FORT ERIE LIVE RACING CONSORTIUM

Financial Statements
for the Year Ended December 31, 2010
and Independent Auditors' Report to the Board of Directors

FORT ERIE LIVE RACING CONSORTIUM

FINANCIAL STATEMENTS
DECEMBER 31, 2010

CONTENTS

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 accompanying financial statements of Fort Erie Live Racing Consortium, which comprise the statement of financial position as at December 31, 2010, and the statements of operations, the statement of changes in net assets and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Financial Statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Fort Erie Live Racing Consortium as at December 31, 2010, and the results of its operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Durward Jones Barkwell & Company LLP

Durward Jones Barkwell & Company LLP
Licensed Public Accountants

April 21, 2011

FORT ERIE LIVE RACING CONSORTIUM

STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2010

REVENUE	
Net proceeds from pari-mutuel wagering (Note 6)	$ 6,844,735
Slot machine commissions	8,835,930
Food and beverage	3,546,343
Grant - Town of Fort Erie	500,000
Other	798,675
Total Revenue	20,525,683
Purses	
Generated from pari-mutuel wagering	3,237,470
Generated from slot machine commissions	3,235,930
Total purses	6,473,400
Revenue less purses	14,052,283
EXPENSES	
Salaries, wages and benefits	7,275,004
Other operating expenses	6,498,007
Rent	100,000
Depreciation	16,749
	13,889,760
EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	$ 162,523

FORT ERIE LIVE RACING CONSORTIUM
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2010

	Investment in Capital Assets	Unrestricted	2010
Balance, beginning of the year	$ -	$ -	$ -
Excess of revenue over expenses (expenses over revenue)	(16,749)	179,272	162,523
Investment in capital assets	133,179	(133,179)	-
	$ 116,430	$ 46,093	$ 162,523

FORT ERIE LIVE RACING CONSORTIUM
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010

ASSETS	
Current assets	
Cash	$ 881,618
Restricted cash (Note 3)	3,031,238
Accounts receivable	1,707,588
Inventory	71,286
Prepaid expenses	120,735
	5,812,465
Capital assets (Note 2)	116,430
	$ 5,928,895
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities (Note 3)	$ 5,734,372
Advance from related party (Note 4)	32,000
	5,766,372
Lease commitment (Note 5)	
NET ASSETS	
Net assets invested in capital assets	116,430
Unrestricted	46,093
	162,523
	$ 5,928,895

Approved by the Board:

Sue Leslie .... Director

.... Director

FORT ERIE LIVE RACING CONSORTIUM

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2010

OPERATING ACTIVITIES	
Excess of revenue over expenses	$ 162,523
Depreciation, an item not affecting cash	16,749
	179,272
Changes in non-cash operating assets and liabilities	
Restricted cash	(3,031,238)
Accounts receivable	(1,707,588)
Inventory	(71,286)
Prepaid expenses	(120,735)
Accounts payable and accrued liabilities	5,734,372
Advance from related party	32,000
	1,014,797
INVESTING ACTIVITY	
Purchase of capital assets	(133,179)
INCREASE IN CASH AND CASH, END OF YEAR	$ 881,618

FORT ERIE LIVE RACING CONSORTIUM
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Nature of business
The Fort Erie Live Racing Consortium (The "Corporation") was incorporated on November 26, 2009 as a corporation without share capital as a not-for-profit organization. It was formed to lease and operate the racing and gaming assets, as described below, of Nordic Gaming Corporation ("Nordic") effective January 1, 2010. Until that time the Corporation remained inactive, and as a result these statements display the results for the first year of operations.

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

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

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

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

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

The Corporation recognizes grants when received.

Translation of foreign currency
The accounts of the company 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.

1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (CONTINUED)

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

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

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

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

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

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

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

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

FORT ERIE LIVE RACING CONSORTIUM

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

1. *SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (CONTINUED)*

Future accounting standards

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

2. CAPITAL ASSETS

	Assets at Cost	Accumulated Depreciation	Net Book Value
Machinery and equipment	$ 133,179	$ 16,749	$ 116,430

3. ACCOUNTS PAYABLE AND ACCRUED CHARGES

Accounts payable	
Trade accounts payable and accrued liabilities	$ 1,890,266
Horsepeople's deposits	362,851
Purse account underpayments	3,481,255
	$ 5,734,372

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

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

4. ADVANCE FROM RELATED PARTY

The advance from related party represents a short term, interest free loan from the Fort Erie Economic Development & Tourism Corporation, a corporation represented on the Corporation's Board of Directors. This loan was repaid after December 31, 2010.

5. LEASE COMMITMENT

The Corporation has future minimum annual facility lease payments of $650,000 for each of 2011 and 2012. The lease is renewable for an additional three year period at terms to be negotiated.

6. 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 $1,349,831.

7. 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 $40,575.

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

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

8. INCOME TAXES

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

9. RISK MANAGEMENT

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

Credit risk
The Corporation is subject to credit risk with respect to its accounts receivable to the extent that debtors do not meet their obligations. At December 31, 2010 balances owing from the OLG represent 50.2% of accounts receivable however it is management's opinion that this debtor will meet its financial obligation.

Currency risk
The Corporation has purchases and sales which are transacted in US currency and therefore is exposed to currency risk. At year-end, trade accounts receivable held in US currency were $362,845 and US trade accounts payable were $316,407. The company does not use any derivative instruments to reduce its exposure to interest rate risk.

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

10. ECONOMIC DEPENDENCE

The Corporation receives a significant portion of its revenue from operations pursuant to an agreement with the OLG. Should these contributions cease, the Corporation would need to consider its ability to continue its current operations.

11. REMUNERATION OF DIRECTORS

Directors receive no remuneration for their services.

12. CAPITAL MANAGEMENT

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

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

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