FORT ERIE LIVE RACING CONSORTIUM

Financial Statements
for the Year Ended December 31, 2012
and Independent Auditors' Report to the Board of Directors

DURWARD JONES BARKWELL & COMPANY LLP Chartered Accountants

FORT ERIE LIVE RACING CONSORTIUM

FINANCIAL STATEMENTS
DECEMBER 31, 2012

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DJB CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the financial statements of Fort Erie Live Racing Consortium, which comprise the statement of financial position as at December 31, 2012, and the statements of operations and surplus and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Fort Erie Live Racing Consortium as at December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Comparative Information
Without modifying our opinion, we draw attention to Note 2 to the financial statements which describes that Fort Erie Live Racing Consortium adopted Canadian accounting standards for not-for-profit organizations on January 1, 2012 with a transition date of January 1, 2011. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statement of financial position as at December 31, 2011 and January 1, 2011 and the statements of operations and surplus and of cash flows for the year ended December 31, 2011 and related disclosures. We were not engaged to report on the comparative information as restated in accordance with Canadian accounting standards for not-for-profit organizations, and as such, it is unaudited.

Durward Jones Barkwell & Company LLP

Durward Jones Barkwell & Company LLP
Licensed Public Accountants

June 3, 2013

FORT ERIE LIVE RACING CONSORTIUM
STATEMENT OF OPERATIONS AND SURPLUS
YEAR ENDED DECEMBER 31, 2012

	2012	2011
REVENUE		
Net proceeds from pari-mutuel wagering (Note 9)	**$ 5,507,698**	$ 6,227,181
Slot machine commissions	**8,224,078**	8,310,666
Food and beverage	**1,488,469**	3,100,792
Grant - Town of Fort Erie	**500,000**	650,000
Grant - HBPA	**-**	150,000
Other	**548,970**	820,059
	16,269,215	19,258,698
PURSES		
Generated from pari-mutuel wagering	**2,576,584**	2,930,034
Generated from slot machine commissions	**2,624,078**	2,710,666
Reduction for extension of racing days	**(118,975)**	-
	5,081,687	5,640,700
REVENUE LESS PURSES	**11,187,528**	13,617,998
EXPENSES		
Salaries, wages and benefits (net of recoveries)	**5,509,845**	6,950,130
Other operating expenses	**5,145,207**	5,638,033
Rent	**450,000**	650,000
Depreciation	**60,476**	48,768
	11,165,528	13,286,931
EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	**22,000**	331,067
SURPLUS, BEGINNING OF YEAR (Note 2)	**1,637**	46,093
CHANGE IN NET ASSETS INVESTED IN CAPITAL ASSETS (Note 7)	**60,476**	(75,523)
CHANGE IN ADMINISTRATIVE RESERVE (Note 8)	**44,199**	(300,000)
SURPLUS, END OF YEAR	**$ 128,312**	$ 1,637

FORT ERIE LIVE RACING CONSORTIUM

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2012

	2012	2011
ASSETS		
Current assets		
Cash	**$ 1,126,422**	$ 652,775
Restricted cash (Note 4)	**556,839**	2,099,288
Accounts receivable	**672,133**	1,383,357
Inventory	**36,609**	80,007
Prepaid expenses	**8,749**	542,988
	2,400,752	4,758,415
Capital assets (Note 3)	**131,477**	191,953
	$ 2,532,229	$ 4,950,368
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 4)	**$ 2,016,639**	$ 4,056,778
Advance from related party (Note 5)	**-**	400,000
	2,016,639	4,456,778
Lease commitment (Note 6)		
NET ASSETS		
Investment in capital assets (Note 7)	**131,477**	191,953
Administrative reserve (Note 8)	**255,801**	300,000
Unrestricted surplus	**128,312**	1,637
	515,590	493,590
	$ 2,532,229	$ 4,950,368

Approved by the Board:

.... Director .... Director

FORT ERIE LIVE RACING CONSORTIUM

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012

	2012	2011
OPERATING ACTIVITIES		
Excess of revenue over expenses	**$ 22,000**	$ 331,067
Depreciation, an item not affecting cash	**60,476**	48,768
	82,476	379,835
Changes in non-cash operating assets and liabilities		
Restricted cash	**1,542,449**	1,031,950
Accounts receivable	**711,224**	324,231
Inventory	**43,398**	(8,721)
Prepaid expenses	**534,239**	(422,253)
Accounts payable and accrued liabilities	**(2,040,139)**	(1,677,594)
Advance from related party	**(400,000)**	368,000
	473,647	(4,552)
INVESTING ACTIVITY		
Purchase of capital assets	**-**	(124,291)
INCREASE (DECREASE) IN CASH	**473,647**	(128,843)
CASH, BEGINNING OF YEAR	**652,775**	781,618
CASH, END OF YEAR	**$ 1,126,422**	$ 652,775

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Basis of accounting
These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

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

The Corporation is a horse racing and pari-mutuel wagering company and provider of live wagering to the simulcast market. The Corporation leases and operates the Fort Erie racetrack where it conducts live thoroughbred and quarter horse racing, and offers pari-mutuel wagering on these and other races from other North American tracks.

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

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

The Corporation recognizes grants when received.

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (continued)

Capital assets

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

Long-lived assets are tested for recoverability if events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of the long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Impairment losses are measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Employee future benefits

The Corporation has a defined benefit pension plan for its employees, the benefits of which are based on years of service and final average salary. The Corporation accrues its obligations under the defined benefit pension plan as the employees render the services necessary to earn the pension benefits. The actuarial determination of the accrued benefit obligations for pensions is based on the funding valuation. All past service costs and actuarial gains and losses are recognized in the period in which they arise. The most recent actuarial valuation of the pension plan for funding purposes was as of November 1, 2012. The Corporation uses a roll-forward technique to estimate the accrued benefit obligation at year-end.

The Corporation accounts for its defined benefit pension plan using the immediate recognition approach whereby the Company recognizes the cost of the plan for the period plus the change in the accrued benefit obligation net of the change in the fair value of the plan assets.

The Corporation also has a defined contribution plan covering certain employees. There are no prior service costs associated with the plan. The Corporation follows the policy of funding retirement plan contributions as accrued.

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (continued)

Financial instruments

(a) Measurement of financial instruments

The Corporation initially measures its financial assets and financial liabilities at their fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributed to the instrument.

The Corporation subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments, which are subsequently measured at fair value. Changes in fair value are recognized in net income.

Financial assets measured at amortized cost include cash, restricted cash and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

(b) Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of possible impairment. When a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset or group of assets, a write-down is recognized in the statement of operations. The write-down reflects the difference between the carrying amount and the higher of:

(a) the present value of the cash flows expected to be generated by the asset or group of assets;
(b) the amount that could be realized by selling the asset or group of assets;
(c) the net realizable value of any collateral held to secure repayment of the asset or group of assets.

When events occurring after the impairment confirm that a reversal is necessary, the reversal is recognized in the statement of operations up to the amount of the previously recognized impairment.

Use of estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used when accounting for items such as determination of useful life of capital assets, revenue recognition, allowances for accounts receivable, accrued liabilities and pension obligation. Actual results could differ from management's best estimates, as additional information becomes available in the future.

Administrative reserve

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

2. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING

The Corporation elected to apply the Accounting Standards for Not-For-Profit Organizations, Part III of the Canadian Institute of Chartered Accountants (CICA) Handbook, in accordance with Canadian generally accepted accounting principles.

These financial statements are the first financial statements for which the entity has applied the Canadian accounting standards for not-for-profit organizations, hereafter referred to as "ASNFPOs".

The financial statements for the year ended December 31, 2012 were prepared in accordance with the provisions set out in first-time adoption, Section 1501, of the CICA Handbook.

There is no impact to net assets at the date of transition as a result of adopting these Standards.

Also, there is no change to the statement of operations for the year ended December 31, 2011 on adoption of these standards.

The Corporation has elected to use the following exemptions when adopting these standards for the first time:

(a) The Corporation has applied prospectively, from the date of transition, business combinations, Section 1582, consolidated financial statements, section 1601 and non-controlling interests, Section 1602.

(b) The Corporation has elected to use the immediate recognition approach to measure pension plans.

2. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING (continued)

Opening Financial Position

	December 31, 2010	Transition to ASNFPO	January 1, 2011
ASSETS			
Current assets			
Cash	$ 781,618	$ -	$ 781,618
Restricted cash	3,131,238	-	3,131,238
Accounts receivable	1,707,588	-	1,707,588
Inventory	71,286	-	71,286
Prepaid expenses	120,735	-	120,735
	5,812,465	-	5,812,465
Capital assets	116,430	-	116,430
	$ 5,928,895	$ -	$ 5,928,895
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	$ 5,734,372	$ -	$ 5,734,372
Advance from related party	32,000	-	32,000
	5,766,372	-	5,766,372
NET ASSETS			
Investment in capital assets	116,430	-	116,430
Unrestricted	46,093	-	46,093
	162,523	-	162,523
	$ 5,928,895	$ -	$ 5,928,895

3. CAPITAL ASSETS

	2012 Cost	2012 Accumulated Depreciation	2011 Cost	2011 Accumulated Depreciation
Buildings	$ 72,117	$ 28,087	$ 72,117	$ 10,605
Machinery and equipment	185,353	97,906	185,353	54,912
	257,470	125,993	257,470	65,517
Net book value		$ 131,477		$ 191,953

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2012	2011
Trade accounts payable and accrued liabilities	$ 1,015,539	$ 1,424,121
Horsepeople's deposits	263,631	467,946
Purse account underpayments	562,440	2,144,290
Government remittances	26,715	20,421
Pension obligation (Note 10)	148,314	-
	$ 2,016,639	$ 4,056,778

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

Purse account underpayments will be paid out through future purse distributions. Included in restricted cash is $556,839 (2011 - $2,099,288) related to the purse account, while the balance received subsequent to the year end is included in accounts receivable.

5. ADVANCE FROM RELATED PARTY

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

6. LEASE COMMITMENT

The Corporation has a future minimum annual facility lease payment of $450,000 for 2013. The lease agreement expires at the end of March, 2013.

7. NET ASSETS INVESTED IN CAPITAL ASSETS

	2012	2011
Balance, beginning of year	**$ 191,953**	$ 116,430
Additions during the year	**-**	124,291
Depreciation during the year	**(60,476)**	(48,768)
Balance, end of year	**$ 131,477**	$ 191,953

8. ADMINISTRATIVE RESERVE

	2012	2011
Balance, beginning of year	**$ 300,000**	$ -
Add: Appropriation by Board of Directors	**120,000**	300,000
Less: Severance payments	**(164,199)**	-
Balance, end of year	**$ 255,801**	$ 300,000

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

9. NET PROCEEDS FROM PARI-MUTUEL WAGERING

Net proceeds from pari-mutuel wagering represents the total wagering less amounts returned as winning wagers, provincial and federal taxes, regulatory funding and host track share for simulcast races. Also included in this amount for the year were commissions from remote wagering of $1,172,636 (2011 - $1,107,713).

10. PENSION PLANS

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

The Corporation's expense for the defined contribution pension plan was $33,220 (2011 - $39,840).

Prior to assuming the obligation for the defined benefit plan, the Transitional Management Service Agreement with Nordic Gaming required them to fully fund all benefit and other liabilities of the plan on both a solvency and going concern basis as at June 30, 2010. As a result, Nordic Gaming contributed $185,800 to eliminate the accrued benefit obligation (under the solvency basis) as at June 30, 2010.

The funded status of the defined benefit plans after contributions of $81,647 (2011 - $31,721) during the year is as follows:

	2012	2011
Fair value of plan assets	$ 325,214	$ 509,353
Accrued benefit obligation	473,528	509,353
Funded status - plan deficit	$ (148,314)	$ -

The plan deficit amount of $148,314 (2011 - $Nil) has been expensed in the current year (Note 4).

The plan assets are invested in cash and short term investments.

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

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

11. INCOME TAXES

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

12. FINANCIAL RISK MANAGEMENT

The Corporation has a comprehensive risk management framework to monitor, evaluate and manage the principal risks assumed with financial instruments. The risks that arise from transacting financial instruments include interest rate risk, market (other price) risk, currency risk, credit risk, and liquidity risk. Price risk arises from changes in interest rates, foreign currency exchange rates and market prices.

(a) Currency risk:
The Corporation has purchases and sales which are transacted in US currency and therefore is exposed to currency risk. At December 31, 2012, trade accounts receivable held in US currency were $62,056 (2011 - $289,771), US trade accounts payable were $199,513 (2011 - $235,536) and cash balances in US were $111,119 (2011 - $118,860). The Corporation does not use any derivative instruments to reduce its exposure to interest rate risk.

It is management's opinion that the Corporation is not exposed to significant interest rate, market (other price), credit or liquidity risks arising from its financial instruments.

13. ECONOMIC DEPENDENCE

The Corporation will be receiving a significant portion of its revenue pursuant to an agreement with the Provincial Government (Note 15). Should these contributions cease, the Corporation would need to develop different revenue sources or consider radical changes in operations.

14. REMUNERATION OF DIRECTORS

Directors receive no remuneration for their services.

15. SUBSEQUENT EVENTS

Subsequent to the year end, the Provincial Government and the Fort Erie Live Racing Consortium announced that a transitional funding agreement has been reached, which will ensure the continuation of live racing for the upcoming season.

In addition, the Corporation and Nordic Gaming have agreed to a one-year extension on the current facility lease commencing April 1, 2013 with an annual payment of $395,000.

16. UNAUDITED COMPARATIVE FIGURES FOR THE PRIOR YEAR

Figures for 2011 were not audited or reviewed as a result of the change in accounting framework to Canadian accounting standards for not-for-profit organizations.

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