September 30, 1999</u>	<u>December 31,</u>	
	<u>(unaudited)</u>	<u>1998</u>	<u>1997</u>
Land	\$ 25,256,936	\$ 25,256,936	\$ 17,905,313
Buildings	17,231,479	17,231,479	—
Building improvements	9,890,717	9,018,654	8,460,063
Equipment	8,639,810	8,077,230	7,762,352
	<u>61,018,942</u>	<u>59,584,299</u>	<u>34,127,728</u>
Less accumulated depreciation	<u>(12,486,264)</u>	<u>(11,154,864)</u>	<u>(10,057,050)</u>
	<u>\$ 48,532,678</u>	<u>\$ 48,429,435</u>	<u>\$ 24,070,678</u>

LLH was formed in order to purchase and develop income producing properties in anticipation of swapping such properties (in a Section 1031 like-kind exchange) for the land and buildings constituting Golden Gate Fields racetrack. This transaction had been agreed to in the "Option Agreement and Agreement of Purchase and Sale" ("Option Agreement") entered into on July 25, 1997. The racetrack property had been

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(All amounts as at September 30, 1999 and for the nine month periods ended
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subject to a lease between the third party property owner and LRCA. The Section 1031 exchange (“Exchange”) was finalized in October 1998 and the Company obtained title to the property. The properties were exchanged on the basis of cost, and no gain or loss was recognized on the transaction. If an agreement to sell LLH is entered into, LRCA may be contingently liable for a portion of any excess proceeds received on the sale as defined in the Option Agreement.

In 1997, a note payable was entered into with the former owner of the Golden Gate Fields racetrack facility in the amount of \$10,025,915. The note was settled in 1998 in conjunction with the exchange transaction described above. This settlement was financed by affiliates.

4. Intangible Assets

Intangible assets consist of the following:

	<u>September 30, 1999</u>	<u>December 31,</u>	
	<u>(unaudited)</u>	<u>1998</u>	<u>1997</u>
Prepaid lease	\$ —	\$ —	\$ 29,610,000
Goodwill	7,503,119	7,503,119	7,503,119
Racing rights	3,049,000	3,049,000	3,049,000
Other	101,900	101,900	101,900
	<u>10,654,019</u>	<u>10,654,019</u>	<u>40,264,019</u>
Less accumulated amortization	(8,180,760)	(7,610,010)	(25,884,009)
	<u>\$ 2,473,259</u>	<u>\$ 3,044,009</u>	<u>\$ 14,380,010</u>

Prepaid Lease

The prepaid lease is stated at cost and was being amortized on a straight-line basis over the term of the original lease agreement, which expires in 2002. In connection with the exchange transaction described in Note 3, the lease agreement between the former owner of the Golden Gate Fields racetrack and LRCA was terminated and the remaining unamortized balance of the prepaid lease of \$8,812,500 was included in the cost of the racetrack facility acquired.

Prior to the purchase of the racetrack facility in October 1998, LRCA incurred rent expense under the lease agreement of \$250,000, \$347,202 and \$1,293,662 in the years ended December 31, 1998, 1997, and 1996, respectively, and none and \$225,282 in the nine months ended September 30, 1999 and 1998, respectively.

Goodwill

The amount of the purchase price paid in excess of the net book value of assets acquired to purchase PRA on January 3, 1989 is classified as goodwill and is being amortized on a straight-line basis through 2002.

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(All amounts as at September 30, 1999 and for the nine month periods ended
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Purchased Racing Rights

Included in intangible assets is a \$3,900,000 payment made to acquire certain racing rights. The acquisition of racing rights allows the Company additional racing days at Golden Gate Fields. The prepayment is being amortized on a straight-line basis through 2002, which conforms to the life of the racing rights purchased.

5. Related-Party Transactions

The Company has loan agreements with an affiliate with outstanding balances of \$59,632,096 and \$42,722,954 at December 31, 1998 and 1997, respectively, and \$62,185,513 at September 30, 1999. Amounts borrowed under the agreement bear interest at the affiliate's internal lending rate (6.8% at December 31, 1998 and 7.0% at December 31, 1997), and interest and principal are payable upon maturity. Based upon an amendment to the loan agreement dated February 1, 1999 and October 19, 1999, outstanding principal in the amount of \$40,327,639 including unpaid interest is due in full on December 31, 2004. At December 31, 1998, the principal outstanding and unpaid interest are due as follows:

1999	\$ 1,448,415
2000	617,496
2001	617,496
2002	617,496
2003	617,496
Thereafter	<u>55,713,697</u>
	<u>\$59,632,096</u>

Interest expense in the years ended December 31, 1998, 1997 and 1996 under these loan agreements was \$3,363,772, \$2,502,807 and \$2,289,258, respectively, and in the nine months ended September 30, 1999 and 1998 was \$1,870,764 and \$1,939,536, respectively.

The Company also has intercompany payables to affiliates. Such advances bear interest at internal borrowing rates (6.5% at December 31, 1998 and 7.6% at December 31, 1997) and are due on demand. Interest expense on such advances was \$481,256, \$13,601 and \$21,470 for the years ended December 31, 1998, 1997 and 1996, respectively, and \$1,630,310 and \$708,955 for the nine months ended September 30, 1999 and 1998, respectively.

LRC allocates corporate overhead expenses to its subsidiaries on a pro rata basis according to a formula determined by LRC. Corporate overhead expenses of \$1,510,556, \$820,455 and \$675,236 were allocated by LRC in the years ended December 31, 1998, 1997 and 1996, respectively, and \$988,562 and \$988,562 for the nine months ended September 30, 1999 and 1998, respectively. Such amounts are included in general and administrative expense in the accompanying statements of operations.

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**NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)
(All amounts as at September 30, 1999 and for the nine month periods ended
September 30, 1999 and 1998 are unaudited)**

6. Income Taxes

The provision for income taxes consists of the following:

	Nine months ended September 30,		Years ended December 31,		
	1999	1998	1998	1997	1996
	(unaudited)				
Currently payable:					
Federal	\$2,336,218	\$ —	\$ —	\$1,227,683	\$ 768,061
State	—	88,749	201,661	660,512	232,429
	2,336,218	88,749	201,661	1,888,195	1,000,490
Deferred	—	—	—	—	—
	<u>\$2,336,218</u>	<u>\$88,749</u>	<u>\$201,661</u>	<u>\$1,888,195</u>	<u>\$1,000,490</u>

As wholly owned subsidiaries of LRC, PRA, LLH and LRCA do not file separate federal or state income tax returns. However, under a tax-sharing arrangement with LRC, PRA, LLH and LRCA record federal tax provisions and resulting liabilities as if each of these entities was filing a separate return, except that the tax-sharing arrangement does not allow for income tax benefits to be recognized when operating losses are incurred except to the extent that such benefits can be used by the parent. State tax provisions are recorded based upon an allocation of LRC's state tax provision as determined by LRC.

A reconciliation of the income tax provision (benefit) at the U.S. federal statutory rate (34%) to the income tax provision at the effective tax rate is as follows:

	Nine months ended September 30,		Years ended December 31,		
	1999	1998	1998	1997	1996
	(unaudited)				
Income taxes provision (benefit) computed at the U.S. federal statutory rate	\$ 307,000	\$(294,000)	\$(457,000)	\$ 272,500	\$ (119,700)
State taxes, allocated by parent	—	88,749	201,661	660,512	232,429
Unutilized net operating losses	2,029,218	294,000	457,000	955,183	887,761
Income tax provision	<u>\$2,336,218</u>	<u>\$ 88,749</u>	<u>\$ 201,661</u>	<u>\$1,888,195</u>	<u>\$1,000,490</u>

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Ladbroke Racing California, Inc.
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(wholly owned subsidiaries of Ladbroke Racing Corporation)**

**NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)
(All amounts as at September 30, 1999 and for the nine month periods ended
September 30, 1999 and 1998 are unaudited)**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets at December 31, 1998 and 1997 are as follows:

	1998	1997
Deferred tax assets:		
Amortization of prepaid lease	\$ 872,000	\$ 230,000
Depreciation	787,000	819,000
Capitalized interest	316,000	—
Capitalized asset acquisition costs	111,000	—
Accrued expenses	163,000	175,000
Total deferred tax assets	2,249,000	1,224,000
Valuation allowance	(2,249,000)	(1,224,000)
Net deferred tax assets	\$ —	\$ —

The valuation allowance increased \$1,025,000 for the year ended December 31, 1998. Based upon its losses from operations, the Company believes that there is sufficient uncertainty regarding the realizability of the deferred tax assets, and accordingly, a full valuation allowance has been recorded. The Company will continue to assess the realizability of the deferred tax assets based on actual and forecasted operating results.

7. Pension Plans

Substantially all of PRA's hourly workers are represented by various unions through collective bargaining agreements that expire from January 1999 through December 2000.

The Company contributes to several multi-employer defined benefit pension plans for union employees and to the California Racetrack Pension Plan for nonunion employees. The total expense under these plans was \$889,981, \$790,104 and \$804,120 in the years ended December 31, 1998, 1997 and 1996, respectively, and \$582,087 and \$660,630 for the nine months ended September 30, 1999 and 1998, respectively. Pension expense for the nonunion pension plan includes the cost of current service and the amortization of past service costs over periods of 20 to 30 years. Pension costs are funded currently. The weighted-average assumed rate of return used in determining the actuarial present value of pension benefits was 7.0% for 1998, 7.0% for 1997 and 7.5% for 1996. Information about the accumulated plan benefits and plan net assets relative to the participation of the Company in the various plans has not been separately determined.

8. Satellite Wagering

On June 30, 1992, an organization, Northern California Off-Track Wagering, Inc. ("NCOTWINC"), was incorporated as a closed corporation to operate the Satellite Wagering System. The Company holds 25% of the outstanding shares of NCOTWINC at a cost of \$48,000. NCOTWINC does not generate revenues but rather receives reimbursement of expenses from its host shareholders for operating expenses that it incurs on their behalf to conduct satellite wagering.

**Golden Gate Fields consisting of
Pacific Racing Association's operations subject to the
licensing provisions of the California Horse Racing Board
Ladbroke Racing California, Inc.
and Ladbroke Land Holdings, Inc.
(wholly owned subsidiaries of Ladbroke Racing Corporation)**

**NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)
(All amounts as at September 30, 1999 and for the nine month periods ended
September 30, 1999 and 1998 are unaudited)**

The Company recorded as other indirect revenue \$312,189, \$323,568 and \$345,743 for the years ended December 31, 1998, 1997 and 1996, respectively, and \$334,896 and \$258,001 for the nine months ended September 30, 1999 and 1998, respectively, as NCOTWINC's operations generated amounts in excess of the Company's portion of the operating expenses.

9. Contingencies

In the ordinary course of business, the Company is involved as a plaintiff or defendant in various legal proceedings. The claims and counterclaims in such litigation involve amounts that may be material. However, it is the opinion of the Company's management, based in part upon the advice of its counsel, that the ultimate disposition of pending litigation will not be material in relation to the Company's combined financial position.

10. Subsequent Event—Unaudited

On November 5, 1999, Ladbroke Racing Corporation and MI Entertainment Corp. entered into a Stock Purchase Agreement for the sale of the Golden Gate Fields racetrack facility (as defined in Note 1) to MI Entertainment Corp. The purchase price will be approximately \$87 million, subject to adjustment based on the closing balance sheet of the combined operations of PRA and LLH (as defined).

As disclosed in Note 1, LRCA is not being acquired by MI Entertainment Corp. The assets and liabilities of LRCA included in these financial statements but that are not being acquired by MI Entertainment Corp. are \$45,534,250 of equity in pooled cash and cash equivalents, \$8,591,500 of net race track properties and equipment, \$34,208 of accounts payable, \$2,594,191 and \$34,383,886 representing the current and long-term portion of notes payable to affiliate, and (\$3,214,577) representing the amount due to affiliates.

Prior to closing, Ladbroke Racing Corporation agreed to contribute to the paid-in capital of PRA and LLH \$25,207,436 representing the long-term portion of notes payable to affiliate and \$23,872,084 representing the amount due to affiliates by PRA and LLH. The transaction will be accounted for under the purchase method of accounting.

CERTIFICATE OF THE COMPANY AND OF THE PROMOTER

Dated: January 14, 2000

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities previously issued by the issuer, as required by the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part XV of the *Securities Act* (Ontario), by the *Securities Act* (Nova Scotia), and by Part XIV of the *Securities Act* (Newfoundland) and the respective regulations thereunder. This prospectus, as required by the *Securities Act* (Quebec) and the regulations thereunder, does not contain any misrepresentation likely to affect the value or market price of the securities already issued.

(Signed) FRANK STRONACH
Chairman and Chief Executive Officer

(Signed) GRAHAM ORR
Executive Vice-President and
Chief Financial Officer

On behalf of the Board of Directors

(Signed) JAMES NICOL
Director

(Signed) J. BRIAN COLBURN
Director

PROMOTER
MAGNA INTERNATIONAL INC.

(Signed) VINCENT J. GALIFI
Executive Vice-President, Finance
and Chief Financial Officer

(Signed) J. BRIAN COLBURN
Executive Vice-President, Special
Projects and Secretary

CERTIFICATE OF MI VENTURE (CANADA) INC.

Dated: January 14, 2000

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities previously issued by the issuer, as required by the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part XV of the *Securities Act* (Ontario), by the *Securities Act* (Nova Scotia), and by Part XIV of the *Securities Act* (Newfoundland) and the respective regulations thereunder. This prospectus, as required by the *Securities Act* (Quebec) and the regulations thereunder, does not contain any misrepresentation likely to affect the value or market price of the securities already issued.

(Signed) JAMES NICOL
President and Chief Executive Officer

(Signed) GRAHAM ORR
Executive Vice-President and
Chief Financial Officer

On behalf of the Board of Directors

(Signed) VINCENT J. GALIFI
Director

(Signed) J. BRIAN COLBURN
Director