

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

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MAGNA ENTERTAINMENT CORP

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Mailing Address
337 MAGNA DRIVE
AURORA A6 L4G 7K1

Business Address
337 MAGNA DRIVE
AURORA
ONTARIO CANADA A6 L4G
7K1
9057262462

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): August 2, 2006

MAGNA ENTERTAINMENT CORP.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation)

000-30578

(Commission File Number)

98-0208374

(I.R.S. Employer Identification No.)

337 Magna Drive, Aurora, Ontario, Canada

(Address of Principal Executive Offices)

L4G 7K1

(Zip Code)

(905) 726-2462

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name or Former Address, if changed since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Magna Entertainment Corp.

337 Magna Dr.
Aurora, Ontario
Canada L4G 7K1
Tel (905) 726-2462
Fax (905) 726-7167

PRESS RELEASE
MAGNA ENTERTAINMENT CORP.
ANNOUNCES RESULTS FOR THE SECOND QUARTER
ENDED JUNE 30, 2006

August 2, 2006, Aurora, Ontario, Canada.....Magna Entertainment Corp. ("MEC") (NASDAQ: MECA; TSX: MEC.A) today reported its financial results for the second quarter ended June 30, 2006.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(unaudited)			
Revenues ⁽²⁾	\$ 184,820	\$ 168,341	\$ 465,206	\$ 412,907
Earnings before interest, taxes, depreciation and amortization ("EBITDA") ⁽²⁾	\$ 2,760	\$ 2,998	\$ 28,850	\$ 14,613
Net income (loss)				
Continuing operations	\$ (27,394)	\$ (17,545)	\$ (25,288)	\$ (22,332)
Discontinued operations	1,056	(9,359)	1,162	(8,692)
Net loss	\$ (26,338)	\$ (26,904)	\$ (24,126)	\$ (31,024)
Diluted earnings (loss) per share				
Continuing operations	\$ (0.26)	\$ (0.16)	\$ (0.23)	\$ (0.21)
Discontinued operations	0.01	(0.09)	0.01	(0.08)
Diluted loss per share	\$ (0.25)	\$ (0.25)	\$ (0.22)	\$ (0.29)

All amounts are reported in U.S. dollars in thousands, except per share figures.

(1) Discontinued operations for the three and six months ended June 30, 2006 include the operations of a restaurant and related real estate in the United States, the sale of which was completed on May 26, 2006. Results for the three and six months ended June 30, 2005 have been reclassified to reflect only continuing operations, reporting the operations of the restaurant and related real estate in the United States as noted above, Flamboro Downs, the sale of which was completed on October 19, 2005, and Maryland-Virginia Racing Circuit, Inc., the sale of which was completed on September 30, 2005, as discontinued operations.

(2) Revenues and EBITDA for all periods presented are from continuing operations only.

In announcing these results, Frank Stronach, Chairman and Interim Chief Executive Officer of MEC, remarked: "Our second quarter's EBITDA is marginally below the prior year as operational improvements and EBITDA gains were more than offset by severance costs, asset write-offs and other charges. While EBITDA is positive, net loss from continuing operations continues to be impacted by significant interest charges. We remain focused on reducing debt in the months ahead, and with the expected collection in the fourth quarter of 2006 of the \$175.0 million note from the sale of The Meadows, the proceeds of which will primarily be used to repay debt, we expect that our balance sheet will be much stronger by year end."

Our racetracks operate for prescribed periods each year. As a result, our racing revenues and operating results for any quarter will not be indicative of our racing revenues and operating results for the year.

Our financial results for the three and six months ended June 30, 2006 reflect the full quarter's operations for all of MEC's racetracks and related pari-mutuel wagering operations. Discontinued operations for the three and six months ended June 30, 2006 include the operations of a restaurant and related real estate in the United States, the sale of which was completed on May 26, 2006. Discontinued operations for the three and six months ended June 30, 2005 include the operations of the above noted restaurant and related real estate in the United States, Flamboro Downs, the sale of which was completed on October 19, 2005, and Maryland-Virginia Racing Circuit, Inc., the sale of which was completed on September 30, 2005.

Revenues were \$184.8 million in the three months ended June 30, 2006, compared to \$168.3 million in the three months ended June 30, 2005, an increase of \$16.5 million or 9.8%. The increased revenues were primarily a result of:

Southern U.S. operations revenues above the prior year period by \$12.5 million due to gaming revenues at the Remington Park casino facility, which opened in November 2005, partially offset by decreased handle and revenues at Lone Star Park due to five fewer live race days this quarter compared to the prior year and increased competition from racetracks in surrounding states and internet wagering operations;

Maryland operations revenues above the prior year period by \$2.1 million due to increased food and beverage revenues from Maryland Turf Caterers, the food and beverage operations at Laurel Park and Pimlico, which was acquired in September 2005. These operations are now being consolidated into the Maryland operations, whereas previously the operations were accounted for on an equity basis;

California operations revenues above the prior year period by \$2.0 million due to increased handle and wagering revenues at Santa Anita Park as a result of four additional live race days this quarter compared to the prior year, partially offset by a change in the racing calendar at Golden Gate Fields, which resulted in four fewer live race days this quarter compared to the prior year; and

European operations revenues above the prior year period by \$1.2 million due to increased wagering revenues at MagnaBet™, our European account wagering platform.

Revenues were \$465.2 million in the six months ended June 30, 2006, an increase of \$52.3 million or 12.7% compared to \$412.9 million for the six months ended June 30, 2005. The increased revenues in the six months ended June 30, 2006 compared to the prior year comparative period are primarily due to the same factors noted above for the three months ended June 30, 2006, except that for the six months ended June 30, 2006, revenues at Golden Gate Fields increased from the prior year comparative period due to a change in the racing calendar whereby live race days were increased from 50 days in the six months ended June 30, 2005 to 65 days in the six months ended June 30, 2006. Our Florida operations also experienced increased revenues due to the opening of the new clubhouse facility at Gulfstream Park.

EBITDA of \$2.8 million in the three months ended June 30, 2006 was relatively consistent with the prior year comparative period of \$3.0 million, but is impacted by the following:

Southern U.S. operations above the prior year period by \$2.0 million due to the opening of the casino facility at Remington Park in November 2005, which contributed \$4.1 million in EBITDA this quarter, partially offset by increased costs in Remington Park's racing operations due to eight more live race days this quarter compared to the prior year and decreased revenues at Lone Star Park;

European operations above the prior year by \$1.8 million due to increased wagering revenues at MagnaBet™ and cost reduction initiatives at all European operations; partially offset by

Corporate office below the prior year period by \$2.9 million due to severance costs and increased professional fees, stock-based compensation expense and bank charges; and

Technology operations below the prior year period by \$2.6 million due to adjustments recorded at XpressBet® this quarter related to asset write-offs and increased accruals.

EBITDA of \$28.9 million for the six months ended June 30, 2006 increased \$14.2 million or 97.4% from \$14.6 million in the six months ended June 30, 2005. The improvement in EBITDA is primarily a result of the same factors noted above which affected EBITDA in the second quarter combined with improvement in our California and Florida operations primarily due to revenue increases as noted above.

Net loss from continuing operations for the three months ended June 30, 2006 was \$27.4 million compared to a loss of \$17.5 million in the three months ended June 30, 2005. The increased net loss is due to increased interest expense on our Gulfstream Park and Remington Park project financings and bridge loan facility with our parent company, MI Developments Inc., and increased depreciation expense primarily as a result of the opening of the new clubhouse facility at Gulfstream Park in the first quarter of 2006 and the opening of the Remington Park casino facility in November 2005. Net loss from continuing operations in the six months ended June 30, 2006 of \$25.3 million increased from a loss of \$22.3 million in the six months ended June 30, 2005 as EBITDA improvements in the period were offset by increased interest and depreciation for reasons noted above.

In the three months ended June 30, 2006, cash used in operations before changes in non-cash working capital was \$10.5 million, compared to \$8.2 million in the three months ended June 30, 2005, primarily due to the increased net loss in the current year period, partially offset by an increase in items not involving current cash flows. Total cash used in investment activities during the three months ended June 30, 2006 was \$23.3 million, which included real estate property, fixed and other asset additions of \$24.7 million, partially offset by proceeds on the sale of real estate properties and fixed assets of \$1.4 million. Total cash provided from financing activities in the three months ended June 30, 2006 was \$9.9 million, which included \$18.4 million of cash proceeds received from long-term debt with our parent and the issuance of other long-term debt of \$5.2 million, partially offset by repayments of long-term debt of \$6.4 million, repayment of bank indebtedness of \$5.5 million and repayment of long-term debt with our parent of \$1.8 million.

We will hold a conference call to discuss our second quarter results on Thursday August 3, 2006 at 10:00 a.m. Eastern Standard time. The number to use for this call is 1-877-871-4098. Please call 10 minutes prior to the start of the conference call. The dial-in number for overseas callers is 416-620-8834. Frank Stronach, Chairman and Interim Chief Executive Officer of MEC, will chair the conference call. We will also be webcasting the conference call at www.magnaentertainment.com. If you have any teleconferencing questions, please call Karen Richardson at 905-726-7465.

This press release contains "forward-looking statements" within the meaning of applicable securities legislation, including the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. These forward-looking statements may include, among others, statements regarding: our strategies and plans; expectations as to financing and liquidity requirements and arrangements; expectations as to operational improvements; expectations as to cost savings, revenue growth and earnings; the time by which certain redevelopment projects, transactions or other objectives will be achieved; estimates of costs relating to environmental remediation and restoration; proposed new racetracks or other developments, products and services; expectations as to the timing and receipt of government approvals and regulatory changes in gaming and other racing laws and regulations; expectations that claims, lawsuits, environmental costs, commitments, contingent liabilities, labor negotiations or agreements, or other matters will not have a material adverse effect on our consolidated financial position, operating results, prospects or liquidity; projections, predictions, expectations, estimates, beliefs or forecasts as to our financial and operating results and future economic performance; and other matters that are not historical facts.

Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or the times at or by which such performance or results will be achieved. Undue reliance should not be placed on such statements. Forward-looking statements are based on information available at the time and/or management's good faith assumptions and analyses made in light of our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances and are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond the Company's control, that could cause actual events or results to differ materially from such forward-looking statements. Factors that could cause actual results to differ materially from our forward-looking statements include, but may not be limited to, material adverse changes: in general economic conditions, the popularity of racing and other gaming activities as recreational activities, the regulatory environment affecting the horse racing and gaming industries, and our ability to develop, execute or finance our strategies and plans within expected timelines or budgets. In drawing conclusions set out in our forward-looking statements above, we have assumed, among other things, that there will not be any material adverse changes: in general economic conditions, the popularity of horse racing and other gaming activities, the regulatory environment, and our ability to develop, execute or finance our strategies and plans as anticipated.

Forward-looking statements speak only as of the date the statements were made. We assume no obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect thereto or with respect to other forward-looking statements.

MEC, North America's number one owner and operator of horse racetracks, based on revenues, acquires, develops, and operates horse racetracks and related casino and pari-mutuel wagering operations, including off-track betting facilities. Additionally, MEC owns and operates XpressBet®, a national Internet and telephone account wagering system, and Horse Racing TV™, a 24-hour horse racing television network.

For more information contact:

Blake Tohana
Executive Vice-President
and Chief Financial Officer
Magna Entertainment Corp.
337 Magna Drive
Aurora, ON L4G 7K1
Tel: 905-726-7493

MAGNA ENTERTAINMENT CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

(U.S. dollars in thousands, except per share figures)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
		(restated – note 4)		(restated – note 4)
Revenues				
Racing and gaming				
Pari-mutuel wagering	\$ 124,621	\$ 125,261	\$ 355,040	\$ 339,236
Gaming	14,649	–	29,489	–
Non-wagering	38,896	35,803	69,688	61,610
	<u>178,166</u>	<u>161,064</u>	<u>454,217</u>	<u>400,846</u>
Real estate and other				
Golf and other	6,654	7,277	10,989	12,061
	<u>184,820</u>	<u>168,341</u>	<u>465,206</u>	<u>412,907</u>
Costs and expenses				
Racing and gaming				
Pari-mutuel purses, awards and other	77,085	74,740	222,629	209,564
Gaming taxes, purses and other	7,445	–	14,366	–
Operating costs	74,000	68,736	154,502	143,468
General and administrative	17,453	15,108	34,229	31,905
	<u>175,983</u>	<u>158,584</u>	<u>425,726</u>	<u>384,937</u>
Real estate and other				
Operating costs	4,267	5,275	7,159	7,342
General and administrative	342	304	587	703
	<u>4,609</u>	<u>5,579</u>	<u>7,746</u>	<u>8,045</u>
Predevelopment, pre-opening and other costs	1,660	1,610	3,094	5,829
Depreciation and amortization	10,788	9,614	21,436	19,298
Interest expense, net	16,136	7,714	30,208	15,165
Equity income	(192)	(430)	(210)	(517)
	<u>208,984</u>	<u>182,671</u>	<u>488,000</u>	<u>432,757</u>
Loss from continuing operations before income taxes	(24,164)	(14,330)	(22,794)	(19,850)
Income tax expense	3,230	3,215	2,494	2,482
Net loss from continuing operations	(27,394)	(17,545)	(25,288)	(22,332)
Net income (loss) from discontinued operations	1,056	(9,359)	1,162	(8,692)

Net loss	(26,338)	(26,904)	(24,126)	(31,024)
Other comprehensive income (loss)				
Foreign currency translation adjustment	5,591	(7,488)	7,278	(14,260)
Change in fair value of interest rate swap	26	(132)	100	257
Comprehensive loss	\$ (20,721)	\$ (34,524)	\$ (16,748)	\$ (45,027)
Earnings (loss) per share for Class A Subordinate				
Voting Stock or Class B Stock:				
Basic and Diluted				
Continuing operations	\$ (0.26)	\$ (0.16)	\$ (0.23)	\$ (0.21)
Discontinued operations	0.01	(0.09)	0.01	(0.08)
Loss per share	\$ (0.25)	\$ (0.25)	\$ (0.22)	\$ (0.29)
Average number of shares of Class A Subordinate				
Voting Stock or Class B Stock outstanding during the period (in thousands):				
Basic and Diluted	107,463	107,359	107,419	107,353

MAGNA ENTERTAINMENT CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(U.S. dollars in thousands)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
		(restated – note 4)		(restated – note 4)
Cash provided from (used for):				
Operating activities				
Net loss from continuing operations	\$ (27,394)	\$ (17,545)	\$ (25,288)	\$ (22,332)
Items not involving current cash flows	16,889	9,309	33,699	14,255
	<u>(10,505)</u>	<u>(8,236)</u>	<u>8,411</u>	<u>(8,077)</u>
Changes in non-cash working capital balances	3,361	5,885	(18,992)	(7,936)
	<u>(7,144)</u>	<u>(2,351)</u>	<u>(10,581)</u>	<u>(16,013)</u>
Investing activities				
Real estate property and fixed asset additions	(23,777)	(24,192)	(56,422)	(46,340)
Other asset additions	(944)	(558)	(851)	(666)
Proceeds on disposal of real estate properties and fixed assets	1,388	2,021	2,825	3,631
Proceeds on real estate sold to a related party	–	1,400	5,578	1,400
	<u>(23,333)</u>	<u>(21,329)</u>	<u>(48,870)</u>	<u>(41,975)</u>
Financing activities				
Decrease in bank indebtedness	(5,500)	–	(5,500)	(500)
Proceeds from advances and long-term debt with parent	18,444	8,666	60,577	20,096
Repayment of advances and long-term debt with parent	(1,800)	–	(1,800)	–
Issuance of long-term debt	5,207	16,465	5,207	27,505
Repayment of long-term debt	(6,438)	(1,707)	(15,725)	(3,452)
	<u>9,913</u>	<u>23,424</u>	<u>42,759</u>	<u>43,649</u>
Effect of exchange rate changes on cash and cash equivalents	112	355	196	(558)
Net cash flows provided from (used for) continuing operations	(20,452)	99	(16,496)	(14,897)
Net cash flows provided from (used for) discontinued operations	1,214	(1,979)	1,405	(262)
Net decrease in cash and cash equivalents during the period	(19,238)	(1,880)	(15,091)	(15,159)
Cash and cash equivalents, beginning of period	55,029	46,726	50,882	60,005
Cash and cash equivalents, end of period	\$ 35,791	\$ 44,846	\$ 35,791	\$ 44,846

MAGNA ENTERTAINMENT CORP.
CONSOLIDATED BALANCE SHEETS
(REFER TO NOTE 1 – GOING CONCERN)
(Unaudited)
(U.S. dollars and share amounts in thousands)

	<u>June 30,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
		(restated – notes 3 & 4)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 35,791	\$ 50,882
Restricted cash	24,041	24,776
Accounts receivable	56,364	51,918
Prepaid expenses and other	12,137	7,369
Assets held for sale	79,890	79,312
Discontinued operations	–	254
	<u>208,223</u>	<u>214,511</u>
Real estate properties, net	989,897	960,449
Fixed assets, net	69,524	61,672
Racing licenses	109,868	109,868
Other assets, net	15,296	14,976
Future tax assets	54,161	52,439
Discontinued operations	–	362
	<u>\$ 1,446,969</u>	<u>\$ 1,414,277</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness	\$ 24,994	\$ 30,260
Accounts payable	63,853	63,201
Accrued salaries and wages	9,047	8,187
Customer deposits	2,504	2,549
Other accrued liabilities	46,574	68,762
Income taxes payable	2,023	3,825
Long-term debt due within one year	59,416	38,033
Due to parent	100,045	72,060
Deferred revenue	11,908	8,846
Liabilities related to assets held for sale	27,797	27,737
Discontinued operations	–	373
	<u>348,161</u>	<u>323,833</u>
Long-term debt	156,758	182,830
Long-term debt due to parent	155,408	113,500
Convertible subordinated notes	220,892	220,347

Other long-term liabilities	13,213	12,872
Future tax liabilities	105,043	101,301
	<u>999,475</u>	<u>954,683</u>
Shareholders' equity:		
Class A Subordinate Voting Stock (Issued: 2006 – 48,999; 2005 – 48,895)	318,809	318,105
Class B Stock (Issued: 2006 and 2005 – 58,466)	394,094	394,094
Contributed surplus	20,826	17,943
Other paid-in-capital	1,061	–
Deficit	(333,073)	(308,947)
Accumulated comprehensive income	45,777	38,399
	<u>447,494</u>	<u>459,594</u>
	<u>\$ 1,446,969</u>	<u>\$ 1,414,277</u>

MAGNA ENTERTAINMENT CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(all amounts in U.S. dollars unless otherwise noted and all tabular amounts in thousands, except per share figures)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Going Concern

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. The Company has a working capital deficiency of \$139.9 million as at June 30, 2006. Accordingly, the Company's ability to continue as a going concern is in substantial doubt and is dependent on the Company generating cash flows that are adequate to sustain the operations of the business and maintain its obligations with respect to secured and unsecured creditors, neither of which is assured. On November 9, 2005, the Company announced that it had entered into a share purchase agreement with PA Meadows, LLC and a fund managed by Oaktree Capital Management, LLC (together, "Millenium-Oaktree") providing for the acquisition by Millenium-Oaktree of all of the outstanding shares of the Company's wholly-owned subsidiaries through which the Company currently owns and operates The Meadows, a standardbred racetrack in Pennsylvania. The share purchase agreement was amended on July 26, 2006 (refer to Note 13(d)) to reflect the issuance of two notes representing the purchase price in the amounts of \$175.0 million (the "First Note") and \$25.0 million (the "Second Note"). The First Note will be repaid within 35 days of the earlier of the approval of the issuance of the gaming license provided that Millenium-Oaktree's lenders are reasonably satisfied with the conditions imposed by the Pennsylvania Gaming Control Board ("PGCB") or issuance of the gaming license. At the time the First Note is repaid, the Second Note, which secures the holdback amount, will be replaced with a letter of credit or corporate guaranty. Funds received on the repayment of the First Note will be used to repay the bridge loan with the Company's parent, MI Developments Inc. ("MID"), which matures on December 5, 2006. Funds received on repayment of the First Note will also be used to repay, in part, the Company's senior secured credit facility, which matures on November 6, 2006, unless further extended with the consent of both parties. Although, the Company expects Millenium-Oaktree to receive approval of the issuance of the gaming license and repay the First Note before the end of October 2006, there is still uncertainty as to the timing of approval of the issuance of a gaming license, which is largely dependant on the applicable Pennsylvania regulatory approval process. The Company is also continuing to pursue other funding sources in connection with the previously announced Recapitalization Plan, which may include further asset sales, partnerships and raising equity. However, the successful realization of these efforts is not determinable at this time. These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from estimates. In the opinion of management, all adjustments, which consist of normal and recurring adjustments, necessary for fair presentation have been included. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2005.

Seasonality

The Company's racing business is seasonal in nature. The Company's racing revenues and operating results for any quarter will not be indicative of the racing revenues and operating results for the year. The Company's racing operations have historically operated at

a loss in the second half of the year, with the third quarter generating the largest operating loss. This seasonality has resulted in large quarterly fluctuations in revenue and operating results.

Comparative Amounts

Certain of the comparative amounts have been reclassified to reflect discontinued operations and changes in assets held for sale.

2. ACCOUNTING CHANGE

Prior to January 1, 2006, the Company accounted for stock-based compensation under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, as permitted by FASB Statement No. 123 ("SFAS 123"), Accounting for Stock-Based Compensation. No stock-based compensation expense was recognized in the accompanying unaudited consolidated statements of operations and comprehensive loss related to stock options for the three and six months ended June 30, 2005 as all options granted had an exercise price no less than the fair market value of the Company's Class A Subordinate Voting Stock at the date of grant.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R) ("SFAS 123(R)", Share-Based Payment, using the modified-prospective method. Under the modified-prospective method, compensation expense recognized in the three and six months ended June 30, 2006, includes: (a) compensation expense for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Results for the three and six months ended June 30, 2005, have not been restated.

The Company's net loss from continuing operations and net loss for the three months ended June 30, 2006 would have been \$27.1 million and \$26.0 million, respectively, if the Company had not adopted SFAS 123(R) on January 1, 2006 and continued to account for share-based compensation under APB Opinion No. 25 compared to reported net loss from continuing operations and net loss of \$27.4 million and \$26.3 million, respectively and basic and diluted loss per share for the three months ended June 30, 2006 would have been \$0.24, compared to reported basic and diluted loss per share of \$0.25.

The Company's net loss from continuing operations and net loss for the six months ended June 30, 2006 would have been \$24.2 million and \$23.1 million, respectively, if the Company had not adopted SFAS 123(R) on January 1, 2006 and continued to account for share-based compensation under APB Opinion No. 25 compared to reported net loss from continuing operations and net loss of \$25.3 million and \$24.1 million, respectively and basic and diluted loss per share for the six months ended June 30, 2006 would have been \$0.21 compared to a reported basic and diluted loss per share of \$0.22.

As a result of the adoption of SFAS 123(R), for the three and six months ended June 30, 2006, the Company recognized \$0.3 million and \$1.1 million, respectively, of stock-based compensation expense related to stock options which has been recorded on the accompanying unaudited consolidated balance sheets as "other paid-in-capital". The Company has estimated a nominal annual effective tax rate for the entire year (refer to Note 5) and accordingly has applied this effective tax rate to the stock-based compensation expense recognized for the three and six months ended June 30, 2006, resulting in a nominal income tax impact related to stock-based compensation expense.

The pro-forma impact on net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based compensation for the three and six months ended June 30, 2005 is as follows:

	Three months ended June 30, 2005	Six months ended June 30, 2005
Net loss, as reported	\$ (26,904)	\$ (31,024)
Pro-forma stock compensation expense determined under the fair value method, net of tax	(387)	(596)
Pro-forma net loss	\$ (27,291)	\$ (31,620)
Loss per share		
Basic – as reported	\$ (0.25)	\$ (0.29)
Basic – pro-forma	\$ (0.25)	\$ (0.29)

Diluted – as reported	\$	(0.25)	\$	(0.29)
Diluted – pro-forma	\$	(0.25)	\$	(0.29)

3. ASSETS HELD FOR SALE

- (a) On November 3, 2005, the Company announced that one of its subsidiaries that owns approximately 157 acres of excess real estate in Palm Beach County, Florida had entered into an agreement to sell the real property to Toll Bros., Inc. (the "purchaser"), a Pennsylvania real estate development company for \$51.0 million in cash. The proposed sale was subject to the completion of due diligence by the purchaser by April 3, 2006 and a closing by April 28, 2006. On April 3, 2006, the Company announced the termination of the sale agreement and, as such, the purchaser was not proceeding with the proposed sale as stipulated in the agreement. Upon termination of this agreement, a mortgage in favor of MID was registered against the property under the terms of the bridge loan. The Company is considering its options with respect to this property. The Company has determined that the plan of sale criteria under FASB Statement No.144, Accounting for Impairment or Disposal of Long-Lived Assets, are no longer met and accordingly, the property has been reclassified to reflect the carrying amount of the property in "real estate properties, net" rather than in "assets held for sale" on the accompanying unaudited consolidated balance sheets.
- (b) On November 9, 2005, the Company announced that it had entered into a share purchase agreement (the "Initial SPA") with PA Meadows, LLC, a company jointly owned by William Paulos and William Wortman, controlling shareholders of Millennium Gaming, Inc. and a fund managed by Oaktree Capital Management, LLC ("Oaktree" and together, with PA Meadows, LLC, "Millennium-Oaktree"), providing for the acquisition by Millennium-Oaktree of all of the outstanding shares of Washington Trotting Association, Inc., Mountain Laurel Racing, Inc. and MEC Pennsylvania Racing, Inc. (collectively "The Meadows Entities"), each wholly-owned subsidiaries of the Company, through which the Company currently owns and operates The Meadows, a standardbred racetrack in Pennsylvania. Under the terms of the Initial SPA, Millennium-Oaktree would pay the Company \$225.0 million and the Company will continue to manage the racing operations at The Meadows on behalf of Millennium-Oaktree pursuant to a minimum five-year racing services agreement. The purchase price is payable in cash at closing, subject to a holdback amount of \$39.0 million, which is to be released over time in accordance with the terms of the Initial SPA (refer to Note 13(d)).
- (c) The Company's assets held for sale and related liabilities as at June 30, 2006 and December 31, 2005 are shown below. All assets held for sale and related liabilities have been classified as current at June 30, 2006 and December 31, 2005 as the assets and related liabilities described in section (b) above are expected to be sold within one year from the balance sheet date.

	June 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Restricted cash	\$ 492	\$ 443
Accounts receivable	281	450
Income taxes receivable	1,320	857
Prepaid expenses and other	724	969
Real estate properties, net	16,485	16,154
Fixed assets, net	1,677	1,576
Racing license	58,266	58,266
Other assets, net	200	200
Future tax assets	445	397
	\$ 79,890	\$ 79,312
LIABILITIES		

Current liabilities:

Accounts payable	\$ 2,262	\$ 2,012
Accrued salaries and wages	33	44
Other accrued liabilities	708	623
Deferred revenue	36	312
Future tax liabilities	24,758	24,746
	<u>\$ 27,797</u>	<u>\$ 27,737</u>

- (d) In accordance with the terms of the senior secured revolving credit facility and the Company's bridge loan agreement with MID, the Company is required to use the net proceeds from the sale of The Meadows, as described in section (b) above, to fully pay down principal amounts outstanding under the bridge loan and to permanently pay down a portion of the principal amounts outstanding under the senior secured revolving credit facility up to \$12.0 million (refer to Note 13(a)).

4. DISCONTINUED OPERATIONS

- (a) On May 26, 2006, the Company completed the sale of a restaurant and related real estate in the United States and received cash consideration of \$2.0 million, net of transaction costs, and recognized a gain on disposition of approximately \$1.5 million. The terms of the senior secured revolving credit facility require that the Company use the net proceeds from this transaction to repay principal amounts outstanding under that credit facility.
- (b) On August 16, 2005, the Company and Great Canadian Gaming Corporation ("GCGC") entered into a share purchase agreement under which GCGC acquired all of the outstanding shares of Ontario Racing, Inc. ("ORI"). Required regulatory approval for the sale transaction was obtained on October 17, 2005 and the Company completed the transaction on October 19, 2005. On closing, GCGC paid Cdn. \$50.7 million and U.S. \$23.6 million, in cash and assumed ORI's existing debt.
- (c) On August 18, 2005, three subsidiaries of the Company entered into a share purchase agreement with Colonial Downs, L.P. ("Colonial LP") pursuant to which Colonial LP purchased all of the outstanding shares of Maryland-Virginia Racing Circuit, Inc. ("MVRC"). MVRC was an indirect subsidiary of the Company that managed the operations of Colonial Downs, a thoroughbred and standardbred horse racetrack located in New Kent, Virginia, pursuant to a management agreement with Colonial LP, the owner of Colonial Downs. Required regulatory approval for the sale transaction was obtained on September 28, 2005 and the Company completed the transaction on September 30, 2005. On closing, the Company received cash consideration of \$6.8 million, net of transaction costs, and a one-year interest-bearing note in the principal amount of \$3.0 million, which is included in accounts receivable on the accompanying unaudited consolidated balance sheets.
- (d) The Company's results of operations and cash flows related to discontinued operations for the three and six months ended June 30, 2006 and 2005 is as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Results of Operations				
Revenues	\$ 480	\$ 7,662	\$ 1,564	\$ 15,458
Costs and expenses	510	5,723	1,416	11,566
	(30)	1,939	148	3,892
Depreciation and amortization	2	249	4	517
Interest expense (income), net	(2)	619	(3)	1,253
Write-down of racing license	-	12,290	-	12,290
Income (loss) before gain on disposition	(30)	(11,219)	147	(10,168)
Gain on disposition	1,495	-	1,495	-
Income (loss) before income taxes	1,465	(11,219)	1,642	(10,168)
Income tax expense (benefit)	409	(1,860)	480	(1,476)
Net income (loss)	\$ 1,056	\$ (9,359)	\$ 1,162	\$ (8,692)

Cash Flows

Operating activities	\$ (784)	\$ (909)	\$ (593)	\$ 1,332
Investing activities	1,998	353	1,998	141
Financing activities	–	(2,019)	–	(2,019)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash flows during the period from operations	1,214	(2,575)	1,405	(546)
Payments from (to) MEC's continuing operations	(1,214)	1,979	(1,405)	262
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net decrease in cash and cash equivalents during the period	–	(596)	–	(284)
Cash and cash equivalents, beginning of period	–	948	–	636
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents, end of period	\$ –	\$ 352	\$ –	\$ 352
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The Company's assets and liabilities related to discontinued operations as at June 30, 2006 and December 31, 2005 are as follows:

	June 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Income taxes receivable	\$ -	\$ 32
Prepaid expenses and other	-	222
	<u>-</u>	<u>254</u>
Fixed assets, net	-	344
Future tax assets	-	18
	<u>\$ -</u>	<u>\$ 616</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ -	\$ 181
Accrued salaries and wages	-	67
Other accrued liabilities	-	125
	<u>\$ -</u>	<u>\$ 373</u>

5. INCOME TAXES

In accordance with U.S. GAAP, the Company estimates its annual effective tax rate at the end of each of the first three quarters of the year, based on current facts and circumstances. The Company has estimated a nominal annual effective tax rate for the entire year and accordingly has applied this effective tax rate to the loss from continuing operations before income taxes for the three and six months ended June 30, 2006 and 2005, resulting in an income tax expense of \$3.2 million and \$2.5 million for the three and six months ended June 30, 2006 and 2005, respectively. The income tax expense for the three and six months ended June 30, 2006 and 2005 primarily represents income tax expense recognized from certain of the Company's U.S. operations that are not included in the Company's U.S. consolidated income tax return.

6. BANK INDEBTEDNESS

- (a) The Company has a \$50.0 million senior secured revolving credit facility, which expires on July 31, 2006. The credit facility is available by way of U.S. dollar loans and letters of credit for general corporate purposes. Loans under the facility are secured by a first charge on the assets of Golden Gate Fields and a second charge on the assets of Santa Anita Park, and are guaranteed by certain subsidiaries of the Company. At June 30, 2006, the Company had borrowings of \$21.8 million (December 31, 2005 - \$27.3 million), had issued letters of credit totaling \$21.9 million (December 31, 2005 - \$21.7 million) and had permanently repaid principal amounts outstanding of \$5.5 million under the credit facility, such that \$0.8 million was unused and available (refer to Note 13(a)).

The loans under the facility bear interest at either the U.S. Base rate plus 3% or the London Interbank Offered Rate ("LIBOR") plus 4%. The weighted average interest rate on the loans outstanding under the credit facility as at June 30, 2006 was 9.3% (December 31, 2005 - 9.3%).

- (b) One of the Company's European subsidiaries has a bank term line of credit agreement of Euros 2.5 million (U.S. \$3.2 million), bearing interest at the European Interbank Offered Rate ("EURIBOR") plus 0.75% per annum (June 30, 2006 – 3.6%). The term line of credit is due on July 31, 2006. A European subsidiary has provided two first mortgages on real estate as security for this facility. At June 30, 2006, the bank term line of credit is fully drawn (refer to Note 13(f)).

7. LONG-TERM DEBT

On November 17, 2005, a subsidiary of the Company entered into a loan agreement with BE&K, Inc., the parent company of Suitt Construction Co. Inc., the general contractor for the reconstruction of the racetrack facilities at Gulfstream Park, for a loan of up to \$13.5 million to assist in the financing of costs as a result of additional material and labor costs and changes in scope of work related to the reconstruction. The loan agreement was amended on June 30, 2006, and the loan amount was increased to \$16.6 million. The loan matures on July 31, 2007 and may be extended at the lender's option to July 31, 2008. The loan bears interest at the U.S. prime rate plus 0.40% per annum and may be repaid at any time, in whole or in part, without penalty. Loans under the facility are secured by a mortgage over land in Ocala, Florida and a guarantee of \$5.0 million by the Company. The Company is required to repay \$2.0 million upon closing of the sale of The Meadows, after repaying the MID bridge loan and the \$39.0 million required under the senior secured revolving credit facility (refer to Note 13(a)), within 30 days after the sale of The Meadows. On June 30, 2006, \$5.2 million was advanced under the loan facility.

8. CAPITAL STOCK AND LONG-TERM INCENTIVE PLAN

(a) Capital Stock

Changes in the Class A Subordinate Voting Stock and Class B Stock for the three and six months ended June 30, 2006 are shown in the following table (number of shares and stated value have been rounded to the nearest thousand):

	Class A Subordinate Voting Stock		Class B Stock		Total	
	Number of Shares	Stated Value	Number of Shares	Stated Value	Number of Shares	Stated Value
	Issued and outstanding at December 31, 2005	48,895	\$ 318,105	58,466	\$ 394,094	107,361
Issued under the Long-term Incentive Plan	100	680	–	–	100	680
Issued and outstanding at March 31, 2006	48,995	318,785	58,466	394,094	107,461	712,879
Issued under the Long-term Incentive Plan	4	24	–	–	4	24
Issued and outstanding at June 30, 2006	48,999	\$ 318,809	58,466	\$ 394,094	107,465	\$ 712,903

(b) Long-Term Incentive Plan

The Company has a Long-term Incentive Plan (the "Plan") (adopted in 2000), which allows for the grant of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, bonus stock and performance shares to directors, officers, employees, consultants, independent contractors and agents. A maximum of 7.6 million shares of Class A Subordinate Voting Stock are available to be issued under the Plan, of which 6.3 million are available for issuance pursuant to stock options and tandem stock appreciation rights and 1.3 million are available for issuance pursuant to any other type of award under the Plan.

During 2005, the Company introduced an incentive compensation program for certain officers and key employees, which will award performance shares of Class A Subordinate Voting Stock under the Plan. The number of shares of Class A Subordinate Voting Stock underlying the performance share awards is based either on a percentage of a guaranteed bonus or a percentage of total 2005 compensation divided by the market value of the Class A Subordinate Voting Stock on the date the program was approved by the Compensation Committee of the Board of Directors. These performance shares vested over a six or eight month period to December 31, 2005 and are to be distributed, subject to certain conditions, in two equal installments. The first distribution occurred prior to March 31, 2006 and the second distribution date is to occur on or about March 31, 2007. During the year ended December 31, 2005, 201,863 performance share awards were granted under the Plan with a weighted average grant-date market value of either U.S. \$6.26 or Cdn. \$7.61 per share. At December 31, 2005, there were 199,471 performance share awards vested with an average grant-date market value of either U.S. \$6.26 or Cdn. \$7.61 per share and no non-vested performance share awards. During the six months ended June 30, 2006, 75,907 of these vested performance share awards were issued with a stated value of \$0.5 million. Accordingly, there are 123,564 vested performance shares remaining to be issued under this 2005 incentive compensation arrangement.

For 2006, the Company continued the incentive compensation program as described in the preceding paragraph. The program is similar in all respects except that the 2006 performance shares will vest over a 12 month period to December 31, 2006 and will be distributed, subject to certain conditions on or about March 31, 2007. In the six months ended June 30, 2006, 161,099 performance share awards were granted under the Plan with a weighted average grant-date market value of either U.S. \$6.80 or Cdn. \$7.63 per share, 1,616 performance share awards were issued and 3,299 performance share awards were forfeited. As at June 30, 2006, there were 77,655 performance share awards vested with an average grant-date market value of either U.S. \$6.80 or Cdn. \$7.63 per share and there were 78,529 non-vested performance share awards with an average grant-date market value of either U.S. \$6.80 or Cdn. \$7.63 per share. The compensation expense related to these performance shares was approximately \$0.3 million and \$0.6 million for the three and six months ended June 30, 2006, respectively. As at June 30, 2006, the total unrecognized compensation expense related to these performance shares is \$0.5 million, which is expected to be recognized into expense over the remaining period to December 31, 2006.

In the three and six months ended June 30, 2006, 25,896 shares with a stated value of \$0.2 million (for the three and six months ended June 30, 2005, 14,175 shares with a stated value of \$0.1 million) were issued to Company directors in payment of services rendered.

The Company grants stock options to certain directors, officers, key employees and consultants to purchase shares of the Company's Class A Subordinate Voting Stock. All of such stock options give the grantee the right to purchase Class A Subordinate Voting Stock of the Company at a price no less than the fair market value of such stock at the date of grant. Generally, stock options under the Plan vest over a period of two to six years from the date of grant at rates of 1/7th to 1/3rd per year and expire on or before the tenth anniversary of the date of grant, subject to earlier cancellation upon the occurrence of certain events specified in the stock option agreements entered into by the Company with each recipient of options.

Information with respect to shares under option at June 30, 2006 and 2005 is as follows (number of shares subject to option in the following tables are expressed in whole numbers and have not been rounded to the nearest thousand):

	<u>Shares Subject to Option</u>		<u>Weighted Average Exercise Price</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Balance at January 1	4,827,500	4,500,500	\$ 6.14	\$ 6.18
Granted	-	490,000	-	6.40
Exercised	-	-	-	-
Forfeited and expired ⁽ⁱ⁾	-	(145,000)	-	6.76
	<u>4,827,500</u>	<u>4,845,500</u>	<u>\$ 6.14</u>	<u>\$ 6.19</u>
Balance at March 31	4,827,500	4,845,500	\$ 6.14	\$ 6.19
Granted	-	155,000	-	6.70
Exercised	-	-	-	-
Forfeited and expired ⁽ⁱ⁾	(64,000)	(88,000)	6.80	7.32
	<u>4,763,500</u>	<u>4,912,500</u>	<u>\$ 6.13</u>	<u>\$ 6.18</u>

- (i) For the three and six months ended June 30, 2006 and 2005, options forfeited were primarily as a result of employment contracts being terminated and voluntary employee resignations. No options that were forfeited for the three and six months ended June 30, 2006 and 2005 were subsequently reissued.

	<u>Options Outstanding</u>		<u>Options Exercisable</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Number	4,763,500	4,912,500	4,245,415	4,114,430
Weighted average exercise price	\$ 6.13	\$ 6.18	\$ 6.08	\$ 6.12
Weighted average remaining contractual life (years)	4.6	5.6	4.2	5.0

At June 30, 2006, the 4,763,500 stock options outstanding had exercise prices ranging from \$3.91 to \$7.24 per share.

During the three and six months ended June 30, 2006, no stock options were granted (for the three months ended June 30, 2005 – 155,000 options were granted with a weighted-average fair value of \$2.58 per option; for the six months ended June 30, 2005 – 645,000 options were granted with a weighted-average fair value of \$2.90 per option). The fair value of stock option grants is estimated at the date of grant using the Black-Scholes option valuation model with the following assumptions:

<u>Three months ended June 30,</u>	<u>Six months ended June 30,</u>
------------------------------------	----------------------------------

	2006	2005	2006	2005
Risk free interest rates	N/A	3.7%	N/A	3.9%
Dividend yields	N/A	–	N/A	–
Volatility factor of expected market price of Class A Subordinate Voting Stock	N/A	0.542	N/A	0.549
Weighted average expected life (years)	N/A	4.00	N/A	4.00

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

The compensation expense recognized for the three and six months ended June 30, 2006 related to stock options was approximately \$0.3 million and \$1.1 million, respectively (for the three and six months ended June 30, 2005 – nil). As at June 30, 2006, the total unrecognized compensation expense related to stock options is \$0.6 million, which is expected to be recognized into expense over a period of 3.5 years.

For the three and six months ended June 30, 2006, the Company recognized total compensation expense of \$0.6 million and \$1.7 million, respectively (for the three and six months ended June 30, 2005 – \$0.1 million) relating to performance share awards, director compensation and stock options under the Plan.

(c) Maximum Shares

The following table (number of shares have been rounded to the nearest thousand) presents the maximum number of shares of Class A Subordinate Voting Stock and Class B Stock that would be outstanding if all of the outstanding options, convertible subordinated notes and performance shares issued and outstanding as at June 30, 2006 were exercised or converted:

	Number of Shares
Class A Subordinate Voting Stock outstanding	48,999
Class B Stock outstanding	58,466
Options to purchase Class A Subordinate Voting Stock	4,764
8.55% Convertible Subordinated Notes, convertible at \$7.05 per share	21,276
7.25% Convertible Subordinated Notes, convertible at \$8.50 per share	8,824
Performance share awards of Class A Subordinate Voting Stock	280
	<hr/>
	142,609
	<hr/>

9. LOSS PER SHARE

The following is a reconciliation of the numerator and denominator of the basic and diluted earnings (loss) per share computations (in thousands, except per share amounts):

	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
	Basic and Diluted	Basic and Diluted	Basic and Diluted	Basic and Diluted
Net loss from continuing operations	\$ (27,394)	\$ (17,545)	\$ (25,288)	\$ (22,332)
Net income (loss) from discontinued operations	1,056	(9,359)	1,162	(8,692)
Net loss	(26,338)	(26,904)	(24,126)	(31,024)
Interest, net of related tax on convertible subordinated notes	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ (26,338)	\$ (26,904)	\$ (24,126)	\$ (31,024)
	<hr/>	<hr/>	<hr/>	<hr/>
Weighted average shares outstanding:				
Class A Subordinate Voting Stock	48,997	48,893	48,953	48,887
Class B Stock	58,466	58,466	58,466	58,466
	<hr/>	<hr/>	<hr/>	<hr/>
	107,463	107,359	107,419	107,353
	<hr/>	<hr/>	<hr/>	<hr/>
Earnings (loss) per share:				
Continuing operations	\$ (0.26)	\$ (0.16)	\$ (0.23)	\$ (0.21)
Discontinued operations	0.01	(0.09)	0.01	(0.08)

Loss per share	\$ (0.25)	\$ (0.25)	\$ (0.22)	\$ (0.29)
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As a result of the net loss for the three and six months ended June 30, 2006, options to purchase 4,763,500 shares, notes convertible into 30,100,124 shares and 279,748 performance share awards have been excluded from the computation of diluted loss per share since the effect is anti-dilutive.

As a result of the net loss for the three and six months ended June 30, 2005, options to purchase 4,912,500 shares, notes convertible into 30,100,124 shares and 210,122 performance share awards have been excluded from the computation of diluted loss per share since the effect is anti-dilutive.

10. TRANSACTIONS WITH RELATED PARTIES

(a) The Company's indebtedness and long-term debt due to parent consists of the following:

	June 30, 2006	December 31, 2005
Bridge loan facility, including accrued interest and commitment fees payable of \$1.0 million (December 31, 2005 – \$0.6 million) ⁽ⁱ⁾	\$ 99,364	\$ 72,060
Gulfstream Park project financing, including long-term accrued interest payable of \$9.7 million (December 31, 2005 – \$3.7 million) ⁽ⁱⁱ⁾	124,303	93,646
Remington Park project financing, including long-term accrued interest payable of \$0.3 million (December 31, 2005 – \$0.3 million) ⁽ⁱⁱⁱ⁾	31,786	19,854
	<u>\$ 255,453</u>	<u>\$ 185,560</u>
Less: due within one year	<u>(100,045)</u>	<u>(72,060)</u>
	<u>\$ 155,408</u>	<u>\$ 113,500</u>

(i) Bridge Loan Facility

In July 2005, a subsidiary of the Company's parent company, MID, provided to the Company a non-revolving bridge loan facility of up to \$100.0 million. The first tranche of \$50.0 million was available to the Company as of the closing of the bridge loan, a second tranche of \$25.0 million was made available to the Company on October 17, 2005 and a third tranche of \$25.0 million was made available to the Company on February 10, 2006. The bridge loan terminates on August 31, 2006 (refer to Note 13(b)). An arrangement fee of \$1.0 million was paid on closing, a second arrangement fee of \$0.5 million was paid when the second tranche was made available to the Company and an additional arrangement fee of \$0.5 million was paid when the third tranche was made available to the Company. There is a commitment fee of 1.0% per year on the undrawn portion of the \$100.0 million maximum amount of the loan commitment, payable quarterly in arrears. At the Company's option, the loan bears interest either at: (1) floating rate, with annual interest equal to the greater of (a) U.S. Base Rate, as announced from time to time, plus 5.5% and (b) 9.0% (with interest in each case payable monthly in arrears); or (2) fixed rate, with annual interest equal to the greater of: (a) LIBOR plus 6.5% and (b) 9.0%, subject to certain conditions. The overall weighted average interest rate on the advances under the bridge loan at June 30, 2006 was 11.7% (December 31, 2005 – 10.9%). The bridge loan may be repaid at any time, in whole or in part, without penalty. The bridge loan requires that the net proceeds of any equity offering by the Company be used to reduce outstanding indebtedness under the bridge loan, subject to specified amounts required to be paid to reduce other indebtedness. Also, subject to specified exceptions, the proceeds of any debt offering or asset sale must be used to reduce outstanding indebtedness under the bridge loan or other specified indebtedness. The bridge loan is secured by substantially all of the assets of the Company and guaranteed by certain subsidiaries of the Company. The guarantees are secured by first ranking security over the lands owned by The Meadows (ahead of the Gulfstream Park project financing as described in Note 10(a)(ii) below), second ranking security over the lands owned by Golden Gate Fields (behind an existing third party lender) and third ranking security over the lands owned by Santa Anita Park (behind existing third party lenders). In addition, the Company has pledged the shares and licenses of certain subsidiaries (or provided negative pledges where a pledge is not available due to regulatory constraints or due to a prior pledge to an existing third party lender). As security for the loan, the Company has also assigned all inter-company loans made between the Company and its subsidiaries and all insurance proceeds to the lender, and taken out title insurance for all real property subject to registered security. The bridge loan is cross-defaulted to all other obligations of the Company and its subsidiaries to the lender and to the Company's other principal indebtedness. The security over the lands owned by The Meadows may be subordinated to new third party financings of up to U.S. \$200.0 million for the redevelopment of The Meadows.

During the six months ended June 30, 2006, \$25.4 million was advanced on this bridge loan, such that at June 30, 2006, \$99.5 million was outstanding under the bridge loan. Net loan origination expenses of \$1.1 million have been recorded as a reduction of the outstanding bridge loan balance. The bridge

loan balance is being accreted to its face value over the term to maturity. In addition, during the six months ended June 30, 2006, \$5.0 million of commitment fees and interest expense were incurred related to the bridge loan, of which \$1.0 million was outstanding as at June 30, 2006.

The Company and MID amended the bridge loan agreement to provide that (i) the Company place \$13.0 million from the Flamboro Downs sale proceeds, and such additional amounts as necessary to ensure that future Gulfstream Park construction costs can be funded, into escrow with MID, (ii) MID waive its negative pledge over the Company's land in Ocala, Florida, (iii) Gulfstream Park enter into a definitive agreement with BE&K, Inc., for debt financing of \$13.5 million to be used to pay for construction costs for the Gulfstream Park construction project (refer to Note 7), (iv) the Company will use commercially reasonable efforts to sell certain assets and use the proceeds of such sales to pay down the bridge loan, and (v) in the event that the Company did not enter into definitive agreements prior to December 1, 2005 to sell The Meadows or repay the full balance of the bridge loan by January 15, 2006, MID would be granted mortgages on certain additional properties owned by the Company. Upon the closing of the sale of The Meadows, the Company will also be required to put into escrow with MID, the amount required to pre-pay the loan from BE&K, Inc. On February 9, 2006, the bridge loan was further amended such that certain subsidiaries of the Company were added as guarantors of the bridge loan. The guarantees are secured by charges over the lands commonly known as San Luis Rey Downs in California, Dixon Downs in California, Palm Meadows Residential in Florida, the New York lands in New York and the Thistledown lands in Ohio, and by pledges of the shares of certain subsidiaries.

As at June 30, 2006, the Company has placed \$17.7 million into escrow with MID, which is included in accounts receivable on the unaudited consolidated balance sheets.

In accordance with the terms of the senior secured revolving credit facility and the bridge loan agreement, the Company was required to use the net proceeds from the sale of Flamboro Downs to pay down the principal amount owing under the two loans in equal portions. However, both MID and the lender under the senior secured revolving credit facility agreed to mutually waive this repayment requirement, subject to certain other amendments, including provisions for repayment upon closing of certain future asset sales (refer to Note 13(b)).

(ii) Gulfstream Park Project Financing

In December 2004, certain of the Company's subsidiaries entered into a \$115.0 million project financing arrangement with a subsidiary of MID for the reconstruction of facilities at Gulfstream Park. This project financing arrangement was amended on July 27, 2005 in connection with the Remington Park loan as described in note 10(a)(iii) below. The project financing is made by way of progress draw advances to fund reconstruction. The loan has a ten-year term from the completion date of the reconstruction project, which was February 1, 2006. Prior to the completion date, amounts outstanding under the loan bore interest at a floating rate equal to 2.55% per annum above MID's notional cost of borrowing under its floating rate credit facility, compounded monthly. After the completion date, amounts outstanding under the loan bear interest at a fixed rate of 10.5% per annum, compounded semi-annually. Prior to January 1, 2007, payment of interest will be deferred. Commencing January 1, 2007, the Company will make monthly blended payments of principal and interest based on a 25-year amortization period commencing on the completion date. The loan contains cross-guarantee, cross-default and cross-collateralization provisions. The loan is guaranteed by the Company's subsidiaries that own and operate The Meadows, Remington Park and the Palm Meadows training center and is collateralized principally by security over the lands forming part of the operations at Gulfstream Park, Remington Park, Palm Meadows and The Meadows and over all other assets of Gulfstream Park, Remington Park, Palm Meadows and The Meadows, excluding licenses and permits. During the six months ended June 30, 2006, \$24.5 million was advanced and \$6.0 million of interest was accrued on this loan, such that at June 30, 2006, \$127.6 million was outstanding under the Gulfstream Park loan, including \$9.7 million of accrued interest. Net loan origination expenses of \$3.3 million have been recorded as a reduction of the outstanding loan balance. The loan balance is being accreted to its face value over the term to maturity (refer to Note 13(c)).

(iii) Remington Park Project Financing

In July 2005, the Company's subsidiary that owns and operates Remington Park entered into a \$34.2 million project financing arrangement with a subsidiary of MID for the build-out of the casino facility at Remington Park. Advances under the loan are made by way of progress draw advances to fund the capital expenditures relating to the development, design and construction of the casino facility, including the purchase and installation of electronic gaming machines. The loan has a ten-year term from the completion date of the reconstruction project, which was November 28, 2005. Prior to the completion date, amounts outstanding under the loan bore interest at a floating rate equal to 2.55% per annum above MID's notional cost of LIBOR borrowing under its floating rate credit facility, compounded monthly. After the completion date, amounts outstanding under the loan bear interest at a fixed rate of 10.5% per annum, compounded semi-annually. Prior to January 1, 2007, payment of interest will be deferred. Commencing January 1, 2007, the Company will make monthly blended payments of principal and interest based on a 25-year amortization period commencing on the completion date. Certain cash from the operations of Remington Park must be used to pay deferred interest on the loan plus a portion of the principal under the loan equal to the deferred interest on the Gulfstream Park construction loan. The loan is secured by all assets of Remington Park, excluding licenses and permits. The loan is also secured by a charge over the lands owned by Gulfstream Park and a charge over the Palm Meadows training center and contains cross-guarantee, cross-default and cross-collateralization provisions. During the six months ended June 30, 2006, \$12.2 million was advanced, \$1.5 million of interest was accrued and \$1.8 million was repaid on this loan, such that at June 30, 2006, \$32.9 million was outstanding under the Remington Park loan, including \$0.3 million of accrued interest. Net loan origination expenses of \$1.1 million have been recorded as a reduction of the outstanding loan balance. The loan balance is being accreted to its face value over the term to maturity.

- (b) A subsidiary of the Company has an option agreement with MID to acquire 100% of the shares of the MID subsidiary that owns land in Romulus, Michigan, which expires on September 5, 2006. If the Company is unable to renew this option arrangement with MID upon its expiry, then the Company may incur a write-down of the costs that have been incurred with respect to entitlements on this property and in pursuit of a racing license. At June 30, 2006, the Company has incurred approximately \$2.9 million of costs related to this property and in pursuit of the license.
- (c) On March 31, 2006, the Company sold a non-core real estate property located in the United States to Magna International Inc. for total proceeds of \$5.6 million, net of transaction costs. The gain on sale of the property of approximately \$2.9 million, net of tax, is reported as a contribution of equity. In accordance with the terms of the senior secured revolving credit facility, the Company used the net proceeds from this transaction to repay principal amounts outstanding under this credit facility.

11. COMMITMENTS AND CONTINGENCIES

- (a) The Company generates a substantial amount of its revenues from wagering activities 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, among others, customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to accurately 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.
- (c) The Company has letters of credit issued with various financial institutions of \$2.5 million to guarantee various construction projects related to activity of the Company. These letters of credit are secured by cash deposits of the Company. The Company also has letters of credit issued under its senior secured revolving credit facility of \$21.9 million.
- (d) The Company has provided indemnities related to surety bonds and letters of credit issued in the process of obtaining licenses and permits at certain racetracks and to guarantee various construction projects related to activity of its subsidiaries. At June 30, 2006, these indemnities amounted to \$5.0 million with expiration dates through 2007.
- (e) Contractual commitments outstanding at June 30, 2006, which related to construction and development projects, amounted to approximately \$1.4 million.
- (f) In October 2003, the Company signed a Letter of Intent to explore the possibility of a joint venture between Forest City Enterprises, Inc. ("Forest City") and various affiliates of the Company, anticipating the development of a portion of the Gulfstream Park racetrack property. Forest City has paid \$2.0 million to the Company in consideration for its right to work exclusively with the Company on this project. This deposit has been included in other accrued liabilities on the Company's consolidated balance sheets. In May 2005, a Limited Liability Company Agreement was entered into with Forest City concerning the planned development of "The Village at Gulfstream Park™". That agreement contemplates the development of a mixed-use project consisting of residential units, parking, restaurants, hotels, entertainment, retail outlets and other commercial use projects on a portion of the Gulfstream Park property. Forest City is required to contribute up to a maximum of \$15.0 million as an initial capital contribution. The \$2.0 million deposit received to date from Forest City shall constitute the

final \$2.0 million of the initial capital contribution. The Company is obligated to contribute 50% of any and all equity amounts in excess of \$15.0 million as and when needed, however, to June 30, 2006, the Company has not made any such contributions. In the event the development does not proceed, the Company may have an obligation to fund a portion of those pre-development costs incurred to that point in time. As at June 30, 2006, approximately \$11.1 million of costs have been incurred by The Village at Gulfstream Park, LLC, which have been funded entirely by Forest City. The Limited Liability Company Agreement also contemplates additional agreements, including a ground lease, a reciprocal easement agreement, a development agreement, a leasing agreement and a management agreement to be executed in due course and upon satisfaction of certain conditions.

- (g) In April 2004, the Company signed a Letter of Intent to explore the possibility of joint ventures between Caruso Affiliates Holdings and certain affiliates of the Company to develop certain undeveloped lands surrounding Santa Anita Park and Golden Gate Fields racetracks. Upon execution of this Letter of Intent, the Company agreed to fund 50% of approved pre-development costs in accordance with a preliminary business plan for each of these projects, with the goal of entering into operating agreements. To date, the Company has expended approximately \$4.1 million on this initiative, of which \$2.3 million was paid during the six months ended June 30, 2006. These amounts have been recorded as fixed assets on the Company's consolidated balance sheets. The Company is continuing to explore these developmental opportunities, but to June 30, 2006 has not entered into binding Operating Agreements on either of these potential developments. Under the terms of the Letter of Intent, the Company may be responsible to fund additional costs, however to June 30, 2006, the Company has not made any such payments.

- (h) On August 22, 2003, the Company completed the acquisition of a 30% equity interest in AmTote International, Inc. ("AmTote") for a total cash purchase price, including transaction costs, of \$4.3 million. One of the Company's wholly-owned subsidiaries has a purchase option (the "First Option") to acquire an additional 30% equity interest in AmTote, exercisable at any time during the three year period commencing after the date of acquisition. If the Company exercises the First Option, it has a second purchase option (the "Second Option") to acquire the remaining 40% equity interest in AmTote, exercisable at any time during the three year period commencing after the date of exercise of the First Option. The shareholders of AmTote also have the right to require the Company to purchase their remaining equity interest during the 120 day period following the exercise of the First Option. AmTote is a provider of totalisator services to the pari-mutuel industry and has service contracts with over 70 North American racetracks and other wagering entities. The Company's 30% share of the results of operations of AmTote is accounted for under the equity method (refer to Note 13(e)).

12. SEGMENT INFORMATION

Operating Segments

The Company's reportable segments reflect how the Company is organized and managed by senior management, including its President and Chief Executive Officer. The Company has two principal operating segments: racing and gaming operations and real estate and other operations. The racing and gaming segment has been further segmented to reflect geographical and other operations as follows: (1) California operations include Santa Anita Park, Golden Gate Fields and San Luis Rey Downs; (2) Florida operations include Gulfstream Park and the Palm Meadows training center; (3) Maryland operations include Laurel Park, Pimlico Race Course, Bowie Training Center and the Maryland OTB network; (4) Southern United States operations include Lone Star Park, Remington Park's racing and gaming operations and its OTB network; (5) Northern United States operations include The Meadows and its OTB network, Thistledown, Great Lakes Downs, Portland Meadows and the Oregon OTB network and the North American production facility for StreuFex™; (6) European operations include Magna Racino™, MagnaBet™, RaceONTV™ and the European production facility for StreuFex™; and (7) Technology operations include XpressBet®, HorseRacing TV™ and a 30% equity investment in AmTote. The Corporate and other segment includes costs related to the Company's corporate head office, cash and other corporate office assets and investments in racing related real estate held for development. Eliminations reflect the elimination of revenues between business units. The real estate and other operations segment includes the operation of two golf courses and related facilities and other real estate holdings including residential housing developments adjacent to the Company's golf courses.

The Company, including its President and Chief Executive Officer, uses revenues and earnings (loss) before interest, income taxes, depreciation and amortization ("EBITDA") as key performance measures of results of operations for purposes of evaluating operating and financial performance internally. Management believes that the use of these measures enables management and investors to evaluate and compare, from period to period, operating and financial performance of companies within the horse racing industry in a meaningful and consistent manner as EBITDA eliminates the effects of financing and capital structures, which vary between companies. Because the Company uses EBITDA as a key measure of financial performance, the Company is required by U.S. GAAP to provide the information in this note concerning EBITDA. However, these measures should not be considered as an alternative to, or more meaningful than, net income (loss) as a measure of the Company's operating results or cash flows, or as a measure of liquidity.

The accounting policies of each segment are the same as those described in the "Summary of Significant Accounting Policies" section of the Company's annual report on Form 10-K for the year ended December 31, 2005.

The following summary presents key information about reported segments for the three and six months ended June 30, 2006 and 2005:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Revenues				
California operations	\$ 42,333	\$ 40,382	\$ 161,107	\$ 147,932
Florida operations	10,997	10,585	78,667	72,590
Maryland operations	43,697	41,567	71,735	66,371
Southern U.S. operations	45,748	33,225	75,650	48,785
Northern U.S. operations	24,822	25,370	46,769	46,498
European operations	4,098	2,878	7,313	4,955
Technology operations	8,331	8,842	20,035	20,292
	180,026	162,849	461,276	407,423
Corporate and other	36	20	84	84
Eliminations	(1,896)	(1,805)	(7,143)	(6,661)
Total racing and gaming operations	178,166	161,064	454,217	400,846
Golf and other	6,654	7,277	10,989	12,061
Total real estate and other operations	6,654	7,277	10,989	12,061
Total revenues	\$ 184,820	\$ 168,341	\$ 465,206	\$ 412,907

	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Earnings (loss) before interest, income taxes, depreciation and amortization ("EBITDA")				
California operations	\$ 2,584	\$ 1,943	\$ 22,688	\$ 17,953
Florida operations	(3,092)	(3,115)	10,426	6,735
Maryland operations	9,929	9,387	9,939	8,971
Southern U.S. operations	7,345	5,356	9,517	4,778
Northern U.S. operations	(350)	(307)	(286)	(924)
European operations	(3,944)	(5,771)	(6,802)	(9,909)
Technology operations	(2,155)	413	(1,547)	399
	10,317	7,906	43,935	28,003
Corporate and other	(7,942)	(4,996)	(15,234)	(11,577)
Predevelopment, pre-opening and other costs	(1,660)	(1,610)	(3,094)	(5,829)
Total racing and gaming operations	715	1,300	25,607	10,597

Golf and other	2,045	1,698	3,243	4,016
Total real estate and other operations	2,045	1,698	3,243	4,016
Total EBITDA	\$ 2,760	\$ 2,998	\$ 28,850	\$ 14,613

	June 30, 2006	December 31, 2005
Total Assets		
California operations	\$ 277,869	\$ 295,066
Florida operations	338,465	303,069
Maryland operations	176,611	178,022
Southern U.S. operations	148,564	140,786
Northern U.S. operations	40,620	40,307
European operations	138,327	132,921
Technology operations	16,783	17,298
	1,137,239	1,107,469
Corporate and other	118,282	115,166
	1,255,521	1,222,635
Non-Core Real Estate	-	2,500
Golf and other	111,558	109,214
	111,558	111,714
Total assets from continuing operations	1,367,079	1,334,349
Total assets held for sale	79,890	79,312
Total assets from discontinued operations	-	616
	\$ 1,446,969	\$ 1,414,277

Reconciliation of EBITDA to Net Loss

	Three months ended June 30, 2006		
	Racing and Gaming Operations	Real Estate and Other Operations	Total
EBITDA from continuing operations	\$ 715	\$ 2,045	\$ 2,760
Interest expense, net	15,614	522	16,136
Depreciation and amortization	10,040	748	10,788
	\$ (24,939)	\$ 775	(24,164)
Income (loss) from continuing operations before income taxes			3,230
Income tax expense			(27,394)
Net loss from continuing operations			1,056
Net income from discontinued operations			\$ (26,338)

Three months ended June 30, 2005

	Racing and Gaming Operations	Real Estate and Other Operations	Total
EBITDA from continuing operations	\$ 1,300	\$ 1,698	\$ 2,998
Interest expense, net	7,388	326	7,714
Depreciation and amortization	8,862	752	9,614
	<hr/>	<hr/>	<hr/>
Income (loss) from continuing operations before income taxes	\$ (14,950)	\$ 620	(14,330)
Income tax expense			3,215
	<hr/>	<hr/>	<hr/>
Net loss from continuing operations			(17,545)
Net loss from discontinued operations			(9,359)
			<hr/>
Net loss			\$ (26,904)
			<hr/>

	Six months ended June 30, 2006		
	Racing and Gaming	Real Estate and	Total
	Operations	Other Operations	
EBITDA from continuing operations	\$ 25,607	\$ 3,243	\$ 28,850
Interest expense, net	29,195	1,013	30,208
Depreciation and amortization	19,975	1,461	21,436
Loss from continuing operations before income taxes	\$ (23,563)	\$ 769	(22,794)
Income tax expense			2,494
Net loss from continuing operations			(25,288)
Net income from discontinued operations			1,162
Net loss			\$ (24,126)

	Six months ended June 30, 2005		
	Racing and Gaming	Real Estate and	Total
	Operations	Other Operations	
EBITDA from continuing operations	\$ 10,597	\$ 4,016	\$ 14,613
Interest expense, net	14,814	351	15,165
Depreciation and amortization	17,774	1,524	19,298
Income (loss) from continuing operations before income taxes	\$ (21,991)	\$ 2,141	(19,850)
Income tax expense			2,482
Net loss from continuing operations			(22,332)
Net loss from discontinued operations			(8,692)
Net loss			\$ (31,024)

13. SUBSEQUENT EVENTS

- (a) On July 26, 2006, the Company amended and extended its senior secured revolving credit facility. The maturity date has been extended from July 31, 2006 to November 6, 2006 and the maximum permitted borrowings for general corporate purposes has been increased to \$50.0 million. The facility was also amended to provide for an additional \$14.0 million to finance the exercise of the Company's purchase options to acquire the remaining 70% of AmTote (refer to Note 13(e)). The amendment also requires that the Company repay \$39.0 million upon closing of the sale of The Meadows, after repaying the MID bridge loan.
- (b) On July 26, 2006, the Company amended and extended its bridge loan facility with MID. The bridge loan maturity date has been extended from August 31, 2006 to December 5, 2006. Also, MID provided its consent to the Company's amended share purchase agreement and ownership transfer of The Meadows (refer to Note 13(d)) and the Company exercising the options to acquire the remaining 70% of AmTote (refer to Note 13(e)). In connection with the amendments, the Company will pay an extension fee of \$0.5 million (0.5% of the amount of the bridge loan with MID), plus an additional fee of \$0.5 million if the

Company does not complete the sale of The Meadows by November 6, 2006.

- (c) On July 26, 2006, certain of the Company's subsidiaries that own and operate Gulfstream Park entered into an amending agreement relating to the existing Gulfstream Park project financing arrangement with a subsidiary of MID by adding a new tranche of \$25.8 million, plus lender costs and capitalized interest, to fund the design and construction of a slot facility to be located in the existing Gulfstream Park clubhouse building, as well as related capital expenditures and start-up costs, including the acquisition and installation of 500 slot machines.

The new Gulfstream Park financing has a five-year term and, consistent with the existing Gulfstream Park facility, bears interest at a fixed rate of 10.5% per annum, compounded semi-annually. Prior to January 1, 2007, interest on the new tranche will be capitalized. Beginning January 1, 2007, the new tranche provides for blended payments of principal and interest based on a 25-year amortization period commencing on that date. Advances related to the slot facility will be made available by way of progress draw advances and there will be no prepayment penalty associated with the new tranche. The Gulfstream Park project financing facility will be further amended to introduce a mandatory annual cash flow sweep of not less than 75% of Gulfstream Park's total excess cash flow, after permitted capital expenditures and debt service, to be used to repay the additional principal amount being made available under the new tranche. Gulfstream Park will pay the lender a fee of \$0.3 million (1% of the amount of the new tranche) as consideration for the amendments.

- (d) On July 26, 2006, the Company announced that it had entered into an amended share purchase agreement, which modifies the Initial SPA with respect to the sale of The Meadows. As a result of regulatory requirements relating to the approval of the issuance of a gaming license by the PGCB, as well as significant changes in the economic and regulatory environment in Pennsylvania since the date of the Initial SPA, including regulations adopted by the Pennsylvania Department of Revenue in respect of the amount of local share assessment taxes payable to North Strabane Township and Washington County, the parties agreed to revise the terms of the Initial SPA. The \$225.0 million purchase price in the Initial SPA, which included a \$39.0 million holdback, has been reduced to \$200.0 million, with a \$25.0 million holdback payable to the Company over a five-year period, subject to offset for certain indemnification obligations. In exchange for the shares of The Meadows Entities, the Company received two notes representing the purchase price in the amounts of \$175.0 million (the "First Note") and \$25.0 million (the "Second Note"). The First Note will be repaid within 35 days of the earlier of the approval of the issuance of the gaming license provided that Millenium-Oaktree's lenders are reasonably satisfied with the conditions imposed by the PGCB or issuance of the gaming license. At the time the First Note is repaid, the Second Note, which secures the holdback amount, will be replaced with a letter of credit or corporate guaranty. In the event that the First Note is not repaid by October 31, 2006, which date may under certain circumstances be extended up to December 5, 2006, then the two notes will be cancelled and the shares of The Meadows Entities will be returned to the Company. Concurrently with entering into the amended share purchase agreement, the parties have entered into a racing services agreement whereby the Company will continue to manage the racing operations at The Meadows, on behalf of Millenium-Oaktree, for at least five years.
- (e) On July 26, 2006, the Company announced that it had exercised the First Option to acquire an additional 30% equity interest in AmTote and has sent written notice of the Company's intention to exercise the Second Option to acquire the remaining 40% equity interest in AmTote. The purchase price to acquire the remaining 70% of AmTote will be determined at the purchase option closing dates in accordance with the formula contained in the AmTote stockholders agreement. The closing of the First Option to acquire an additional 30% equity interest of AmTote will occur no later than September 25, 2006 and the closing of the Second Option to acquire the remaining 40% equity interest will occur no later than November 25, 2006. The Company expects that the aggregate purchase price for the remaining 70% of AmTote will be approximately \$14.0 million, which will be financed through the Company's increased senior secured revolving credit facility (refer to Note 13(a)).
- (f) On July 31, 2006, one of the Company's European subsidiaries amended and extended its bank term line of credit of Euros 2.5 million and its bank term loan of Euros 2.9 million. The amendments to the agreement included converting the two facilities into one bank term loan of Euros 4.5 million, requiring the repayment of Euros 0.9 million on July 31, 2006, extending the term to July 31, 2007 and requiring a further repayment of Euros 0.7 million on January 31, 2007.

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