

MEC AT A GLANCE

CORPORATE PROFILE

Magna Entertainment Corp. (MEC) is the largest operator of thoroughbred racetracks in North America. The Company owns four of the top racetracks in the U.S. and some of the industry's most prestigious properties, including Santa Anita Park in California and Gulfstream Park in Florida.

MEC, one of the world's leading simulcast providers of live thoroughbred racing, creates quality horse racing programing for broadcast around the world via satellite.

In the future, MEC intends to provide horse racing entertainment for multimedia distribution via interactive cable, satellite, broadcast television and the Internet.

The Company's business operations can be segmented into four categories:

Racetrack operations

Pari-mutuel wagering operations

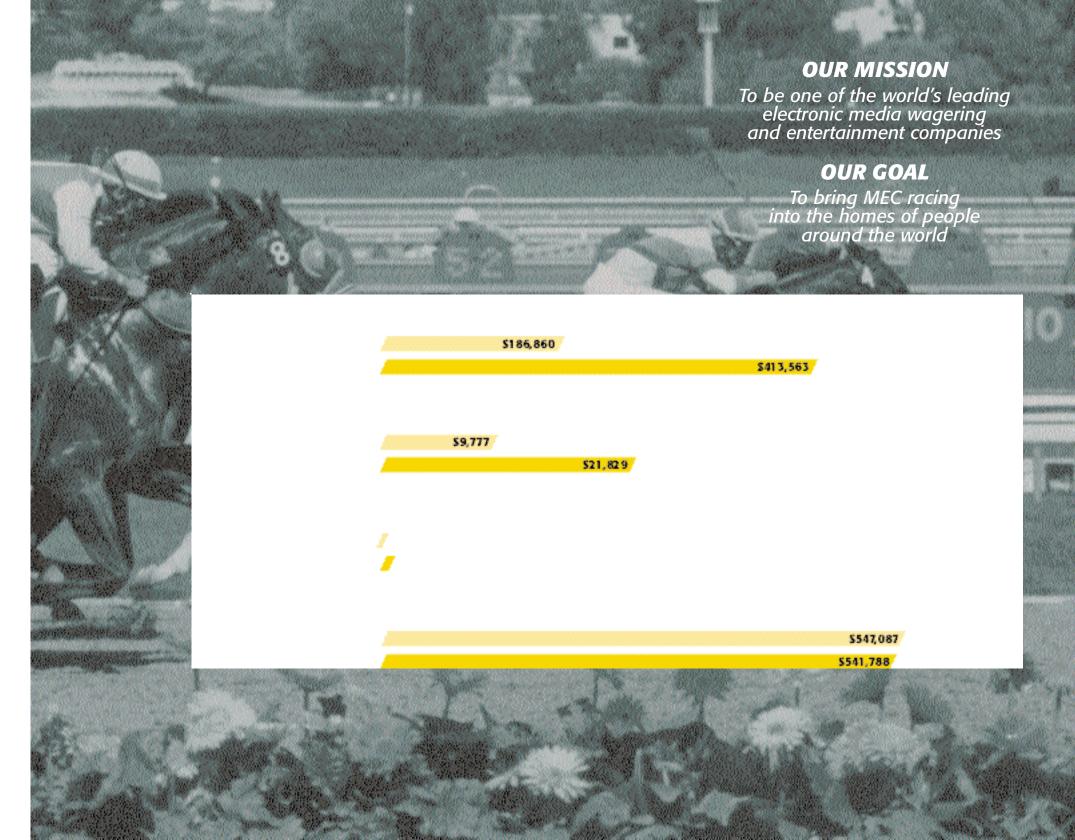
Racing-related TV programing and simulcasting

Entertainment-themed property development

MEC is a publicly traded company with its Class A Subordinate Voting shares listed on the NASDAQ National Market (MIEC) and The Toronto Stock Exchange (MIE.A). The Exchangeable Shares of MEC's subsidiary, MEC Holdings (Canada) Inc., are also listed and traded on The Toronto Stock Exchange (MEH).

THE 2000 ANNUAL MEETING OF SHAREHOLDERS

The 2000 Annual Meeting of Shareholders will be held at: The Design Exchange, Toronto Dominion Centre, Ernst & Young Tower, 234 Bay Street, 2nd Floor, Toronto, Ontario, Canada on Friday, May 11, 2001 commencing at 2:00 p.m.







Our Commitment

The core business of MEC is wagering on live horse racing.

We at MEC therefore realize that providing the highest quality live racing is the key to our continued success.

In order to ensure the highest caliber of live racing and attract new customers, MEC is committed to providing the following to:

Our Customers

- exciting horse racing and wagering
- world-class entertainment venues

Our Racetracks

- the highest industry standards regarding the treatment and care of horses
- a safe and healthful work environment with improved living conditions for backstretch personnel

We believe that if we uphold these commitments, MEC will be able to provide world-class entertainment to a global audience.

Transforming a traditional bricks-and-mortar industry into one of the most dynamic multimedia entertainment businesses in the world.



Our Vision

Chairman's Message

For me, thoroughbred horse racing is a labor of love. I have personally been involved in this exciting industry for four decades. As North America's leading thoroughbred racehorse breeder and owner, I have first-hand, in-depth knowledge of the industry at virtually every level.

When we founded Magna Entertainment Corp. two years ago, we did so based on the belief that we could improve the way in which racetracks operate. Our top priority was to buy the best racetracks in key urban markets. Many of the properties we acquired were undervalued and located on prime, underdeveloped real estate. Since launching our consolidation strategy, MEC has brought some of the world's greatest racetracks under our ownership and management and, as a result, has today become the dominant player in America in regards to total pari-mutuel wagering revenue.

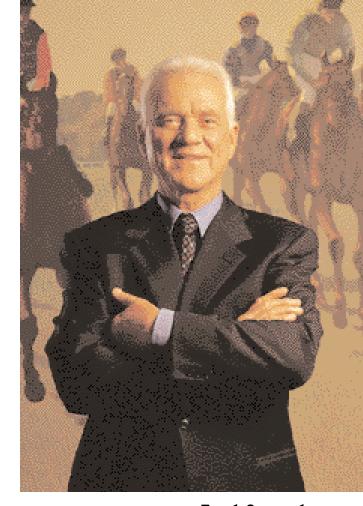
We have joined these racetracks together under the MEC brand to create significant economies of scale and a powerful, year-round simulcast package of MEC racing. We have also put in place a long-term strategy for enhanced revenue growth through the widespread distribution of our product via satellite, telephone, cable, wireless technology and the Internet.

Our electronic media wagering initiative offers tremendous global opportunities. Horse racing is an international sport, watched and enjoyed by people everywhere, and pari-mutuel wagering is popular all over the world. Electronic wagering will allow us to export MEC's racing product to a global audience. Our ultimate goal: to bring the excitement of MEC gaming and entertainment into the living rooms of people around the world.

We at MEC believe we are leading the charge to reposition and repackage horse racing as one of the most exciting and lucrative segments in sports entertainment. At the same time, MEC is at the forefront of transforming a traditional bricks-and-mortar industry into one of the most dynamic multimedia entertainment businesses in the world.

Frank Stronach

Chairman of the Board



Frank Stronach Chairman of the Board



Over the next several years, home account wagering revenues from telephone, interactive television and Internet wagering are expected to eclipse revenue from racetracks. MEC's home account wagering initiative is designed to extend the Company's base of home account clientele beyond telephone wagering and into other electronic media such as interactive TV, wireless technology and home computer. This initiative will bring the excitement of racetrack gaming to an untapped market of new players who can enjoy live MEC racing from the comfort and convenience of their own homes, with 24-hour access and full race cards on virtually every day of the year.





Beaming The MEC Signal Around The World

With tracks in major time zones across the continent, MEC has the ability to package signals from its racetrack properties and make them available directly to players via cable, satellite or at their local OTB establishment. MEC's state-of-the-art television production studio at Santa Anita Park also produces award-winning horse racing programing for television broadcasters.

In the future it will be possible to distribute MEC's live racing product via electronic media such as the Internet, 7 Furlisher (108) MALEWANCE, Purse THOSE For Patient Toring interactive television and wireless T F SSTANDES (1025) ALL SWANCE, Furth \$26,000 For Fisher Tark Other Than Maiden, Claiming, the Stanter or Which Mars Meser Work Tark other Such Galinday visua Newspiller 30 alloweds, 20th. technology as shown here.

Our Strategy

Letter to Shareholders

Fiscal 2000 was MEC's second year of racing operations and our first year as a public company.

As a result of our aggressive acquisition program, revenue in 2000 increased to \$413.6 million from \$186.9 million the previous year. Earnings before interest, taxes, depreciation and amortization were \$21.8 million, up from \$9.8 million in 1999. Net income was \$0.4 million compared to a loss the previous year of \$0.1 million.

Magna's initial decision to invest in the racetrack business was based upon a belief that racetracks in North America could be better managed and that an opportunity existed for a company such as Magna to play a role as an industry consolidator. We continue to believe that today.

The first phase of our strategy involves ownership of the product – namely, racetracks located in important markets throughout North America. Our ownership of multiple racing venues allows us to benefit from economies of scale and to implement best practices throughout our operations, thereby not only reducing costs but also increasing revenues.

The next phase of our business plan is to broaden our reach through increased simulcasting and the ownership of off-track betting establishments. The third phase is to introduce account wagering to MEC customers. As these legs of our strategy are being put in place, we will be developing our Internet presence and establishing relationships to enhance our ability to broadcast our racing signal and accept wagers from customers' homes.

We have made significant progress over the last year in implementing our strategy. We have initiated a number of practices that should result in increased profits over the months and years ahead. These include several corporate supply arrangements that allow us to reduce costs. We have also taken steps to improve the packaging and sale of our simulcast signals to third parties. This allows us to take advantage of the quality of the product we offer, and the diversity in terms of markets and time zones we cover.

Last fall, we announced the relocation of our corporate office to Aurora, Ontario. This allows for more effective communication among our entire executive management team, all of whom have lengthy experience as builders of Magna International. This executive team is supported at the track level by management that has many years of experience in the racing business. We believe this combination of talent will produce a better result going forward.

Our major racetrack properties, Santa Anita, Golden Gate and Gulfstream, are located in prime locations in real estate markets that are among the strongest in the U.S. In addition to racetracks, we own a sizeable portfolio of real estate. Much of this real estate is non-core and available for sale. We anticipate that sales of real estate will continue to provide significant cash flow and net income during 2001 and for some period beyond. The value of our remaining real estate provides us with long-term assets that we can leverage as needed to finance our growth.

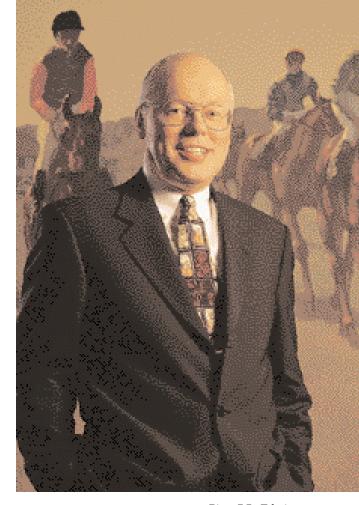
2001 will be our first full year of operation as the owner/operator of seven racetracks. In addition, we expect to complete further strategic acquisitions during 2001 and to increase the distribution of our racing product utilizing various media formats, resulting in additional growth in our revenue and net income from racing operations.

I look forward to leading MEC in the years ahead as we pursue our exciting business plan. But we cannot achieve our plans without the support of several stakeholder groups: our customers, our horsemen, our employees, our communities, and our shareholders.

To our customers – we are dedicated to bringing you first class racing and other entertainment products and services. Without customers, we don't have a business.

To the horsemen – we need your input and your active support as we work to expand our racing audience. We are committed to operating premier racing venues with facilities geared toward equine safety and improved accommodation for backstretch employees. Without sufficient horses, we don't have a product.

To our employees – thank you for a job well done. In all cases our ownership of your operation has resulted in change. Many of you have not only embraced the changes whole-heartedly but have pointed out additional areas for improvement. We are listening to your suggestions and adapting our plans where appropriate.



Jim McAlpine
President and CEO

To the communities in which we operate — we are committed to working co-operatively as responsible corporate citizens as we transform our business to meet the changing needs of the marketplace. We will be sensitive to local and environmental concerns.

To our shareholders – thank you for your confidence. I know that you will be rewarded as we implement the various phases of our business plan.

Jim McAlpine President and CEO



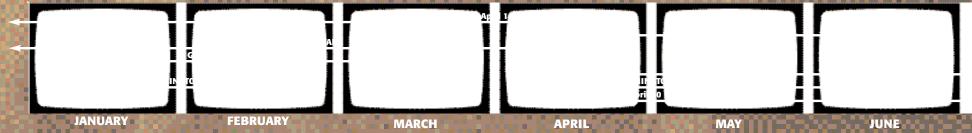
You can bet on it.

Pari-mutuel wagering means you'll never face off against the house – only other players who have made a wager. Win, place or show, you'll have the satisfaction of seeing your skill produce winners.

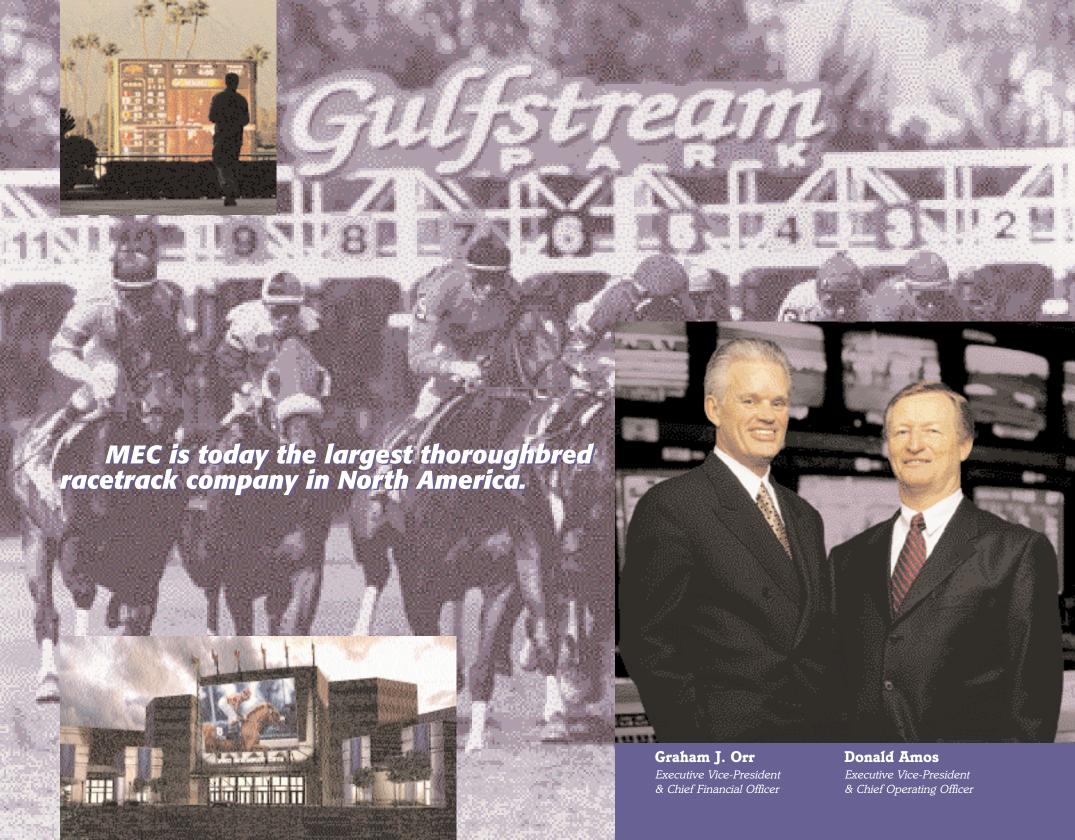
It's time to kick up some turf in the thoroughbred racing industry, and create a gaming experience that is second to none – one with more players, more action, more interactivity, and real Las Vegas-style energy and excitement.

MEC is about to inject a new vitality into thoroughbred racing.

The MEC network of tracks features racing on virtually every day of the year.







MEC Financial Review

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Management's Discussion and Analysis of Results of Operations and Financial Position

The following discussion of our results of operations and financial position should be read in conjunction with the consolidated financial statements included in this Annual Report.

Overview

MEC acquires, develops and operates horse racetracks and related pari-mutuel wagering operations. As a complement to our horse racing business, we are exploring the development of electronic media wagering operations, including telephone account, interactive television and Internet-based wagering, as well as real estate projects on the land surrounding some of our racetracks, possibly in conjunction with business partners and subject to regulatory requirements. In addition, we own a real estate portfolio which includes a gated residential project under development together with a championship golf course and related recreational facilities in Europe, another championship golf course scheduled to open this spring in Aurora, Ontario and other real estate. We intend to continue to gradually sell the balance of our non-racing excess real estate portfolio in order to provide capital to be used in our business. Accordingly, we will take steps including servicing our land and obtaining zoning and other approvals to enhance the value of the properties and increase the revenues from sale.

Racetrack Operations

We acquired Santa Anita Park located in Arcadia, California, approximately 14 miles northeast of Los Angeles, one of the premier thoroughbred racetracks in North America, in December 1998. Santa Anita Park operates through the prime winter racing season, commencing December 26 and running until mid to late April each year. In addition, we lease Santa Anita Park to Oak Tree Racing Association which hosts The Oak Tree Meet from the end of September through early November of each year. Santa Anita Park was the site of the Breeders' Cup in both 1986 and 1993.

On September 1, 1999, we acquired Gulfstream Park, also one of the premier thoroughbred racetracks and pari-mutuel wagering facilities in North America and the host site of the Breeders' Cup on three occasions, most recently in November 1999. Gulfstream Park is located in the cities of Hallandale and Aventura, Florida, between Miami and Fort Lauderdale and operates between early January and mid-March of each year. We have applied to extend our racing dates to mid-April for the 2002 race meet

On November 12, 1999, we acquired the Thistledown and Remington Park racetracks in North Randall, Ohio and Oklahoma City, Oklahoma, respectively. Thistledown has one of the longest racing seasons of all North American thoroughbred racetracks, consisting of 187 racing days between April and December of each year. Remington Park, which operates at a leased facility, offers two thoroughbred horse meets, the first in January and February and the second between August and November, and a 40-day Quarter Horse meet from mid-April to mid-June of each year.

On December 10, 1999, we acquired the Golden Gate Fields racetrack in Albany and Berkeley, California, approximately 8 miles from downtown Oakland and approximately 11 miles from San Francisco. Golden Gate Fields' 2000 racing season consisted of two meets, one of which ran from late March to mid-June and the other of which ran from mid-November to late December 2000. Commencing with its 2001 racing season, the first meet has changed to run from late December 2000 through to April 1, 2001 and the second meet has changed to run from early November to mid-December 2001. These changes were made in order to improve our racing programs and maximize operational synergies between Golden Gate Fields and our other Northern California racetrack operation, Bay Meadows Racecourse.

On February 29, 2000, we acquired the assets and assumed certain liabilities of Great Lakes Downs racetrack in Muskegon, Michigan. Great Lakes Downs began operations in January 1999 and operates live racing days beginning in April and ending in early November of each year.

On November 17, 2000 we completed the acquisition of Bay Meadows Operating Company, LLC. The terms of the transaction allow the Company to conduct racing at the existing Bay Meadows facility until the later of (i) December 31, 2002 and (ii) the end of any racing meet then in progress but not later then March 31, 2003. Bay Meadows Racecourse is located in the city of San Mateo, California, approximately 21 miles south of San Francisco and 31 miles from Golden Gate Fields. The Bay Meadows 2001 racing season will consist of two meets, the first meet running from early April to mid-June and the second meet running from late August to early November. We are currently exploring a number of different sites on which we could operate these race days subsequent to 2002.

As a result of the seasonal nature of our racetrack business, racetrack revenues and operating results for any quarter will not be indicative of the revenues and operating results for the year. Our live racing schedule also dictates that we will earn a substantial portion of our net earnings from racetrack operations in the first quarter of each year, which is when The Santa Anita Meet and the annual meet at Gulfstream Park occur, and commencing in fiscal 2001, when the first Golden Gate Fields meet will occur.

Our primary source of racetrack revenues are commissions earned from pari-mutuel wagering. Pari-mutuel wagering on horse racing is pooled betting in which individuals bet against each other on the outcome of a horse race. We have no interest in the order of finish in any given race and therefore have no risk in the outcome. A percentage of the pooled wagers is retained by us, a portion paid to the regulatory or taxing authorities and a portion is paid to horsemen in the form of purses. The balance of the pooled wagers is paid to bettors as winnings. Our share of pari-mutuel wagering revenues is based on pre-determined percentages of various categories of the pooled wagers at our racetracks. The maximum pre-determined percentages are approved by state regulators. Pari-mutuel wagering on horse racing occurs on the live races being conducted at racetracks as well as on televised racing signals or simulcasts received or imported by the simulcast wagering facilities located at such racetracks or off-track betting ("OTB") facilities and through home account wagering. Our racetracks have simulcast wagering facilities to complement our live horse racing which enables our patrons to wager on horse races being held at other racetracks. We also generate non-wagering revenues consisting primarily of food and beverage sales, program sales, admissions, parking revenues and income from the rental of facilities to other racing operators.

Real Estate Operations

Our real estate portfolio includes undeveloped land, as well as land in various stages of development and excess land in the United States. Canada and Austria. We are currently developing a gated residential community, known as Fontana, situated amidst the Fontana Sports golf course and related recreational facilities owned and operated by us. This residential development consists of approximately 75 acres and is located in Oberwaltersdorf, Austria, approximately 15 miles south of Vienna. Fontana is being developed in two phases into a luxury residential community consisting of 116 apartment units and 150 single-family homes. The first phase was substantially completed in prior years and we expect the second and final phase of Fontana to be completed by 2006. We have changed our marketing concept for our second phase to exclude construction activity and focus only on the sale of residential lots. We also own approximately 1.050 acres of land in Ebreichsdorf, Austria, located approximately 15 miles south of Vienna, which includes a golf course under a long-term lease to a third party. The balance of the land is largely undeveloped, although we are currently grading and performing other preliminary work as we seek zoning and other approvals in order to enhance the value on sale or for other possible uses, including as part of MEC's racing operations.

In 2000, we acquired approximately 480 acres of land in Palm Beach County, Florida, which we are currently developing into a horse boarding and training center.

Our real estate portfolio also includes two golf courses, Fontana Sports which is in operation and located in Oberwaltersdorf, Austria, and a second golf course which is being completed in Aurora, Canada, approximately 30 miles north of Toronto, and expected to open in May 2001. We are currently finalizing our marketing plan for the sale of memberships in the Aurora golf course. The clubhouse is under construction and is expected to be completed in the late summer or early fall of 2001. Both of our golf courses are subject to rights of first refusal in favor of Magna. In addition, our real estate portfolio includes approximately 160 acres of mixed-use land adjacent to the Aurora golf course.

Included in properties under and held for development is excess land adjacent to three of our premier racetracks, Santa Anita Park, Gulfstream Park and Golden Gate Fields, totaling approximately 200 acres. We are currently considering a variety of options with respect to this excess land including themed entertainment and retail based developments which could be developed in conjunction with business partners who would be expected to provide the necessary financing, as the Company does not intend to devote its capital to non-racing real estate development.

We intend to continue to gradually sell the balance of our excess non-racing real estate portfolio, excluding the land adjacent to our racetracks, in order to provide capital to be used in our business; accordingly we are currently servicing, improving and seeking zoning and other approvals for some of these properties in order to enhance their value on sale.

Results of Operations

Year Ended December 31, 2000 Compared to 1999

Racetrack operations

Effective October 1, 2000, the Company changed its method of accounting for revenue recognition in accordance with Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements" and guidance provided by EITF 99-19 "Recording Revenue Gross as a Principal versus Net as an Agent". Previously, the Company recorded its wagering revenue net of "purses, stakes and awards" and "pari-mutuel wagering taxes". Under the new accounting method adopted during the fourth quarter of 2000, the Company now recognizes revenue gross of "purses, stakes and awards" and "pari-mutuel wagering taxes". The costs relating to these amounts are shown as "Purses, awards and other" in the Company's consolidated financial statements. In accordance with SAB 101 guidance, the current year quarterly unaudited income statements and the prior year income statements have been retroactively reclassified for all periods presented to comply with the new accounting method. This change in method of accounting will enable the Company's financial performance to be compared more readily to other companies in our industry.

Revenues from our racetrack operations were \$355.2 million in 2000 compared to \$164.9 million in 1999, an increase of \$190.3 million or 115%. The increase in revenues is primarily the result of the additional racetracks acquired in 2000 and in late 1999. Revenues for 2000 reflect the full year live racing and simulcast operations for all of the Company's racetracks except for Great Lakes Downs and Bay Meadows, which were acquired on February 29, 2000 and November 17, 2000, respectively. Revenues for 1999 reflect the full year operations of Santa Anita Park and the operations of Gulfstream Park from September 1, 1999, the date of acquisition, Thistledown and Remington Park from November 12, 1999, their date of acquisition, and Golden Gate Fields from December 10, 1999, the date of acquisition.

Gross wagering revenues for our racetracks increased 125% to \$301.2 million in 2000 compared to \$133.9 million in 1999. We derive our gross wagering revenues at our racetracks from the following primary sources:

(a) Live race days

- wagers made by patrons at our racetracks on races held at our racetracks;
- wagers made by patrons at our racetracks on imported simulcast signals for races held at other racetracks in-state and out-of-state; and
- wagers made by patrons at off-track wagering facilities on exported signals from races held at our racetracks.

(b) Non-live race days

 wagers placed by patrons at our racetracks and OTB sites on imported simulcast signals from other racetracks in-state and out-of-state.

Non-wagering revenues in 2000 were \$54.0 million compared to \$31.0 million in 1999 an increase of 74%. Non-wagering revenues primarily comprise food and beverage sales, program sales, parking revenues, admissions and income from the rental of facilities to other racing operators. The increase in non-wagering revenues is lower than the increase in gross wagering revenues because a portion of the gross wagering revenues is earned from simulcast export activities which do not provide our racetracks with patrons that would generate these non-wagering revenues.

Purses, awards and other increased from \$85.5 million in 1999 to \$190.0 million in 2000. As a percentage of gross wagering revenue, purses, awards and other decreased from 63.9% in 1999 to 63.1% in 2000. Operating costs increased from \$63.3 million in 1999 to \$128.6 million in 2000. As a percentage of gross wagering and non-wagering revenues, operating costs decreased from 38.4% in 1999 to 36.2% in 2000. The reduction in operating costs as a percentage of revenues is primarily the result of cost savings and other synergies realized on the consolidation of racetrack operations during the year. Racetrack general and administrative expenses increased to \$18.1 million in 2000 compared to \$6.0 million in 1999. The increase is primarily due to the additional racetracks acquired in late 1999 and 2000 and the significant costs incurred to restructure our corporate office and other one time costs of approximately \$7.5 million in 2000.

Real estate operations

Revenues from our real estate operations were \$58.3 million in 2000 compared to \$21.9 million in 1999. Total real estate revenues less the cost of real estate sold, operating costs and general and administrative expenses increased to \$7.6 million in 2000 from \$0.1 million in 1999. This increase is primarily attributable to an increase in the number of non-core real estate properties disposed of in 2000 compared to 1999. The increase in activity is a reflection of management's previously stated intent to gradually sell the balance of our excess non-racing real estate portfolio, which is not viewed as being strategic for the enhancement of our premier racetracks, in order to provide capital to be used to support our business.

Depreciation and amortization

Depreciation and amortization increased by \$12.2 million to \$20.1 million for 2000 compared to \$7.9 million in 1999. This increase reflects a full year depreciation and amortization charge related to Gulfstream Park, Thistledown, Remington Park and Golden Gate Fields acquired in the second half of 1999 and a partial year depreciation and amortization charge related to Great Lakes Downs and Bay Meadows acquired in 2000.

Interest income and expense

Our net interest expense for 2000 was \$0.2 million compared to net interest income of (\$0.9) million for 1999. The higher net interest expense is attributable to the increase in long-term debt in 2000 primarily related to the financing of the Bay Meadows acquisition and racing related real estate property additions.

Income tax provision

We recorded an income tax provision of \$1.1 million on income before income taxes of \$1.6 million for 2000 compared to an income tax provision of \$2.8 million on income before income taxes of \$2.8 million for 1999. Our effective income tax rate in 2000 compared to 1999 decreased primarily as a result of the lower level of operating losses in 2000 that were not tax benefited.

Year Ended December 31, 1999 Compared to 1998

Prior to MEC becoming a separate public company, MEC and its parent company, Magna, changed their fiscal year ends from July 31 to December 31, effective December 31, 1998. As a consequence of the change in year end, the Company reported a five month period ended December 31, 1998 in the consolidated financial statements. Throughout this part of Management's Discussion and Analysis of Results of Operations and Financial Position ("M,D&A") all amounts for the year ended December 31, 1999 are compared to the unaudited results for the year ended December 31, 1998. Our comparative consolidated operating results for the years ended December 31, 1999 and 1998 have been restated to reflect the change in the method of accounting for revenue recognition discussed earlier in this M,D&A.

(United States dollars in thousands)	Years ended			
	Dec	ember 31,		
	1999	1998		
		(Unaudited)		
Revenue				
Racetrack				
Gross wagering	\$133,924	\$ 7,306		
Non-wagering	31,022	1,439		
Real estate				
Sale of real estate	2,544	_		
Rental and other	19,370	21,239		
	186,860	29,984		
Costs and expenses				
Racetrack				
Purses, awards and other	85,520	4,793		
Operating costs	63,302	3,461		
General and administrative	5.987	164		
Real estate	3,007	101		
Real estate sold	1,916	_		
Operating costs	18.071	25,348		
General and administrative	1,833	2,004		
Depreciation and amortization	7,924	2,762		
Interest expense	1,666	2,106		
Interest income	(2,586)	(31)		
Other expenses	454	(<i>)</i>		
	184,087	40,607		
Income (loss) before income taxes	2,773	(10,623)		
Income tax provision (benefit)	2,835	(177)		
Net loss	\$ (62)	\$(10,446)		

Racetrack operations

Revenues from our racetrack operations were \$164.9 million for 1999. Santa Anita Park contributed revenues of \$147.9 million and the remaining racetracks that were acquired in late 1999 contributed \$17.0 million. Santa Anita Park's full year 1999 operations are reflected in our consolidated results. The other racetracks' operations are only reflected in our consolidated results from the date of acquisition. We earned no revenues from our racetrack operations at Gulfstream Park, Thistledown and Remington Park, and Golden Gate Fields in the comparable 1998 period as they were acquired in September 1999, November, 1999 and December 1999, respectively. Our total revenues from racetrack operations in the comparable 1998 period of \$8.7 million were attributable to Santa Anita Park which was acquired on December 10, 1998 and included only a few race days in 1998.

In 1999, gross wagering revenues for our racetracks were \$133.9 million and non-wagering revenues were \$31.0 million. Santa Anita Park earned \$27.8 million and the other racetracks earned \$3.2 million of our non-wagering revenues for 1999. The major components of non-wagering revenues were admission related revenues of \$13.7 million (comprising primarily admissions, parking and program sales) and food and beverage sales of \$9.9 million, collectively representing 76% of total non-wagering revenues.

Racetrack costs and expenses, before depreciation and interest, were \$154.8 million for 1999. Santa Anita Park incurred costs and expenses of \$134.5 million with the remaining racetracks incurring \$20.3 million. Santa Anita Park's share of costs for purses, awards and other was \$76.6 million, with the remaining racetracks incurring \$8.9 million. The major components of our operating costs and general and administrative expenses were payroll costs of \$38.8 million and marketing and advertising costs of \$6.2 million. The costs and expenses of Gulfstream Park, Thistledown, Remington Park and Golden Gate Fields were minimal during 1999 since these racetracks' costs are only reflected in our consolidated results from their respective dates of acquisition, all of which were in late 1999. In addition, these racetracks had few live race days in 1999 subsequent to their acquisition date.

Real estate operations

Revenues from our real estate operations were \$21.9 million for 1999 compared to \$21.2 million for 1998. Revenues from real estate operations for 1999 were comprised of \$2.5 million for the sale of real estate and \$19.4 million for rental and other. There were no revenues from the sale of real estate for 1998. Rental and other revenues decreased \$1.9 million for 1999 compared to 1998. The decrease in rental and other revenue is primarily attributable to a reduction in house building activity at the Fontana residential development, which was nearing completion of the first phase of a two phase development plan. Partially offsetting the decrease in revenues was increased membership and other usage revenue at Fontana Sports, including \$2.3 million related to Magna's access fee agreement with Fontana Sports which commenced March 1, 1999 and will provide \$2.7 million annually until March 1, 2004. We also generated increased rental revenues on some properties acquired during the comparative period. Revenues from our remaining real estate operations were substantially unchanged.

Real estate costs and expenses, before depreciation and interest, were \$21.8 million for 1999 compared to \$27.4 million for 1998. The reduction is attributable to the decrease in housing activity at the Fontana residential development. In addition, we incurred costs in 1998 related to the potential development of a theme park on approximately 1,050 acres of our land in Ebreichsdorf near Vienna, Austria which was acquired by us during the year ended July 31, 1997. Costs included consultants' fees associated with feasibility studies, alternative theme park designs, market analysis, presentation brochures, site models and alternative site investigations. In May 1999, we announced that we were unable to obtain the various permits and approvals that would have been required to potentially develop this property as a theme park. Costs and expenses of our remaining real estate operations were substantially unchanged.

Depreciation and amortization

Depreciation and amortization expense increased by \$5.1 million to \$7.9 million for 1999 compared to \$2.8 million in 1998. The increase is substantially attributable to our acquisition of Santa Anita Park on December 10, 1998, San Luis Rey Downs, a Southern California based horse boarding and training center, on May 1, 1999, Gulfstream Park on September 1, 1999, Thistledown and Remington Park on November 12, 1999 and Golden Gate Fields on December 10, 1999 and recording a full year of depreciation on properties acquired in calendar 1998.

Interest income and expense

Our net interest income for 1999 was (\$0.9) million compared to net interest expense of \$2.1 million for 1998. The higher net interest income was primarily a result of interest income on higher cash balances in the year. The increase in cash balances is attributable to Magna's equity investment in the Company in the third quarter of 1999.

Income tax provision

We recorded an income tax provision of \$2.8 million on income before income taxes of \$2.8 million for 1999 compared to an income tax benefit of \$0.2 million on a loss before income taxes of \$10.6 million for 1998. Our income tax provision relates primarily to the income of our racetrack operations which was calculated based on a consolidated tax sharing arrangement. The tax benefit of our losses from other operations has not been recognized for accounting purposes.

Financial Position, Liquidity and Capital Resources

Until December 31, 1999, we financed our operations primarily through contributions by our majority shareholder, Magna. Magna has made a commitment to its shareholders that, during the period to May 31, 2006, it will not without the prior consent of the holders of a majority of Magna's Class A Subordinate Voting Shares:

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

Given the above-described commitment by Magna to its shareholders, during the period subsequent to December 31, 1999 and prior to May 31, 2006, MEC will be required to fund its own operations.

Operating activities

Cash provided from (used in) operating activities was (\$16.1) million, \$15.2 million, (\$6.3) million and (\$7.9) million for the years ended December 31, 2000 and 1999, the five month period ended December 31, 1998, and the year ended July 31, 1998, respectively.

Cash used in operating activities in 2000 is primarily the result of an increased investment in non-cash working capital to support the additional number of facilities being operated in 2000 partially offset by increases in net income and other non-cash expenses. Cash provided by operating activities in 1999 is primarily a result of cash generated by our Santa Anita Park operations of \$13.3 million and some of our other racetracks offset by cash usages at some of our racetracks and our other operations. For all periods prior to January 1, 1999, we incurred losses resulting in negative cash flow from operations.

Investing activities

Cash used in investing activities was \$36.6 million, \$215.4 million, \$136.7 million and \$72.6 million for the years ended December 31, 2000 and 1999, the five month period ended December 31, 1998 and the year ended July 31, 1998, respectively.

During 2000, \$24.1 million was used to acquire Bay Meadows and \$54.0 million was spent on real estate property and other fixed asset additions. Expenditures on real estate property included the purchase of property in Palm Beach County, Florida, which the Company is currently developing into a horse boarding and training center, several upgrades to racetrack facilities, normal ongoing maintenance items and continued spending in connection with the Aurora, Ontario golf course project. Cash used in investing activities in 2000 was partially offset by proceeds on the disposal of real estate of \$33.4 million.

Acquisition cash expenditures in 1999 totaled \$160.8 million and included \$81.2 million to acquire Gulfstream Park, \$14.2 million to acquire Thistledown and Remington Park, \$59.0 million to acquire Golden Gate Fields and \$6.4 million to acquire the operations and real estate assets of San Luis Rey Downs. Also during 1999, \$47.4 million was invested in real estate property additions, which included spending on a capital renovation program at Santa Anita Park and the development of the Aurora, Ontario golf course project.

During the five month period ended December 31, 1998, \$118.6 million was used to acquire Santa Anita Park and related real estate and \$17.9 million was invested in real estate property additions that included land and related development spending in connection with the Aurora, Ontario golf course project. During the year ended July 31, 1998, \$72.5 million was invested in real estate property additions primarily in Austria and Canada.

Financing activities

Cash provided by financing activities was \$34.3 million, \$238.5 million, \$155.2 million and \$80.6 million for the years ended December 31, 2000 and 1999, the five month period ended December 31, 1998 and the year ended July 31, 1998, respectively.

The cash provided by financing activities for 2000 relates substantially to the issuance of long-term debt of \$48.0 million primarily related to the financing of the Bay Meadows acquisition and real estate property additions, partially offset by the repayment of other long-term debt of \$15.9 million. Included in these repayments was \$6.8 million of debt assumed on the acquisition of Gulfstream Park and the repayment of a portion of the promissory note issued on the acquisition of Golden Gate Fields. Prior to 2000, cash provided by financing activities has been primarily through contributions by Magna. On September 1, 1999, Magna invested an additional \$250.0 million in cash, by way of equity contribution.

Working capital, cash and other resources

Our investment in non-cash working capital was (\$11.1) million at December 31, 2000 compared to (\$36.1) million at December 31, 1999. The increased investment in non-cash working capital has been primarily related to the increased number of facilities being operated in the year.

At December 31, 2000, we had cash and cash equivalents of \$32.0 million and total shareholders' equity of \$541.8 million. In 1999, we completed the negotiation of two credit facilities for two of our subsidiaries, The Santa Anita Companies, Inc. and the Los Angeles Turf Club, Inc. The two credit facilities consist of a \$63.0 million three year term loan facility and a \$10.0 million revolving operating line of credit, both of which bear interest at rates ranging between the U.S. Prime Rate and LIBOR plus 2.2% per annum. At December 31, 2000, \$7.6 million of the revolving operating line and \$48.0 million of the term loan facility were drawn, leaving \$17.4 million of available unutilized facilities. Other borrowing facilities include a bank term line of credit for 240 million Austrian Schillings (\$17.6 million) which at December 31, 2000 had \$9.4 million of unutilized borrowing capacity. We are currently in discussions with our bankers to obtain increased borrowing facilities.

Our investment in real estate properties at December 31, 2000 totals \$539.6 million. Included in this amount are properties available for sale with carrying values of \$49.4 million and properties under and held for development with carrying values totaling \$149.4 million, components of which could be made available for sale.

For the year ended December 31, 2000 we spent \$54.0 million on real estate property and fixed asset additions. We currently anticipate these capital expenditures to be approximately \$50.0 million during the year ending December 31, 2001. These capital expenditures relate to both normal ongoing capital improvements and other strategic facility enhancements.

On December 21, 2000, we entered an agreement with Ladbroke Racing Corp. and one of its subsidiaries to acquire their account wagering operations, The Meadows harness track, four OTB facilities and an interest in the The Racing Network for a purchase price of \$53.0 million. Under the terms of the agreement, one-half of the purchase price will be paid in cash, one-quarter is payable in Class A Subordinate Voting Stock of MEC and one-quarter is payable by way of an MEC promissory note maturing over two years from the date of closing. Subject to receipt of regulatory approval, the transaction is expected to close in early April 2001.

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

Outlook

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

We intend to market our combined simulcast product under the MEC brand name. In addition, through our pending Ladbroke acquisition and other initiatives, we intend to expand our involvement in telephone account, interactive television and Internet-based wagering, possibly in conjunction with strategic partners and subject to regulatory approval. Finally, we expect that our role as a horse racing industry consolidator and our branding strategy will open up attractive merchandising, licensing and marketing opportunities that will increase our revenues.

We currently own a diverse portfolio of real estate properties in North America and Europe. We intend to sell some of our excess non-racing real estate properties as market conditions permit and are taking steps to maximize the revenues derived from these properties on future sale. We believe the prime location of the real estate enhances our ability to sell, however, there can be no assurance that we will be successful in our efforts to sell these properties.

Quantitative and Qualitative Disclosures About Market Risk

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

Additionally, we are exposed to interest rate risk, which is sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control.

Our future earnings, cash flows and fair values relating to financial instruments are primarily dependent upon prevalent market rates of interest, such as LIBOR and EURIBOR. Based on interest rates at December 31, 2000, a 1% increase or decrease in interest rates on our line of credit and other variable rate borrowings, would not materially affect annual future earnings and cash flows. Based on borrowing rates currently available to us, the carrying amount of our debt approximates its fair value.

Accounting Developments

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

In June 1998, the Financial Accounting Standards Board issued Statement No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities". This Statement is effective for the Company's first quarter ending March 31, 2001. SFAS 133 requires that an entity recognize all derivative instruments either as assets or liabilities and measure those instruments at fair value. The Company will adopt SFAS 133 effective January 1, 2001 and does not anticipate that it will have any material impact on its consolidated financial statements.

Forward-looking Statements

This previous discussion contains statements which, to the extent that they are not recitations of historical fact, constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934. The words "estimate", "anticipate", "believe", "expect", and similar expressions are intended to identify forward-looking statements. Such forward-looking information involves important risks and uncertainties that could materially alter results in the future from those expressed in any forward-looking statements made by, or on behalf of, MEC. These risks, assumptions and uncertainties include, but are not limited to, significant change in laws or regulations governing our industry, competition from operators of other racetracks and from other forms of gaming, including Internet and on-line wagering, a significant decrease in the number of live race days allocated to our racetracks, our continued ability to complete expansion projects designed to generate new revenues and attract new patrons, our ability to sell some of our real estate when we need to or at the price we want, the impact of inclement weather, our ability to integrate recent racetrack acquisitions and changes in the economy. Persons reading this M,D&A are cautioned that such statements are only predictions and that actual events or results may differ materially. In evaluating such forward-looking statements, readers should specifically consider the various factors which could cause actual events or results to differ materially from those indicated by such forward-looking statements.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

MEC's management is responsible for the preparation and presentation of the consolidated financial statements and all the information in this Annual Report. The consolidated financial statements were prepared by management in accordance with accounting principles generally accepted in the United States. Where alternative accounting methods exist, management has selected those it considered to be most appropriate in the circumstances. Financial statements include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis designed to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial information presented elsewhere in this Annual Report has been prepared by management to ensure consistency with that in the consolidated financial statements. The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors of MEC.

Management is responsible for the development and maintenance of systems of internal accounting and administrative cost controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant and reliable and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Company's Audit Committee is appointed by its Board of Directors annually and is comprised solely of outside directors. The Committee meets periodically with management, as well as with the independent auditors, to satisfy itself that each is properly discharging its responsibilities, to review the consolidated financial statements and the independent auditors' report and to discuss significant financial reporting issues and auditing matters. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by Ernst & Young LLP, the independent auditors, in accordance with auditing standards generally accepted in the United States on behalf of the shareholders. The Report of Independent Auditors outlines the nature of their examination and their opinion on the consolidated financial statements of the Company. The independent auditors have full and unrestricted access to the Audit Committee.

Magna Entertainment Corp. *February 2, 2001*

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of Magna Entertainment Corp.

We have audited the accompanying consolidated balance sheets of Magna Entertainment Corp. as of December 31, 2000 and 1999, and the related consolidated statements of changes in shareholders' equity, operations and comprehensive income (loss) and cash flows for the years ended December 31, 2000 and 1999, the five-month period ended December 31, 1998 and the year ended July 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Magna Entertainment Corp. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for the years ended December 31, 2000 and 1999, the five-month period ended December 31, 1998 and the year ended July 31, 1998 in conformity with accounting principles generally accepted in the United States.

Grant & France UP

Los Angeles, California February 2, 2001

Consolidated Balance Sheets

[U.S. dollars in thousands]			ember 31,
	Note	2000	1999
	ASSETS		
Current assets:			
Cash and cash equivalents		\$ 31,976	\$ 50,660
Restricted cash		13,461	7,752
Accounts receivable		33,399	25,887
Prepaid expenses and other		7,984	3,931
		86,820	88,230
Real estate properties, net	3	539,629	544,899
Fixed assets, net	4	28,636	19,890
Other assets, net	5	117,561	100,967
Future tax assets	6	8,393	6,367
		\$781,039	\$760,353
LIA	BILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:			
Bank indebtedness		\$ 7,609	\$ 7,259
Accounts payable		37,400	34,479
Accrued salaries and wages		7,614	4,442
Refundable deposits		2,033	1,968
Other accrued liabilities		14,140	20,980
Income taxes payable	6	1,111	7,554
Long-term debt due within one year	7	12,754	19,119
Deferred revenue		3,660	4,282
		86,321	100,083
Long-term debt	7	63,343	19,506
Other long-term liabilities	14	234	494
Future tax liabilities	6	89,353	93,183
Commitments and contingencies	12, 13		
Shareholders' equity:			
Class A Subordinate Voting Stock	8	100,770	11,500
Exchangeable Shares	8	57,937	110,000
Class B Stock	8	394,094	429,455
Contributed surplus	-	1,352	
Accumulated deficit		(1,990)	(2,431
Accumulated comprehensive loss	9	(10,375)	(1,437
	<u>-</u>	541,788	547,087
		\$781,039	\$760,353

See accompanying notes

On behalf of the Board:

J. Terrence Lanni - Director

Jim McAlpine - Director

Consolidated Statements of Changes in Shareholders' Equity

[U.S. dollars in thousands]

[0.3. dollars in mousands]			lass A						
		Subor							Accumulated
	Magna's Net		Voting	Exchangeable		Contribute		cumulated	Comprehensive
Magna's net investment at July 31, 1997	Investment \$ 87,917	\$	Stock	Shares \$	Stock \$	Surplu \$	<u>s</u> \$	Deficit	Loss \$
Net loss	(8,610)	Ф		Ф	Ф	Ф	Ф		Ф
Net contribution by Magna	(8,610) 80,919								
Other comprehensive loss	(1,951)								
Magna's net investment at July 31, 1998	158,275								
5 1 ,									
Net loss	(4,231)								
Net contribution by Magna	143,634 4,824								
Other comprehensive gain									
Magna's net investment at December 31, 1998	302,502								
Activity for the three-months ended March 31, 1999:	0.225								
Net income	9,325								
Net distribution to Magna	(5,542)								
Other comprehensive loss	(5,045)								
Magna's net investment at March 31, 1999,									
the date at which the net investment was fixed	301,240								
Activity for the seven-month period ended on the									
date of the Reorganization, November 5, 1999:									
Net loss	(6,956)								
Cash contribution by Magna	250,000								
Other comprehensive loss	(1,011)								
Magna's net investment at November 5, 1999 prior to the Reorganization	543,273								
Completion of the Reorganization as described in the principles of									
consolidation and resulting allocation to capital stock									
and net future tax liabilities of \$3,818	(543,273)				539,455				
Magna's net investment at November 5, 1999									
after completion of the Reorganization	_				539,455				
Activity for the two-months ended December 31, 1999:									
Net loss								(2,431)	
Other comprehensive loss									(1,437)
Conversion of Class B Stock to Exchangeable Shares				110,000	(110,000)				
Issue of shares of Class A Subordinate Voting Stock on acquisitions		1	1,500						
Balances at December 31, 1999	_	1	1,500	110,000	429,455			(2,431)	(1,437)
Activity for the year ended December 31, 2000:									
Net income								441	
Net cash contribution by Magna						1,352	2		
Other comprehensive loss									(8,938)
Conversion of Class B stock to Class A Subordinate Voting Stock		3	5,361		(35,361)				
Issue of Class A Subordinate Voting Stock for an acquisition			1,846		. , . ,				
Conversion of Exchangeable Shares to Class A Subordinate Voting Stock			2,063	(52,063))				
Balances at December 31, 2000	\$ —	\$ 10		\$ 57,937	\$ 394,094	\$ 1,352	2 \$	(1,990)	\$ (10,375)
				•	•				

See accompanying notes

Consolidated Statements of Operations and Comprehensive Income (Loss)

		Years ended December 31,		Five-month period ended December 31,	Year ended July 31,
	Note	2000	1999	1998	1998
Revenue	11, 12, 15				
Racetrack	11, 12, 10				
Gross wagering	1	\$301.288	\$133,924	\$ 7,306	\$
Non-wagering		53,961	31,022	1,439	_
Real estate		,	,	_,	
Sale of real estate		37,630	2,544	_	
Rental and other		20,684	19,370	6,597	20,486
7,0,1,0,1		413,563	186,860	15,342	20,486
Costs and expenses					
Racetrack					
Purses, awards and other		190.043	85,520	4.793	_
Operating costs		128,612	63,302	3,461	
General and administrative		18,117	5,987	164	
Real estate		•	•		
Real estate sold		30,656	1,916	_	
Operating costs		18,928	18,071	7,293	24,778
General and administrative		1,133	1,833	1,169	1,086
Depreciation and amortization		20,061	7,924	1,649	1,852
Predevelopment and other costs		4,245	454	· _	_
Interest expense	7	3,263	1,666	1,236	1,399
Interest income	7	(3,048)	(2,586)	(15)	(19
		412,010	184,087	19,750	29,096
Income (loss) before income taxes	11	1,553	2,773	(4,408)	(8,610
Income tax provision (benefit)	6	1,112	2,835	(177)	_
Net income (loss)		441	(62)	(4,231)	(8,610
Other comprehensive income (loss)					
Foreign currency translation adjustment		(8,938)	(7,493)	4,824	(1,951
Comprehensive income (loss)		\$ (8,497)	\$ (7,555)	\$ 593	\$ (10,561
Income (loss) per share for Class A Subordinate Voting Stock,					
Class B Stock or Exchangeable Share:					
Basic	8	\$ 0.01	\$ 0.00	\$ (0.05)	\$ (0.11)
Diluted	8	\$ 0.01	\$ 0.00	\$ (0.05)	\$ (0.11)
Average number of shares of Class A Subordinate Voting Stock,					
Class B Stock and Exchangeable Shares outstanding during the period [in thousands]:					
Basic	8	80,422	78,686	78,535	78,535
Diluted	8	80,424	78,686	78,535	78,535

See accompanying notes

Consolidated Statements of Cash Flows

[U.S. dollars in thousands]

[O.S. donars in modsands]	N.	Dece	rs ended ember 31,	Five-month period ended December 31,	Year ended July 31,
Cash provided from (used for)	Note	2000	1999	1998	1998
OPERATING ACTIVITIES:					
Net income (loss)		\$ 441	\$ (62)	\$ (4,231)	\$ (8,610)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		A 441	\$ (02)	Φ (4,231)	\$ (0,010)
Depreciation and amortization		20,021	7,924	1,649	1,852
Future income taxes	6	(5,761)	(1,295)	(177)	1,032
Gain on disposal of real estate property	U	(6,975)	(628)	(1//)	
Gain on disposal of feat estate property		7,726	5,939	(2,759)	(6,758)
Changes in non-cash working capital		7,720	3,939	(2,739)	(0,736)
Restricted cash		(5,709)	(2,691)	(5,061)	
Accounts receivable		(4,139)	(8,607)	(7,285)	(262)
Prepaid expenses and other		1,563	(2,952)	(2,123)	(1,261)
Accounts payable		(5,179)	4,438	8,526	786
Accounts payable Accrued salaries and wages		3,172	1,653	84	61
Refundable deposits		65	250	207	654
Other accrued liabilities		(6,840)	11,931	681	266
Income taxes payable		(6,146)	6,042		200
Deferred revenue		(6,146)	(777)	 1,381	(1,354)
Deterred revenue		(23,835)	9,287	(3,590)	(1,334)
		(16,109)	15,226	(5,390)	(7,868)
INVESTMENT ACTIVITIES:		(16,109)	15,220	(0,349)	(7,000)
Acquisition of businesses, net of cash	2	(24 117)	(160,812)	(118,617)	
	Z	(24,117)			(72.460)
Real estate property additions		(46,493)	(47,430)	(17,944)	(72,460)
Fixed asset additions		(7,535)	(9,017)	(124)	(183)
Increase (decrease) in other assets		8,141	(683)		
Proceeds on real estate sold to Magna		6,147	2.544	_	_
Proceeds on disposal of real estate		27,250	2,544	(126,605)	(72.642)
		(36,607)	(215,398)	(136,685)	(72,643)
FINANCING ACTIVITIES:		750	(2.722)	11.000	(4.200)
Increase (decrease) in bank indebtedness		759	(2,722)	11,602	(4,280)
Issuance of long-term debt		48,000	— (2.270)	48	6,553
Repayment of long-term debt	4.0	(15,853)	(3,278)	(114)	(2,608)
Contributed capital	12	1,352	_	_	_
Net contribution by Magna			244,458	143,634	80,919
		34,258	238,458	155,170	80,584
Effect of exchange rate changes on cash and cash equivalents		(226)	(68)	11	2
Net increase (decrease) in cash and cash equivalents during the period		(18,684)	38,218	12,147	75
Cash and cash equivalents, beginning of period		50,660	12,442	295	220
Cash and cash equivalents, end of period		\$ 31,976	\$ 50,660	\$ 12,442	\$ 295

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared in U.S. dollars following accounting principles generally accepted in the United States ("U.S. GAAP"). These policies are also in conformity, in all material respects, with accounting principles generally accepted in Canada, except as described in Note 16 to the consolidated financial statements.

Principles of Consolidation

Magna Entertainment Corp. (the "Company") was formed to hold and operate all of the non-automotive related assets (including non-automotive real estate) owned by Magna International Inc. and its subsidiaries ("Magna"). Such assets were reorganized under the Company in various stages, and the capital structure was established (see Note 8), over the period from March 31, 1999, Magna's announcement date of the planned formation of the Company, to November 5, 1999, the completion date of the reorganization (the "Reorganization").

The consolidated financial statements prior to November 5, 1999 present the historic financial position and operating results of the assets and liabilities reorganized under the Company on a carve out basis from Magna. To give effect to the continuity of Magna's interest in the assets and liabilities of the Company, all assets and liabilities have been recorded in the consolidated balance sheets at Magna's book values and have been included from the date they were acquired by Magna. All significant intercompany balances and transactions have been eliminated.

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

Racetrack Operations

- All the outstanding capital stock of The Santa Anita Companies, Inc. ("SAC").
 On December 10, 1998, SAC (formerly 234567 Development Inc., a wholly owned inactive subsidiary of Magna) acquired all of the outstanding capital stock of the Los Angeles Turf Club, Inc. ("LATC") which operates the Santa Anita Park racetrack in California. SAC also acquired 305 acres of related real estate.
- All the outstanding capital stock of Gulfstream Park Racing Association, Inc. ("Gulfstream") from the date of acquisition, September 1, 1999. Gulfstream operates the Gulfstream Park racetrack, which is located on approximately 255 acres of land in the cities of Hallandale and Aventura. Florida.
- All the outstanding capital stock of the Pacific Racing Association and Ladbroke Landholdings, Inc. ("Golden Gate") from the date of acquisition, December 10, 1999.
 Golden Gate operates the Golden Gate Fields racetrack, which is located on approximately 181 acres of land in the cities of Albany and Berkeley, California.

- All the outstanding capital stock of Thistledown, Inc. ("Thistledown") and Remington Park, Inc. ("Remington") from the date of acquisition, November 12, 1999. These companies operate the Thistledown and Remington Park racetracks, which are located on approximately 120 acres of land in the city of North Randall, Ohio and 370 acres of land in the city of Oklahoma City, Oklahoma, respectively. The Remington Park property is leased under an agreement that extends through 2013, with options to renew for five 10-year periods.
- The real estate assets of SLRD Thoroughbred Training Center, Inc. ("SLRD").
 SLRD which operates a horse boarding and training center located in San Diego,
 California, owns approximately 202 acres of real estate.

Real Estate Operations

- All the outstanding capital stock of Fontana Beteiligungs AG (formerly Magna Vierte Beteiligungs AG) ("FVB"). Effective January 1, 1999, the assets and liabilities of Magna Liegenschaftsverwaltungs GmbH ("MLV") were split into two companies. Under the split, all of the assets, liabilities, operations and employees of MLV were transferred to FVB except for two real estate properties and an equivalent amount of debt financing due to Magna. The two real estate properties not transferred to FVB were, from their original acquisition date by MLV, leased back to Magna on a triple net lease basis such that Magna was responsible for the operating costs related to the properties. The assets and operations of MLV transferred to FVB include a golf course and adjacent residential development in Oberwaltersdorf, Austria.
- All the outstanding capital stock of MEC Projektentwicklungs AG (formerly Magna Projektentwicklungs AG) which owns all of the outstanding capital stock of MEC Grundstucksentwicklungs GmbH (formerly Magna Grundstucksentwicklungs GmbH) (collectively "MGE"). MGE's primary asset is a parcel of land held for development in Ebreichsdorf. Austria.
- Land and improvements in Aurora, Ontario (the "Aurora lands") which are subject
 to a conditional sale agreement by Magna to the Company. The conditional sale
 agreement is subject to the successful severance of the affected properties.
- Various other parcels of land and improvements (the "vacant land portfolio") and
 other non-automotive properties, including any incidental operations associated
 with such properties. Two of these properties are subject to conditional sale
 agreements.
- Rights to acquire, from an affiliated company (see Note 12[a]), approximately 200 acres of land and improvements in Aurora, Ontario. An 18-hole golf course is currently under construction on the property. Construction in progress has also been transferred to the Company, accordingly, all such construction is reflected in the consolidated financial statements of the Company. This project is referred to as the Magna Golf Club (formerly the Aurora Downs golf course).

The consolidated statements of operations and comprehensive income (loss) include the following: (a) the historic revenues and expenses of MLV adjusted to exclude the rental revenues earned, depreciation expense and interest on debt due to Magna all related to the two MLV properties not transferred to FVB; (b) the historic revenues and expenses of MGE; (c) the historic revenues and expenses (which are limited to incidental costs of ownership the most significant of which is property taxes), net of amounts capitalized, related to the Magna Golf Club, the Aurora lands and the vacant land portfolio and other non-automotive properties transferred to the Company; and (d) the historic revenues and expenses of all acquisitions from their date of purchase (see Note 2).

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

Prior to the Reorganization, interest expense as presented in the consolidated statements of operations and comprehensive income (loss) includes interest on external debt and amounts due to Magna (included in Magna's net investment) held by SAC, LATC, Gulfstream, Golden Gate, Thistledown, Remington, SLRD, FVB, and MGE. No interest has been charged on Magna's net investment in the Magna Golf Club, the Aurora lands and the vacant land portfolio and the other non-automotive properties transferred to the Company. Under the Reorganization, the transfer of these assets by Magna to the Company is by way of an equity investment.

Income taxes for U.S. legal entities have been recorded based on a consolidated tax sharing agreement using the liability method of tax allocation. Income taxes with respect to the other components of the consolidated statements of operations and comprehensive income (loss) have been recorded at statutory rates based on income before taxes as included in the consolidated statements of operations and comprehensive income (loss) as though such components were separate tax paying entities. Given that the revenues and expenses of this latter component of the consolidated statements of operations and comprehensive income (loss) have been prepared on a carve out basis from Magna, the resulting income taxes payable and deferred income tax assets and liabilities have been included in Magna's net investment, prior to November 5, 1999.

Over the period prior to the completion of the Reorganization on November 5, 1999, Magna's net investment also included Magna's net long-term debt investments (subsequently converted into equity investments as part of the Reorganization) and equity investments in the Company created as part of the Reorganization, the accumulated net income (loss) of the Company, contributions by, less distributions to Magna and the currency translation adjustment.

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

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on account, demand deposits and short-term investments with original maturities of less than three months and excludes restricted cash which represents cash amounts held by the Company on behalf of horse owners.

Impairment of Long-Lived Assets

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

For long-lived assets not available for sale, the Company assesses periodically whether there are indicators of impairment. If such indicators are present, the Company assesses the recoverability by determining whether the carrying value of such assets can be recovered through projected undiscounted cash flows. If the sum of expected future cash flows, undiscounted and without interest charges, is less than net book value, the excess of the net book value over the estimated fair value is charged to operations in the period in which such impairment is determined by management.

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

Notes to Consolidated Financial Statements

Real Estate Properties

Residential development inventory

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

Revenue producing properties

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

Properties under and held for development

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

Properties available for sale

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

Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation.

Depreciation is provided on a straight-line basis over the estimated useful lives of fixed assets over 5 to 15 years for machinery and equipment and over 5 to 7 years for furniture and fixtures.

Racing Licenses and Goodwill

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

Revenue Recognition

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

Effective October 1, 2000, the Company changed its method of accounting for revenue recognition in accordance with Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements" and guidance provided by EITF 99-19 "Recording Revenue Gross as a Principal versus Net as an Agent". Previously the Company recorded its wagering revenue net of "purses, stakes and awards" and "pari-mutuel wagering taxes". Under the new accounting method adopted during the fourth quarter of 2000, the Company now recognizes revenue gross of "purses, stakes and awards" and "pari-mutuel wagering taxes". The costs relating to these amounts are shown as "Purses, awards and other" in the accompanying income statement. In accordance with SAB 101 guidance, the current year quarterly unaudited income statements and the prior year income statements have been retroactively reclassified for all periods presented to comply with the new accounting method.

Revenues from the sale of residential development inventory are recognized in two phases. First, revenue related to sale of land is recognized when the title to the land passes to the purchaser. The remaining revenue is recognized when the unit is constructed by the independent contractor and the collection of the sale proceeds is reasonably assured and all other significant conditions are met. Properties which have been sold, but for which these criteria have not been satisfied, are included in residential development inventory.

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

Deferred Revenues

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

Seasonality of Revenues

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

Advertising

Costs incurred for producing advertising associated with horse racing are generally expensed when the advertising program commences. Advertising costs for the years ended December 31, 2000 and 1999 and the five month period ended December 31, 1998 were \$7.5 million, \$3.1 million, and \$0.2 million, respectively. Costs incurred with respect to promotions for specific live race days are expensed on the applicable race day.

Foreign Exchange

Assets and liabilities of self-sustaining foreign operations are translated using the exchange rate in effect at the period-end and revenues and expenses are translated at the average rate during the period. Exchange gains or losses on translation of the Company's net equity investment in these operations are deferred in Magna's net investment prior to November 5, 1999. The accumulated exchange gain or loss resulting from translating each foreign subsidiary's financial statements from its functional currency to U.S. dollars is included in comprehensive income (loss) in equity starting November 6, 1999. The appropriate amounts of exchange gains or losses included in accumulated comprehensive income (loss) are reflected in income when there is a sale or partial sale of the Company's investment in these operations or upon a complete or substantially complete liquidation of the investment.

Income Taxes

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

Stock-based Compensation

In October 1995, the Financial Accounting Standards Board issued Statement No. 123 "Accounting for Stock-Based Compensation" which provides companies an alternative to accounting for stock-based compensation as prescribed under APB Opinion No. 25 ("APB 25"). Statement No. 123 encourages, but does not require companies to recognize expense for stock-based awards based on their fair value at date of grant. Statement No. 123 allows companies to continue to follow existing accounting rules (intrinsic value method under APB 25) provided that pro-forma disclosures are made of what net income and earnings per share would have been had the new fair value method been used. We have elected to adopt the disclosure requirements of Statement No. 123 but will account for stock-based compensation under APB 25.

Earnings per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the assumed conversion of all dilutive securities using the treasury stock method.

Use of Estimates

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

Impact of Recently Issued Accounting Standards

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

In June 1998, the Financial Accounting Standards Board issued Statement No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities". This Statement is effective for the Company's first quarter ending March 31, 2001. SFAS 133 requires that an entity recognize all derivative instruments either as assets or liabilities and measure those instruments at fair value. The Company will adopt SFAS 133 effective January 1, 2001, and the adoption will have no material impact on its consolidated financial statements.

Reclassification

Certain amounts have been reclassified in the 1999 and 1998 consolidated financial statements to conform with current presentation.

2. BUSINESS ACQUISITIONS

The following acquisitions were accounted for using the purchase method:

[a] Acquisitions in the year ended December 31, 2000

Great Lakes Downs

On February 29, 2000 the Company completed the acquisition of Great Lakes Downs, Inc. ("Great Lakes Downs") for a total purchase price, including estimated transaction costs, of \$1.8 million (net of cash acquired of \$0.08 million). The total purchase price of \$1.8 million was paid by the issuance of 267,416 shares of Class A Subordinate Voting Stock. Great Lakes Downs operates the Great Lakes Downs racetrack which is located on approximately 85 acres of land in the city of Muskegon, Michigan.

Bay Meadows

On November 17, 2000 the Company completed the acquisition of Bay Meadows Operating Co., LLC and Bay Meadows Catering (collectively "Bay Meadows") for a total purchase price, including estimated transaction costs, of \$24.1 million, (net of cash acquired of \$0.09 million) payable in cash. Bay Meadows operates the Bay Meadows racetrack, which is located in the city of San Mateo, California. The property on which the Bay Meadows racetrack is located is leased under an agreement that expires on the later of December 31, 2002 or the final date of any horse racing meet in progress on December 31, 2002 but in no event later than March 31, 2003.

The purchase price, which may be adjusted further, has been allocated to the assets and liabilities acquired as follows:

	Great		
	Lakes	Вау	
	Downs	Meadows	Total
Non-cach working capital (deficit)	\$(3,370)	\$ 701	\$ (2,669)
Non-cash working capital (deficit)	, , ,	ф /О1	,
Real Estate properties	7,688	_	7,688
Fixed assets	2,399	1,587	3,986
Other assets	1,340	21,829	23,169
Debt due within one year	(447)	_	(447)
Long-term debt	(5,840)	_	(5,840)
Net assets acquired and total purchase			
price, net of cash acquired	\$ 1,770	\$24,117	\$25,887
The purchase consideration for these			
The purchase consideration for these			
acquisitions is as follows:			
Cash			\$24,117
Issuance of shares of Class A			
Subordinate Voting Stock			1,770
			\$25,887

Notes to Consolidated Financial Statements

[b] Acquisitions in the year ended December 31, 1999

Gulfstream Park

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

Golden Gate Fields

On December 10, 1999, the Company completed the acquisition of Golden Gate for a total purchase price, including estimated transaction costs, of \$83.4 million (net of cash acquired of \$1.2 million). Of the total purchase price, \$59.1 million was paid in cash, \$7.0 million was paid through the issuance of 1,012,195 shares of Class A Subordinate Voting Stock and the balance of \$17.3 million, representing the discounted value of a promissory note payable, was satisfied by way of an interest-free promissory note payable, \$10.0 million of which matures on the first anniversary of the date of closing and \$5.0 million on each of the second and third anniversaries. Golden Gate operates the Golden Gate Fields racetrack which is located on approximately 181 acres in the cities of Albany and Berkeley, California.

Thistledown and Remington Park

On November 12, 1999, the Company completed the acquisitions of Thistledown and Remington for a total purchase price, including estimated transaction costs, of \$18.7 million (net of cash acquired of \$5.8 million). Of the total purchase price, \$14.2 million was paid in cash and the balance of \$4.5 million was paid through the issuance of 650,695 shares of Class A Subordinate Voting Stock. These companies operate the Thistledown and Remington Park racetracks, which are located on approximately 120 acres of land in the city of North Randall, Ohio and 370 acres of land in the city of Oklahoma City, Oklahoma, respectively. The property on which Remington Park is located is leased under a lease that extends through 2013, with options to renew for five 10-year periods.

San Luis Rey Downs

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

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

			Thistledown and		
	Gulfstream	Golden Gate	Remington Park	SLRD	Total
Non-cash working capital deficit	\$ (3,978)	\$ (4,372)	\$ (3,739)	\$ —	\$ (12,089)
Real estate properties	81,700	81,971	17,683	6,375	187,729
Fixed assets	1,643	2,046	432	_	4,121
Other assets	62,543	31,614	7,243	_	101,400
Debt due within one year	(6,800)		<u>—</u>	_	(6,800)
Deferred income tax liabilities	(53,904)	(27,888)	(2,927)	_	(84,719)
Net assets acquired and total purchase price,					
net of cash acquired	\$81,204	\$83,371	\$18,692	\$6,375	\$189,642

The purchase consideration for these acquisitions is as follows:

Cash	\$160,812
Long-term debt (including portion due within one year)	17,330
Issuance of shares of Class A Subordinate Voting Stock	11,500
	\$189,642

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

Santa Anita Park

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

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

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

[d] Pro-forma Impact

If the acquisitions completed during the years ended December 31, 2000 and 1999 had occurred on January 1, 1999, the Company's unaudited pro forma revenue net of purses, awards and other, would have been \$253.4 million and \$207.5 million for the years ended December 31, 2000 and 1999, respectively, and pro forma net income would have been \$5.3 million and \$8.2 million for the years ended December 31, 2000 and 1999, respectively. The Company's actual revenues net of purses, awards and other were \$223.5 million and \$101.3 million for the years ended December 31, 2000 and 1999, respectively.

3. REAL ESTATE PROPERTIES

Real estate properties consist of:		
		mber 31,
	2000	1999
Residential development inventory	\$ 14,233	\$ 17,460
Revenue producing properties		
Cost		
Land and improvements	161,695	147,620
Buildings	167,862	135,373
Construction in progress	15,019	9,420
	344,576	292,413
Accumulated depreciation		
Buildings	(17,923)	(6,878)
Revenue producing properties, net	326,653	285,535
Properties under and held for development		
Cost		
Land and improvements	148,197	154,402
Buildings	_	141
Construction in progress	1,195	7,168
Properties under and held for development	149,392	161,711
Properties available for sale		
Cost		
Land and improvements	32.176	53,271
Buildings	19,758	27,847
Furniture and fixtures	_	1,362
	51,934	82,480
Accumulated depreciation	, , ,	, , ,
Buildings	(2,583)	(1,570)
Furniture and fixtures	_	(717)
Properties available for sale, net	49,351	80,193
	\$539,629	\$544,899
	•	·

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

Properties available for sale consist of properties held in the United States, Canada and Europe. Included in the results of operations for the year ended December 31, 2000 was operating income of \$0.8 million, pertaining to properties available for sale (for the year ended December 31, 1999 - \$0.8 million; for the five-month period ended December 31, 1998 - \$0.1 million; for the year ended July 31, 1998 - \$0.1 million).

Notes to Consolidated Financial Statements

4. FIXED ASSETS

Fixed assets consist of:

	December 31,		
	2000	1999	
Cost			
Machinery and equipment	\$ 22,476	\$ 19,100	
Furniture and fixtures	11,427	3,489	
	33,903	22,589	
Accumulated depreciation			
Machinery and equipment	(3,983)	(2,289)	
Furniture and fixtures	(1,284)	(410)	
·	\$ 28,636	\$ 19,890	

5. OTHER ASSETS

Other assets consist of:

	December 31,		
	2000	1999	
Racing licenses			
Cost	\$114,058	\$100,077	
Accumulated amortization	(6,199)	(1,108)	
	107,859	98,969	
Mortgage receivable	6,492	_	
Prepaid leases	2,204	1,298	
Goodwill, net	775	_	
Other	231	700	
	\$117,561	\$100,967	

6. INCOME TAXES

[a] Income taxes for SAC, LATC, Gulfstream, FVB (from January 1, 1999), MGE and other separate tax paying legal entities prior to November 5, 1999, were recorded based on their separate tax positions using the liability method of tax allocation. Income taxes with respect to the components of the consolidated statements of operations and comprehensive income (loss) have been recorded at statutory rates based on income before taxes as included in the consolidated statements of operations and comprehensive income (loss) as though such components were separate tax paying entities. Given that the revenues and expenses of these components of the consolidated statements of operations and comprehensive income (loss) have been prepared on a carve out basis from Magna, the resulting income taxes payable and deferred income tax assets and liabilities were included in Magna's net investment, prior to November 5, 1999.

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

			Five-month	Year
	Years	ended	period ended	ended
	Decer	nber 31	December 31,	July 31,
	2000	1999	1998	1998
Expected provision (benefit):				
Federal statutory income				
tax rate (35%)	\$ 544	\$ 971	\$(1,543)	\$(3,014)
State income tax, net of				
federal benefit	84	234	_	_
Losses not benefited	203	1,512	1,366	3,014
Foreign rate differentials	242	96	_	_
Other	39	22	_	
Income tax provision (benefit)	\$1,112	\$2,835	\$ (177)	\$ -

At December 31, 2000 and 1999, the Company has U.S. and European income tax loss carry-forwards totaling \$17.2 million and \$13.4 million, respectively, that have not been recognized for accounting purposes. Of this \$17.2 million in loss carry-forwards at December 31, 2000, \$8.6 million will have no expiration date and the remainder will expire in the following years:

Year:	
2010	\$1,100
2016	1,900
2017	500
2018	5,100
	\$8,600

There are annual limitations on the utilization of \$5.7 million of the loss carry-forwards.

 $\cbox{\bf [c]}$ The details of income (loss) before income taxes by jurisdiction are as follows:

			Five-month	Year
	Years	Years ended		ended
	Decem	nber 31	December 31,	July 31,
	2000	1999	1998	1998
United States	\$ (605)	\$4,506	\$ (540)	\$ (243)
Foreign	2,158	(1,733)	(3,868)	(8,367)
	\$1,553	\$2,773	\$(4,408)	\$(8,610)

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

		s ended mber 31	Five-month period ended December 31, 1998	Year ended July 31, 1998
Current provision				
United States	\$ -	\$ 2,178	\$ -	\$ -
_ Foreign	3,160	1,952	_	
	3,160	4,130		
Future provision				
United States	(323)	(345)	(177)	_
Foreign	(1,725)	(950)	_	_
	(2,048)	(1,295)	(177)	_
	\$1,112	\$ 2,835	\$(177)	\$ -

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

			Five-month	Year
	Years ended		period ended	ended
	Decer	nber 31	December 31,	July 31,
	2000	1999	1998	1998
Amortization of purchase				
accounting fair value				
increments, not allowed for				
tax purposes	\$(2,174)	\$ (522)	\$ -	\$ -
Tax gain in excess of book gain				
on disposal of real estate				
property	(751)	(640)	_	_
Tax gain on revaluation				
of foreign real estate	_	(310)	_	-
Tax benefit of loss carry-forwards	(557)	(1,512)	(451)	(689)
Utilization of loss carry-forwards	1,231	177	_	_
Increase in valuation allowance	203	1,512	274	689
	\$(2,048)	\$(1,295)	\$(177)	\$ -

[f] Future tax assets and liabilities at December31, 2000 consist of the following temporary differences:

	December 31,	
	2000	1999
Assets		
Real estate properties tax value		
in excess of book value	\$17,800	\$18,178
Tax benefit of loss carryforwards		
Pre-acquisition	2,614	1,445
Post-acquisition	2,936	2,379
	23,350	22,002
Valuation allowance		
Valuation allowance against tax		
benefit of loss carryforwards		
Pre-acquisition	(1,445)	(1,445)
Post-acquisition	(2,582)	(2,379)
Valuation allowance against tax benefit		
of real estate properties in excess of book value	(10,930)	(11,811)
	\$ 8,393	\$ 6,367
Liabilities		
Real estate properties book basis		
in excess of tax basis	\$52,041	\$51,429
Other assets book basis in excess of tax basis	34,690	41,321
Other	2,622	433
	\$89,353	\$93,183

[g] Income taxes paid in cash for the year ended December 31, 2000 were \$3.2 million (for the year ended December 31, 1999 - \$2.9 million). For the five-month period ended December 31, 1998 and for the year ended July 31, 1998 there were no income taxes paid in cash.

7. DEBT AND COMMITMENTS

	Dece	mber 31,
	2000	19
A three year term loan facility with permitted borrowings of \$63 million, bearing interest at LIBOR [London Inter-bank Overnight Rate] plus 2.2% per annum (8.825% at December 31, 2000) with balance due on November 30, 2002, secured by a deed of trust against Santa Anita Park racetrack and related real estate.	\$48,000	\$
Non-interest bearing promissory note (imputed interest of 8.675%), payable in three installments, \$10.0 million of which matured in 2000, and \$5.0 million which matures in each of 2001 and 2002.	8,833	17,3
Bank term line of credit with permitted borrowings of \$17.6 million (Austrian Schillings 240 million), bearing interest at EURIBOR plus 0.625% per annum (5.5% at December 31, 2000), payable quarterly. The advance is repayable in annual installments of \$2.9 million (Austrian Schillings 40 million) which began on July 31, 1997. The Company has provided two first mortgages on real estate properties, with carrying value of \$8.2 million at December 31, 2000, as security for this facility.	8,192	8,7
Bank term line of credit, repaid with a final balloon payment in June 2000.	_	6,8
Mortgages outstanding with various Austrian banks and local governments (Austrian Schillings 75 million), bearing interest at rates ranging from 0.5% to 6.75% per annum, payable in semi-annual installments. The mortgages are repayable over various periods to 2037 and are secured by properties with carrying values of \$27.2 million at December 31, 2000.	5,392	5,4
Mortgage note payable to a commercial bank, bearing interest at 8.95%. Quarterly principal and interest payments of \$89,045, with balance due at December 23, 2001. Secured by real estate, furniture and equipment, inventory and accounts receivable.	3,685	
Note payable to a commercial bank, bearing interest at prime plus 1% (10.5% at December 31, 2000). Quarterly principal and interest payments of \$49,631, with balance due at December 23, 2001. Secured by real estate, furniture and equipment, inventory and accounts receivable.	1,192	
Other loans to various subsidiaries from various banks, and city governments, including mortgage loans, equipment loans and a term loan, with interest rates ranging from 4% to 9% .	803	2
	76,097	38,6
Less due within one year	12,754	19,1
	\$63,343	\$19,5

The company is in compliance with all its debt agreements and related covenants.

[b] Future principal repayments on long-term debt at December 31, 2000 are as follows:

2001	\$12,754
2002	9,930
2003	48,231
2004	220
2005	194
Thereafter	4,768
	\$76,097

[c] Interest expense and interest income include:

		Five-n	nonth		Year	
	Years ended		period e	ended	eı	nded
	Decer	nber 31	Decembe	er 31,	July	₇ 31,
	2000	1999		1998		1998
Interest cost, gross						
External debt	\$ 3,263	\$ 1,308	\$	371	\$1	,021
Magna debt	_	701		1,055		986
	3,263	2,009		1,426	2	,007
Less: Interest capitalized	_	343		190		608
Interest expense	\$ 3,263	\$ 1,666	\$	1,236	\$1	,399
Interest income						
External	\$(3,048)	\$ (271)	\$	(15)	\$	(19)
_ Internal		(2,315)				
	\$(3,048)	\$(2,586)	\$	(15)	\$	(19)

Interest capitalized relates to real estate properties under development.

Interest paid in cash for the year ended December 31, 2000 was \$2.5 million (for the year ended December 31, 1999 - \$2.5 million; for the five-month period ended December 31, 1998 - \$1.2 million; for the year ended July 31, 1998 - \$1.9 million).

8. CAPITAL STOCK

[a] The Company's authorized, issued and outstanding capital stock is as follows:

Class A Subordinate Voting Stock with a par value of \$0.01 per share [authorized – 310,000,000] have the following attributes:

- [i] Each share is entitled to one vote per share at all meetings of stockholders.
- [ii] Each share shall participate equally as to dividends with each share of Class B Stock and Exchangeable Share.

Class B Stock with a par value of 0.01 per share [authorized -90,000,000] have the following attributes:

- [i] Each share is entitled to 20 votes per share at all meetings of stockholders.
- [ii] Each share shall participate equally as to dividends with each share of Class A Subordinate Voting Stock and Exchangeable Share.
- [iii] Each share may be converted at any time into a fully-paid share of Class A Subordinate Voting Stock.

In the event that the Class A Subordinate Voting Stock, Class B Stock or Exchangeable Shares are subdivided or consolidated, the other classes shall be similarly changed to preserve the relative position of each class.

[b] On November 5, 1999, Magna completed the Reorganization described in the Principles of Consolidation section set out under "Significant Accounting Policies" in Note 1 to these consolidated financial statements. In addition, the Company's capital structure was established. As of November 5, 1999, 78,535,328 shares of Class B Stock and nil shares of Class A Subordinate Voting Stock were issued and outstanding.

On December 30, 1999, a further amendment to the Company's capital structure was effected. On this date, MEC Holdings (Canada) Inc., a wholly owned Canadian subsidiary of the Company, amended its Articles of Incorporation to create a new class of shares, referred to as Exchangeable Shares.

Each Exchangeable Share may be exchanged by the holder for one share of Class A Subordinate Voting Stock of the Company. The Exchangeable Shares entitle holders to dividend and other rights economically equivalent to shares of the Company's Class A Subordinate Voting Stock and, through a Voting and Exchange Agreement between Magna, the Company and MEC Holdings (Canada) Inc., to vote at meetings of shareholders of the Company. If not previously exchanged by holders for Class A Subordinate Voting Stock of the Company, the Exchangeable Shares will remain outstanding until October 1, 2001 (or a date after October 1, 2001 but prior to April 1, 2003, as determined by the board of directors of MEC Holdings (Canada) Inc. upon notice to holders of Exchangeable Shares), at which time any Exchangeable Shares still outstanding will be automatically redeemed. The redemption price at such time will be satisfied by the delivery of one share of Class A Subordinate Voting Stock of the Company for each Exchangeable Share. The Exchangeable Shares, which have no par value [authorized – unlimited], have the following attributes:

- [i] Each share is entitled, by the holder thereof instructing Magna to exercise one vote attached to a share of the Company's Class A Subordinate Voting Stock or Class B Stock held by Magna, to one vote per share at all meetings of stockholders of the Company, but are non-voting with respect to MEC Holdings (Canada) Inc.
- [ii] Each share shall participate equally as to dividends with each share of Class A Subordinate Voting and Class B Stock.
- [iii] Each share may be converted at any time into a fully-paid share of Class A Subordinate Voting Stock.

On December 30, 1999, 14,823,187 shares of the Company's Class B Stock held by Magna were redeemed for \$110.0 million. On this same date, \$110.0 million was invested by Magna in MEC Holdings (Canada) Inc. in return for 14,823,187 Exchangeable Shares. All of the common shares of MEC Holdings (Canada) Inc. continue to be held by the Company. Given that the Exchangeable Shares are economically equivalent to shares of Class A Subordinate Voting Stock of the Company, the Exchangeable Shares are included in shareholders' equity in the Company's consolidated balance sheet.

Notes to Consolidated Financial Statements

[c] Changes in the Class A Subordinate Voting Stock, Class B Stock and Exchangeable Shares for the years ended December 31, 2000 and 1999 are shown in the following table (number of shares in the following table are expressed in whole numbers and have not been rounded to the nearest thousand):

	Class A	Subordinate	Exchangeable			
	Voti	ng Stock	Sh	nares	Class	B Stock
	Number of	Stated	Number of	Stated	Number of	Stated
	shares	value	shares	value	shares	value
Issued and outstanding						
at December 31, 1998	_	\$ -	_	\$ -	_	\$ -
Issued on completion of the						
Reorganization on November 5, 1999		_	-	_	78,535,328	539,455
Conversion of Class B						
Stock to Exchangeable Shares	_	_	14,823,187	110,000	(14,823,187)	(110,000)
Issued on acquisitions of subsidiaries	1,662,890	11,500	_	_	_	<u> </u>
Issued and outstanding at						
December 31, 1999	1,662,890	11,500	14,823,187	110,000	63,712,141	429,455
Conversion of Class B Stock to Class A						
Subordinate Voting Stock	5,246,085	35,361			(5,246,085)	(35,361)
Issued on acquisition of subsidiary	267,416	1,846				
Conversion of Exchangeable Shares						
to Class A Subordinate Voting Stock	7,015,756	52,063	(7,015,756)	(52,063)		
Issued and outstanding						
at December 31, 2000	14,192,147	\$100,770	7,807,431	\$57,937	58,466,056	\$394,094

[d] Basic and diluted earnings per share of Class A Subordinate Voting Stock, Exchangeable Shares or Class B Stock for the year ended December 31, 2000 have been calculated using 80,421,795 and 80,424,138 shares, respectively. Both amounts have used the weighted average number of shares outstanding during the year. Diluted earnings per share include the dilution effect of options to purchase 2,343 shares.

Basic and diluted loss per share of Class A Subordinate Voting Stock, Exchangeable Share or Class B Stock for the year ended December 31, 1999 have been calculated using 78,686,300 shares. The total amount is comprised of 63,712,141 shares of Class B Stock and 14,823,187 Exchangeable Shares being the number of each class outstanding after the completion of all capital transactions under the Reorganization, plus 150,972 shares of Class A Subordinate Voting Stock representing the weighted average number of shares issued on acquisitions of subsidiaries during the year.

For all periods prior to the year ended December 31, 1999, basic and diluted loss per share of Class A Subordinate Voting Stock, Exchangeable Shares or Class B Stock have been determined using only the 63,712,141 shares of Class B Stock and 14,823,187 Exchangeable Shares issued under the Reorganization.

The following is a summary of the elements used in calculating basic and diluted earnings per share ("EPS"):

		s ended nber 31, 1999	Five-month period ended December 31, 1998	Year ended July 31, 1998
Net income	\$441	\$(62)	\$(4,231)	\$(8,610)
Weighted average shares outstanding Net effect of dilutive	80,422	78,686	78,535	78,535
stock options	2	_	_	_
Diluted weighted average shares outstanding	80,424	78,686	78,535	78,535
EPS: Basic	\$0.01	\$(0.00)	\$(0.05)	\$(0.11)
Diluted	\$0.01	\$(0.00)	\$(0.05)	\$(0.11)

9. CURRENCY TRANSLATION ADJUSTMENT

Unrealized translation adjustments arise on the translation to U.S. dollars of assets and liabilities of the Company's self-sustaining foreign operations. During the year ended December 31, 2000, the Company incurred unrealized currency translation losses of \$8.9 million from the weakening of the Austrian Schilling and the Canadian dollar against the U.S. dollar (an unrealized loss of \$7.5 million for the year ended December 31, 1999, an unrealized gain of \$4.8 million for the five-month period ended December 31, 1998, and an unrealized loss of \$2.0 million for the year ended July 31, 1998).

10. FINANCIAL INSTRUMENTS

[a] Fair Value

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

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

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

Long-term debt

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

[b] Credit Risk

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

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

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

[c] Interest Rate Risk

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

11. SEGMENT INFORMATION

Operating Segments

The Company has two operating segments: racetrack and real estate operations. The following summary presents key information by operating segment.

Var anded December 31, 2000

Year ended Decemb	per 31, 2000		
	Racetrack	Real Estate	
	Operations	Operations	Total
Davience	¢255 240	¢E0 21.4	¢412 E62
Revenue	\$355,249	\$58,314	\$413,563
Income (loss) before income taxes	(3,863)	5,416	1,553
Real estate properties and fixed asset additions	46,128	7,298	53,426
Real estate properties, fixed and other			
assets, net	418,311	267,515	685,826
Current assets	110,011	207,010	86,820
Future tax assets			8,393
Total assets			\$781,039
Year ended Decemb	or 21 1000		
real ended becenit	Racetrack	Real Estate	
			Total
	Operations	Operations	101a1
Revenue	\$164,946	\$21,914	\$186,860
Income (loss) before income taxes	5,418	(2,645)	2,773
Real estate properties and fixed asset additions	48,199	8,340	56,539
Real estate properties, fixed and other			
assets, net	382,235	283,521	665,756
Current assets			88,230
Future tax assets			6,367
Total assets			\$760,353
Five-month period ended l	December 31	. 1998	
•	Racetrack	Real Estate	
	Operations	Operations	Total
Revenue	\$ 8,745	\$ 6,597	\$ 15,342
Loss before income taxes	(435)	(3,973)	(4,408)
Real estate properties and fixed asset additions	633	17,435	18,068
Real estate properties, fixed and other			
assets, net	75,267	259,644	224 011
Current assets	/3,20/	233,044	334,911 29,054
Future tax assets			29,034 177
Total assets			\$364,142
10141 455615			ψ304,14Z

Notes to Consolidated Financial Statements

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

Geographic Segments

Revenue by geographic segment of the Company is as follows:

	V	4 . 4	Five-month	Year
	real	rs ended	period ended	ended
	December 31		December 31,	July 31,
	2000	1999	1998	1998
United States	\$362,749	\$167,262	\$ 9,500	\$ 1,698
Canada	24,545	_	_	_
Europe	26,269	19,598	5,842	18,788
	\$413,563	\$186,860	\$15,342	\$20,486

Real estate properties, fixed and other assets, net of accumulated depreciation and amortization, by geographic segment are as follows:

	Dece	December 31,		
	2000	1999		
United States	\$539,047	\$483,117		
Canada	58,967	75,070		
Europe	87,812	107,569		
	\$685,826	\$665,756		

12. TRANSACTIONS WITH RELATED PARTIES

[a] During the year ended December 31, 2000, the Company purchased from a company associated with members of the family of Mr. F. Stronach, the Chairman of the Board and a Director of the Company and the Chairman of the Board of Magna and Mr. A. Stronach, the Vice-President, Corporate Development and a Director of the Company, approximately 200 acres of land and improvements in Aurora, Ontario for a purchase price of approximately \$11.0 million. This land is adjacent to land currently owned by Magna and other land subject to a conditional sale agreement by Magna to the Company. The purchase agreement for the land was originally entered into by Magna during the five-month period ended

- December 31, 1998, following review and approval of the unrelated members of the Magna Board of Directors. The purchase was completed in October, 2000 after the satisfaction of certain conditions, including the registration of a Plan of Subdivision following the approval of the relevant government authorities. The rights to acquire this land and improvements, as well as golf course construction in progress funded by Magna, were transferred to the Company as part of the Reorganization. The total amount included in properties under and held for development on the consolidated balance sheet at December 31, 2000 and 1999 for this project is \$25.4 million and \$19.8 million, respectively.
- [b] Properties under and held for development includes \$18.2 million which represents the book value of the Aurora lands transferred to the Company by Magna under a conditional sale agreement. The conditional sale agreement is subject to the successful severance of the affected properties. If severance is not obtained within a specified period such that Magna retains ownership of the Aurora lands, Magna must return \$18.2 million to the Company with interest. Prior to completion of the conditional sale, the property is being leased by the Company from Magna for a nominal amount.
- [c] Properties available for sale includes \$4.2 million, which represents the book value of vacant land, transferred to the Company by Magna under two conditional sale agreements. The conditional sale agreements are subject to the successful severance of the affected properties. If severance is not obtained within a specified period such that Magna retains ownership of the properties, Magna must return \$4.2 million to the Company with interest. Prior to the completion of the conditional sale, the property is being leased by the Company from Magna for a nominal amount.
- [d] The Company had granted a limited term option to Magna to reacquire a real estate property for a fixed price equal to its book value of 50 million Austrian Schillings (\$3.7 million). This option was exercised during 2000.
- [e] Effective March 1, 1999, the Company began charging Magna an access fee for its use of the golf course and related facilities in Oberwaltersdorf, Austria. The agreement, which expires on March 1, 2004, stipulates a yearly fee amounting to \$2.7 million. During the years ended December 31, 2000 and 1999, \$2.7 million and \$2.3 million, respectively, have been recognized in revenue related to this fee.
 - The Company has granted Magna a right of first refusal to purchase the Company's two golf courses.
- [f] During the year ended December 31, 2000 the Company sold to a company associated with members of the family of Mr. F. Stronach and Mr. A. Stronach approximately three acres of land in Aurora, Ontario for a sale price of approximately \$0.2 million.

- [g] During the year ended December 31, 2000 the Company sold to Magna approximately 24.5 acres of land in Vaughan, Ontario for a sale price of approximately \$5.8 million. The gain on the sale of the property of approximately \$1.4 million is reported, net of tax, as a contribution to equity.
- [h] One of the Company's subsidiaries, has been named as a defendant in four class actions brought in United States District Courts by various plaintiffs. The plaintiffs in these actions claim unspecified compensatory and punitive damages, for restitution and disgorgement of profits, all in relation to forced labor performed by the plaintiffs for such subsidiary and certain other Austrian and German corporate defendants at their facilities in Europe during World War II. As a result of the Reorganization, the Company acquired the shares of such subsidiary. Under Austrian law, such subsidiary would be jointly and severally liable for the damages awarded in respect of these class action claims. After consolidation of three of these cases in the United States District Court for the District of New Jersey together with over 50 other cases, the presiding judge entered voluntary dismissal orders with prejudice of these three cases and various other cases as a result of agreements reached with plaintiffs' attorneys and the Government of the United States and the Federal Republic of Germany to dismiss all slave labor cases as a result of the creation of the German Remembrance Fund. The fourth action was not consolidated and awaits finalization of similar Austrian funds dealing with slave labor and property right claims. An Austrian subsidiary of Magna has agreed to indemnify such subsidiary for any damages or expenses associated with this case.
- [i] A subsidiary of Magna has agreed to indemnify the Company in respect of environmental remediation costs and expenses relating to existing conditions in certain of the Company's Austrian real estate properties.

13. COMMITMENTS AND CONTINGENCIES

- [a] The Company generates a substantial amount of its revenue 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 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 issued letters of credit to guarantee various construction projects related to activity of a subsidiary. These letters of credit amount to \$5.3 million with expiration dates ranging from February 21, 2001 through December 8, 2001.

[d] At December 31, 2000, the Company had commitments under operating leases requiring annual rental payments for the fiscal periods ending December 31 as follows:

2001	\$2,793
2002	1,834
2003	896
2004	296
2005	177
Thereafter	1,063
	\$7,059

For the year ended December 31, 2000, payments under operating leases amounted to approximately \$3.0 million (for the year ended December 31, 1999 - \$767 thousand; for the five-month period ended December 31, 1998 - \$39 thousand; for the year ended July 31, 1998 - \$44 thousand).

The Company occupies land for the Remington racing facility under an operating lease that extends through 2013. The lease also contains options to renew for five 10-year periods after the initial term. Under the lease agreement, the Company made an initial payment of \$4 million that is being amortized over the initial lease term. In addition to the initial payment, the Company is obligated to pay additional rent based on minimum annual rental payments ranging from \$111 thousand to \$133 thousand and one-half of one percent of the wagers made at the track in excess of \$187 million during the racing season.

14. EMPLOYEE BENEFIT AND STOCK OPTIONS

Employee Defined Benefit Plans

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

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

The Santa Anita Park racetrack was acquired in December 1998, and the Company had no defined benefit plans prior thereto. Accordingly, a reconciliation of the benefit obligation, plan assets, funded assets of the plan and the components of the net periodic benefit cost has not been provided for the five-month period ended December 31, 1998 or the year ended July 31, 1998. The benefit obligation and fair value of plan assets as of December 31, 1998 was \$8.7 million and \$7.4 million, respectively.

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

Notes to Consolidated Financial Statements

The net periodic pension cost of the Company for the years ended December 31, 2000 and 1999 included the following components:

	Years ended December 31,		
		2000	1999
Components of net periodic pension cost:			
Service cost	\$	196	\$ 392
Interest cost on projected benefit obligation		588	573
Actual return on plan assets		(922)	(942)
Net amortization and deferral		348	485
Net periodic pension cost	\$	210	\$ 508

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

	Years ended December 31,			
		2000		1999
Change in benefit obligation:				
Benefit obligation at beginning of period	\$	8,669	\$	8,668
Service cost		196		392
Interest cost		588		573
Benefits paid		(537)		(508)
Actuarial losses		282		(456)
Benefit obligation at end of period		9,198		8,669
Change in plan assets:				
Fair value of plan assets at beginning of period		8,287		7,351
Actual return on plan assets		922		942
Company contributions		470		502
Benefits paid		(537)		(508)
Fair value of plan assets at end of period		9,142		8,287
Funded status of plan (underfunded)		(56)		(382)
Unrecognized net gain		(178)		(112)
Net pension liability	\$	(234)	\$	(494)

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

	Years ended December 31,	
	2000	1999
Weighted average discount rate	7.0%	7.0%
Weighted average rate of increase in compensation levels	5.0%	5.0%
Expected long-term rate of return	8.0%	8.0%

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

The Company also participates in several multi-employer benefit plans on behalf of its employees who are union members. Company contributions to these plans were \$3.8 million and \$4.8 million, respectively, for the years ended December 31, 2000 and 1999. The data available from administrators of the multi-employer pension plans is not sufficient to determine the accumulated benefit obligations, nor the net assets attributable to the multi-employer plans in which Company employees participate.

The Company offers various 401(k) plans (the "Plans") to provide retirement benefits for employees. All employees who meet certain eligibility requirements are able to participate in the Plans. Discretionary matching contributions are determined each year by the Company. The Company contributed to the Plans \$273 thousand in the year ended December 31, 2000 and approximately \$223 thousand in 1999 from the dates of acquisition through December 31, 1999.

Long-Term Incentive Plan

The Company has a Long-Term Incentive Plan (the "Plan") (adopted in 2000) which allows for the grant of nonqualified 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 8.0 million shares could be issued under the Plan, of which 6.5 million are available for issuance pursuant to stock options and tandem stock appreciation rights and 1.5 million are available for issuance pursuant to any other type of award under the Plan.

During 2000, the Company has granted stock options to certain directors, officers and key employees to purchase shares of the Company's Class A Subordinate Voting Stock. The majority of the 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 three to five years from the date of grant at a rates of ¹/sth to ¹/3rd per year and expire on December 31, 2009, subject to earlier cancellation in the events specified in the stock option agreements entered into by the Company with each recipient of options. The exercise price of the options range from \$4.875 to \$7.00.

Information with respect to shares under options as of December 31, 2000 is as follows:

	Shares Subject to Option	Weighted Average Exercise Price
Balance, December 31, 1999	<u> </u>	\$ -
Granted	4,665,000	6.39
Exercised	_	_
Forfeited	(843,334)	6.73
Expired	_	_
Balance, December 31, 2000	3,821,666	6.31

Information regarding stock options outstanding as of December 31, 2000 is as follows:

	Options	Options
	Outstanding	Exercisable
Number	3,821,666	1,451,000
Weighted average exercise price	\$6.31	\$6.41
Weighted average remaining contractual life (years)	8.4	7.5

Pro forma information regarding net income and earnings per share is required by Financial Accounting Standard No, 123 "Accounting and Disclosure of Stock-Based Compensation" ("FAS No. 123") and has been determined as if the Company had accounted for its stock options under the fair value method under FAS No. 123. The average fair values of the stock option grants were \$1.07. The fair value of stock option grants were estimated at the date of grant using the following assumptions:

Risk Free Interest rates	5% to 5.5%
Dividend yields	0%
Volatility factors of expected market price of	
Class A Subordinate Voting Stock	0.001
Weighted average expected life (years)	4.14

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 its stock options due to the ten month trading period of the Company's common stock.

The Company's FAS No. 123 pro forma net income and the related per share amounts for 2000 are as follows:

Net income, as reported	\$ 441
Pro forma stock compensation expense (net of taxes)	(213)
Pro forma net income	\$ 228
Pro forma net income per share	\$0.00

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

15. SUPPLEMENTARY FINANCIAL INFORMATION

[a] Quarterly Information (unaudited):

Summarized quarterly financial information of the Company for each of the years in the three year period ended December 31, 2000 is as follows:

For the year ended December 31, 2000	March 31	June 30	September 30	December 31	Total
Revenue	\$186,468	\$102,344	\$50,213	\$74,538	\$413,563
Gross profit (loss)	31,262	14,290	953	(1,181)	45,324
Net income (loss)	11,980	2,752	(5,110)	(9,181)	441
For the year ended December 31, 1999	March 31	June 30	September 30	December 31	Total
Revenue	\$ 97,865	\$ 34,712	\$10,419	\$43,864	\$186,860
Gross profit (loss)	19,277	1,750	(3,402)	426	18,051
Net income (loss)	9,325	(1,235)	(5,090)	(3,062)	(62)
For the year ended December 31, 1998	March 31	June 30	September 30	December 31	Total
Revenue	\$ 5,748	\$ 4,995	\$ 6,453	\$12,788	\$ 29,984
Gross profit (loss)	(1,292)	(1,300)	(1,180)	154	(3,618)
Net loss	(2,300)	(2,464)	(2,876)	(2,806)	(10,446)

Notes to Consolidated Financial Statements

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

[b] Comparative Information (unaudited):

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

Revenue	\$ 5,844
Real estate costs and expenses	
<u> </u>	0.700
Operating costs	6,723
General and administrative	248
Depreciation and amortization	742
Interest expense	526
Loss before income taxes	(2,395)
Income taxes	_
Net loss	\$(2,395)

16. CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company's accounting policies as reflected in these consolidated financial statements do not materially differ from accounting principles generally accepted in Canada ("Canadian GAAP") except that under Canadian GAAP, there is no requirement to disclose comprehensive income (loss).

17. SUBSEQUENT EVENTS

On December 21, 2000 the Company announced that it had entered into an agreement with Ladbroke Racing Corp. and one of its subsidiaries to acquire Ladbroke's account wagering operations, The Meadows harness track, four off-track betting facilities and an interest in The Racing Network. The purchase price of \$53 million will be paid \$26.5 million in cash, \$13.25 million through the issuance of Class A Subordinate Voting Stock of the Company and \$13.25 million through the issuance of a 6% promissory note, of which \$6.625 million matures on the first anniversary of the date of the closing and \$6.625 million matures on the second anniversary. Subject to the receipt of regulatory approvals, the acquisition is expected to close in early April 2001.

Shareholder Information

Office Locations for Magna Entertainment Corp. and its major operations

Magna Entertainment Corp.

337 Magna Drive Aurora, Ontario, Canada L4G 7K1 Telephone: (905) 726-2462

Bay Meadows Racecourse

2600 S. Delaware Street San Mateo, California, USA 94402 Telephone: (650) 574-7223

Fontana Sports

Magna-Strasse 1 A-2522 Oberwaltersdorf, Austria Telephone: 011-43-2253-600-0

Golden Gate Fields

1100 Eastshore Highway Albany, California, USA 94706 Telephone: (510) 559-7300

Great Lakes Downs

4800 Harvey Street Muskegon, Michigan, USA 49444 Telephone: (231) 799-2400

Stock Listings

Class A Subordinate Voting Shares – Nasdaq National Market (MIEC) The Toronto Stock Exchange (MIE.A)

Exchangeable Shares -

The Toronto Stock Exchange (MEH)

Gulfstream Park

901 South Federal Highway Hallandale, Florida, USA 33009 Telephone: (954) 454-7000

Remington Park

One Remington Place Oklahoma City, Oklahoma, USA 73111 Telephone: (405) 424-1000

Santa Anita Park

285 W. Huntington Drive Arcadia, California, USA 91007 Telephone: (626) 574-7223

Thistledown

21501 Emery Road North Randall, Ohio, USA 44128 Telephone: (216) 662-8600

Magna Golf Club

14780 Leslie Street Aurora, Ontario, Canada L4G 7C3 Telephone: (905) 726-7069

Transfer Agents and Registrars

Canada – Class A and Exchangeable Shares Computershare Trust Company of Canada

United States – Class A Shares Computershare Trust Company, Inc. Lakewood, Colorado, USA

Trading Data - Class A Shares

	Nas	Nasdaq		TSE	
2000	High	Low	High	Low	
	(\$U	(\$US)		(\$Cdn)	
1st Quarter	6.12	3.00	8.75	3.50	
2nd Quarter	7.75	2.81	11.45	4.00	
3rd Quarter	7.50	5.75	11.65	8.50	
4th Quarter	6.70	4.25	10.00	6.40	

As of March 19, 2001, there were 431 registered holders of Class A Subordinate Voting Shares.

Management

Directors

Jerry D. Campbell

Chairman of the Board Republic Bancorp Inc.

William G. Davis

Counsel, Torys (Barristers and Solicitors)

Peter M. George

Independent Director and Consultant

Joseph W. Harper

President and General Manager Del Mar Thoroughbred Club

J. Terrence Lanni

Chairman of the Board and Chief Executive Officer MGM MIRAGE

Edward C. Lumley

Vice-Chairman BMO Nesbitt Burns

Jim McAlpine

President and Chief Executive Officer Magna Entertainment Corp.

Tames Nicol

President and Chief Operating Officer Magna International Inc.

Gino Roncelli

Chief Executive Officer
Roncelli Plastics Inc.

Andrew Stronach

Vice President, Corporate Development Magna Entertainment Corp.

Frank Stronach

Chairman of the Board Magna International Inc.

Ronald J. Volkman

Chairman of the Board and President ATX, Inc.

John C. York II

Executive Vice-President
The Edward J. DeBartolo Corporation

Officers

Frank Stronach

Chairman

Jerry D. Campbell

Vice-Chairman

James Nicol

Vice-Chairman

Jim McAlpine

President and Chief Executive Officer

Donald Amos

Executive Vice-President and Chief Operating Officer

Graham J. Orr

Executive Vice-President and Chief Financial Officer

Gary M. Cohn

Vice-President, Special Projects and Secretary

Frank DeMarco, Jr.

Vice-President, Regulatory Affairs

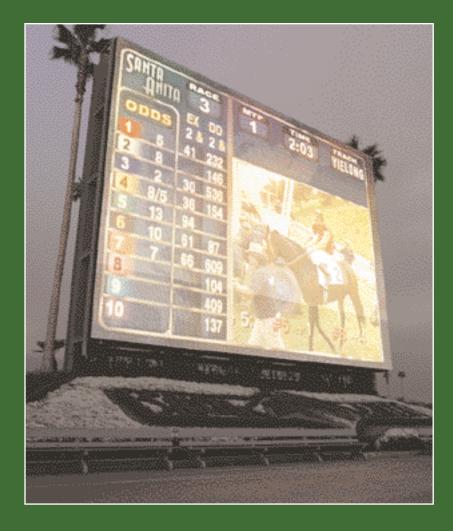
Andrew Stronach

Vice-President, Corporate Development

Douglas R. Tatters

Vice-President and Controller

Copies of the Financial Statements for the Year Ended December 31, 2000 are available through the Internet on the Electronic Data Gathering Analysis and Retrieval (EDGAR) system, which can be accessed at www.sec.gov/edgarhp.htm for U.S. shareholders, and on the System for Electronic Document Analysis and Retrieval (SEDAR), which can be accessed at www.sedar.com for Canadian shareholders. The Report on Form 10-K, Form 10-Qs, Form 8-Ks and other required securities filings can also be found on EDGAR and SEDAR.



Magna Entertainment Corp.

337 Magna Drive Aurora, Ontario, Canada L4G 7K1 Telephone: (905) 726-2462 www.magnaentertainment.com