

MEC Financial Review 2001

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Overview

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

Magna Entertainment Corp. ("MEC") is the leading owner and operator of thoroughbred racetracks in the United States, based on revenue, and a leading supplier, via simulcasting, of live racing content to the growing inter-track, off-track and account wagering markets. We currently operate eight thoroughbred racetracks, one standardbred racetrack and one greyhound track, as well as the simulcast wagering venues at these tracks. In addition, we operate OTB facilities and a national account wagering business, known as XpressBet™, previously known as "Call-A-Bet", which permits customers to place wagers by telephone and over the Internet on horse races at up to 65 racetracks in North America. We also have a one-third ownership interest in Racetrack Television Network, LLC, a new venture formed to telecast races from our racetracks and other racetracks, via satellite, to paying subscribers.

Since our inception in 1998, we have experienced significant growth in scale and profitability through a disciplined acquisition program and the realization of operating efficiencies. We intend to grow and develop our business further by:

- Selectively acquiring additional strategic racetracks and related assets;
- Continuing to integrate our acquisitions by employing "best practice" improvements at our racetracks;

- Expanding the distribution of our live racing;
- Further developing an integrated branding and marketing strategy; and
- Improving the quality of the entertainment experience at our racetracks and OTB facilities.

In addition to our racetracks, we also have significant real estate holdings in the United States, Canada and Austria. While we are exploring the development of some of our real estate, we intend to continue to sell our non-core real estate in order to generate additional capital to grow and enhance our racing business.

The amounts described below are based on our consolidated financial statements, which we prepare in accordance with U.S. generally accepted accounting principles ("GAAP"). U.S. GAAP, as applied to us, does not materially differ from accounting principles generally accepted in Canada, or Canadian GAAP, except as disclosed in Note 15 to the consolidated financial statements.

The following Management's Discussion and Analysis should be read in conjunction with our consolidated financial statements.

Racing operations

Information about our racing operations is set forth below.

Track and Location	Date Acquired	Local Market Population ⁽¹⁾ (in millions)	Year ended December 31, 2001			
			Racing Season	Live Racing Days	Total Handle ⁽²⁾ (in millions) (unaudited)	Revenue (in millions) (unaudited)
Santa Anita Park – Los Angeles	Dec. 1998	10.9	Jan. 1 to Apr. 16 and Dec. 26 to 31 The Oak Tree Meet – Sept. 26 to Nov. 5	83 32	\$1,101.4 323.6 ⁽³⁾	\$143.0
Gulfstream Park – Miami	Sept. 1999	4.3	Jan. 3 to Mar. 16	63	704.0	65.1
Golden Gate Fields – San Francisco	Dec. 1999	5.2	Jan. 1 to Apr. 1 and Nov. 7 to Dec. 17	103	534.9	61.4
Bay Meadows – San Francisco	Nov. 2000	5.7	Apr. 4 to Jun. 17 and Aug. 31 to Nov. 5	107	495.3	64.6
The Meadows ⁽⁴⁾⁽⁵⁾ – Pittsburgh	Apr. 2001	2.8	All Year	222	381.1	70.9
Thistledown – Cleveland	Nov. 1999	3.0	Apr. 6 to Dec. 31	187	237.4	36.3
Remington Park – Oklahoma City	Nov. 1999	1.1	Jan. 13 to Feb. 25, Apr. 7 to June 9 and Aug. 11 to Nov. 24	118	133.9	26.6
Great Lakes Downs – Muskegon, Michigan	Feb. 2000	1.2	Apr. 30 to Oct. 30	127	59.3	6.0
Portland Meadows ⁽⁴⁾ – Portland	July 2001	2.0	Jan. 1 to Apr. 30 and Oct. 27 to Dec. 31	80	47.0	13.8
Multnomah Greyhound Park ⁽⁴⁾ – Portland	Oct. 2001	2.0	May 1 to Oct. 16	119	47.1	9.3
TOTAL:						\$497.0

(1) Population residing within 40 miles of each of our racetracks, except for Santa Anita Park (30 miles), The Meadows (50 miles) and Great Lakes Downs (50 miles). Data from Urban Systems Inc.

(2) Amounts comprising Total Handle include inter-company transactions for our ten racetracks and our separate OTB facilities, for both our importing and our exporting facilities.

(3) Rental and other revenues earned from The Oak Tree Meet are included in Santa Anita Park's revenue.

(4) Includes unaudited data for the periods prior to our ownership.

(5) Includes total revenue and handle of our four OTB facilities and our XpressBet™ account wagering operations through our Pennsylvania hub.

Our primary source of racetrack revenues is commissions earned from pari-mutuel wagering. Pari-mutuel wagering on horse racing is a form of wagering in which wagers on a horse race are aggregated in a commingled pool of wagers (the "mutuel pool") and the payoff to winning customers is determined by both the total dollar amount of wagers in the mutuel pool and the allocation of those dollars among the various kinds of bets. Unlike casino gambling, the customers bet against each other, and not against us, and therefore we bear no risk of loss with respect to any wagering conducted. We retain a pre-determined percentage of the total amount wagered (the "take-out") on each event and the remaining balance of the mutuel pool is distributed to the winning customers. Of the percentage we retain, a portion is paid to the horse owners in the form of purses or winnings, which encourage the horse owners and their trainers to enter their horses in our races. 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 OTB facilities, and through various forms of account wagering. Our racetracks have simulcast wagering facilities to complement our live horse racing, enabling our customers to wager on horse races being held at other racetracks.

We derive our gross wagering revenues from the following primary sources:

- Wagers placed at our racetracks or our OTB facilities on live racing conducted at our racetracks;
- Wagers placed at our racetracks' simulcast wagering venues or our OTB facilities on races imported from other racetracks;
- Wagers placed at other locations (e.g., other racetracks, OTB facilities or casinos) on live racing signals exported by our racetracks; and
- Wagers placed by telephone or over the Internet by customers enrolled in our national account wagering program, XpressBet™.

Wagers placed at our racetracks or our OTB facilities on live racing conducted at one of our racetracks produce more revenue for us than wagers placed on imported racing signals, because we must pay the racetrack sending us its signal a fee generally equal to 3% to 4% of the amount wagered on its race. Wagers placed on imported signals, in turn, produce more revenue for us than wagers placed on our signals exported to off-track venues (i.e., other racetracks, OTB facilities or casinos), where we are paid a commission generally equal to only 3% to 4% of the amount wagered at the off-track venue on the signal we export to those venues. Revenues from our telephone and Internet account wagering operations vary depending upon the source of the signal upon which the wager is placed; wagers placed on our signals produce more revenue for us than wagers placed on races imported by us from other racetracks.

We also generate non-wagering revenues consisting primarily of food and beverage sales, program sales, admissions income, parking revenues and income from the rental of our facilities to other racing operators.

Live race days are a significant factor in the operating and financial performance of our racing business. Another significant factor is the level of wagering per customer on our racing content on-track, at inter-track simulcast locations and at OTB facilities. There are also many other factors that have a significant impact on our racetrack revenues, which factors include, but are not limited to: attendance at our racetracks; inter-track simulcast locations and OTB facilities; activity through our XpressBet™ system; the number of races and the average field size per race; our ability to attract the industry's top horses and trainers; inclement weather; and changes in the economy.

Set forth below is a list of the total live race days by racetrack for the years ended December 31, 2001, 2000 and 1999 as well as of those live race days during our ownership of the racetracks.

	<u>Year ended 12/31/01</u>		<u>Year ended 12/31/00</u>		<u>Year ended 12/31/99</u>	
	Total	During Our Ownership	Total	During Our Ownership	Total	During Our Ownership
Santa Anita Park ⁽¹⁾	83	83	87	87	84	84
Golden Gate Fields	103	103	106	106	105	13
Bay Meadows	107	107	106	-	104	-
Gulfstream Park	63	63	63	63	63	-
Thistledown	187	187	187	187	187	18
Remington Park	118	118	136	136	123	16
Great Lakes Downs	127	127	132	132	139	-
The Meadows	222	170	231	-	231	-
Portland Meadows	80	28	80	-	80	-

(1) Excludes The Oak Tree Meet which consisted of 32 days in 2001, 27 days in 2000 and 31 days in 1999.

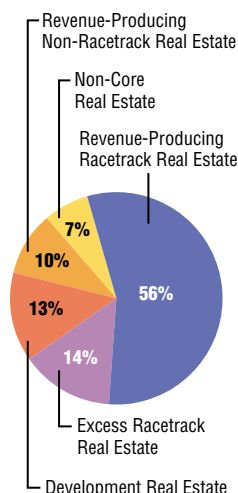
We recognize revenue prior to our payment of purses, stakes, awards and pari-mutuel wagering taxes. The costs relating to these amounts are shown as "purses, awards and other" in our consolidated financial statements.

Our operating costs include principally salaries and benefits, utilities, the cost of food and beverages sold, racetrack repairs and maintenance expenses, sales and marketing expenses, rent, printing costs, property taxes, licenses and insurance.

The Company is currently considering a major redevelopment of its Gulfstream Park racetrack in Florida (the "Gulfstream Park Redevelopment"). Should it proceed as currently contemplated, the Gulfstream Park Redevelopment would include a simulcast pavilion, sports and entertainment arena and a new turf club and grandstand. In addition, there would be significant modifications and enhancements to the racetracks and stable areas. If completed, the Gulfstream Park Redevelopment would require the demolition of a substantial portion of the current buildings and related structures, which include the grandstand, turf club and annex. The aggregate carrying value at December 31, 2001 of the assets that would be demolished if the Gulfstream Park Redevelopment is completed is approximately \$23.0 million. If the Company decides to proceed with the Gulfstream Park Redevelopment and obtains the approval of its Board of Directors, a reduction in the expected life of the existing assets would occur and a write-down would be necessary.

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

Real Estate Holdings



Seasonality

As a result of the seasonal nature of our racetrack business, our racetrack revenues and operating results for any quarter will not be indicative of the revenues and operating results for the year. Because four of our largest racetracks, Santa Anita Park, Gulfstream Park, Bay Meadows and Golden Gate Fields, run live race meets principally during the first half of the year, our racing operations have historically operated at a loss in the second half of the year, with our third quarter generating the largest loss. This seasonality has resulted in large quarterly fluctuations in revenue and operating results. We expect the seasonality of our business to gradually diminish as our acquisition and account wagering initiatives evolve.

Real estate operations

We characterize our real estate as follows:

Revenue-Producing Racetrack Real Estate

- real estate at our racetracks to be used in our racing operations;

Excess Racetrack Real Estate

- excess real estate at our racetracks that we are considering developing with strategic partners;

Development Real Estate

- real estate not at our racetracks that is either under development or that we are holding for development;

Revenue-Producing Non-Racetrack Real Estate

- developed real estate not at our racetracks that is currently generating revenue for us; and

Non-Core Real Estate

- non-core real estate that we hold for sale.

As of December 31, 2001, the aggregate net book values of our real estate and certain fixed assets were as follows:

	\$ millions
Revenue-Producing Racetrack Real Estate ⁽¹⁾	\$320.4
Excess Racetrack Real Estate	80.8
Development Real Estate	78.3
Revenue-Producing Non-Racetrack Real Estate ⁽¹⁾	56.7
Non-Core Real Estate	38.5
	\$574.7

(1) Includes fixed assets.

Approximately 39.5% of our earnings before interest, taxes, depreciation and amortization for the year ended December 31, 2001 resulted from gains from sales of our Non-Core Real Estate. We expect these gains to be reduced to zero over the next two years as the balance of our Non-Core Real Estate is sold. We intend to continue to sell the balance of our Non-Core Real Estate in order to provide capital to grow and enhance our racing business; accordingly, we are currently servicing, improving and seeking zoning and other approvals for some of this real estate in order to enhance its value on sale.

Included in our Excess Racetrack Real Estate is land adjacent to three of our largest racetracks, Santa Anita Park, Gulfstream Park and Golden Gate Fields, totaling approximately 150 acres. We are considering a variety of options with respect to this excess land, including entertainment and retail-based developments that could be undertaken in conjunction with business partners who would be expected to provide the necessary financing, as we do not intend to devote our capital to the development of our Excess Racetrack Real Estate.

Our Development Real Estate is largely undeveloped, and includes: 481 acres in Palm Beach County, Florida that are being used to develop a horse training and boarding facility; approximately 1,050 acres of land in Ebreichsdorf, Austria, located approximately 15 miles south of Vienna, on which we have commenced development of a horse racetrack; approximately 110 acres of undeveloped land in Oberwaltersdorf, Austria, also located approximately 15 miles south of Vienna; approximately 800 acres of undeveloped land in upstate New York; and approximately 225 acres of land in northern California between San Francisco and Sacramento.

Our Revenue-Producing Non-Racetrack Real Estate consists of two golf courses that we operate, Fontana Sports and Magna Golf Club. Fontana Sports, which opened in 1997, is a semi-private sports facility located in Oberwaltersdorf, Austria that includes an 18-hole golf course, a clubhouse which contains a restaurant, pro shop, tennis club and a fitness facility. The Magna Golf Club, which is in Aurora, Ontario, adjacent to our and Magna International Inc.'s ("Magna") headquarters approximately 30 miles north of Toronto, opened in May 2001. We are currently marketing and accepting memberships in the Magna Golf Club. The clubhouse is expected to be completed in the spring of 2002. When completed, the clubhouse will contain a restaurant, a members' lounge and a pro shop.

Pursuant to an access arrangement effective as of March 1, 1999, Magna is paying us an annual fee of 2.5 million Euros to access the Fontana Sports golf course and related recreational facilities for Magna-sponsored corporate and charitable events, as well as for business development purposes. The access fee relating to Fontana Sports is payable until March 1, 2004. Pursuant to an access agreement effective as of January 1, 2001, Magna is paying an annual fee of \$5.0 million Canadian to access the Magna Golf Club. The access fee relating to the Magna Golf Club is payable until December 31, 2003. The Fontana Sports and Magna Golf Club properties are both subject to rights of first refusal in favor of Magna if we decide to sell either of them.

Related Party Transactions

Refer to Note 12 to the consolidated financial statements which describes all related party transactions.

Results of Operations

The following is a discussion and comparison of our results of operations and financial position for the years ended December 31, 2001, 2000 and 1999.

Year Ended December 31, 2001 Compared to December 31, 2000

Racetrack operations

Revenues from our racetrack operations were \$459.4 million in 2001, compared to \$355.2 million in 2000, an increase of \$104.2 million or 29.3%. This increase resulted primarily from having nine racetracks open for live racing for some part of the year, compared with only six open in 2000. We acquired the operations of Bay Meadows on November 17, 2000, the operations of MEC Pennsylvania, formerly Ladbroke Pennsylvania, which include the operations of The Meadows, four OTB facilities and the Pennsylvania hub for XpressBet™, on April 5, 2001 and Multnomah Greyhound Park on October 26, 2001. In addition, in the second quarter of 2001, we leased a racetrack facility in Portland, Oregon operating as Portland Meadows.

In 2001, gross wagering revenues for our racetracks increased 30.8% to \$394.0 million, compared to \$301.3 million in 2000, primarily relating to the increase in live race days due to our acquisitions. Non-wagering revenues in 2001 increased 21.3% to \$65.4 million, compared to \$54.0 million in 2000. Contributing to the increase in non-wagering revenues were increases in revenues from parking, admissions and program sales related to the increase in live race days due to our acquisitions and the addition of food and beverage revenues from our Gulfstream Park facility, previously contracted out to concession operators.

Purses, awards and other increased by 28.1% to \$243.4 million in 2001 from \$190.0 million in 2000 primarily due to the increase in gross wagering revenues for the year. As a percentage of gross wagering revenue, purses, awards and other decreased from 63.1% in 2000 to 61.8% in 2001. Operating costs increased to \$152.6 million in 2001 from \$128.6 million in 2000. As a percentage of total racetrack revenues, operating costs decreased from 36.2% in 2000 to 33.2% in 2001. The reduction in operating costs as a percentage of revenues was primarily the result of cost savings and other synergies realized on the consolidation of racetrack operations during the year. Racetrack general and administrative expenses were \$31.1 million in 2001, compared to \$18.1 million in 2000. As a percentage of total racetrack revenue, general and administrative expenses increased from 5.1% in 2000 to 6.8% in 2001. The increase in general and administrative expenses as a percentage of total racetrack revenue in 2001 was primarily related to the higher costs of the corporate head office, where we have continued to add management expertise. These costs were significantly lower during the formative stage of the Company in 2000.

Real estate operations

Revenues from real estate operations were \$59.6 million in 2001, compared to \$58.3 million in 2000. Earnings before interest, taxes, depreciation and amortization from real estate activities increased to \$22.6 million in 2001 from \$7.6 million in 2000. These increases are primarily attributable to the sale of Non-Core Real Estate in 2001. In 2001 we had gains on the sale of Non-Core Real Estate of \$20.4 million, compared to gains of \$7.0 million during the same period in 2000. The increase in sales is consistent with management's stated intention to provide capital for future growth by selling our Non-Core Real Estate.

Predevelopment and other costs

Predevelopment and other costs were \$3.2 million in 2001 compared to \$4.2 million in 2000. These costs include consultants' fees associated with technology development, feasibility studies, construction designs, market analyses, site models and alternative site investigations.

Depreciation and amortization

Depreciation and amortization increased by \$6.1 million to \$26.2 million in 2001, compared to \$20.1 million in 2000. The increase in depreciation and amortization is primarily attributable to our Bay Meadows and MEC Pennsylvania acquisitions and increased depreciation recorded on recent fixed asset additions.

Interest income and expense

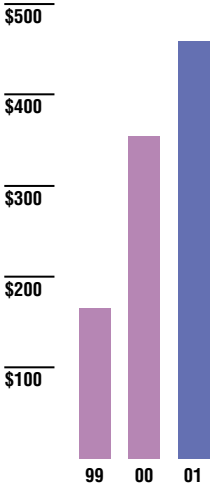
Our net interest expense for the year ended December 31, 2001 increased \$2.5 million to \$2.7 million from \$0.2 million in 2000. The higher net interest expense is attributable to the increase in long-term debt in the fourth quarter of 2000 and the second quarter of 2001, related to the financings of our Bay Meadows and MEC Pennsylvania acquisitions and the purchase of 481 acres of land in Palm Beach County, Florida, offset by interest capitalized on properties under development.

Income tax provision

We recorded an income tax provision of \$9.3 million on income before income taxes of \$22.8 million in 2001, compared to an income tax provision of \$1.1 million on income before income taxes of \$1.6 million in 2000. Our effective income tax rate in 2001 was 41.0%, compared to 71.6% in 2000, primarily as a result of the higher level of operating losses in certain subsidiaries in 2000, for which we did not recognize the tax benefit in that period.

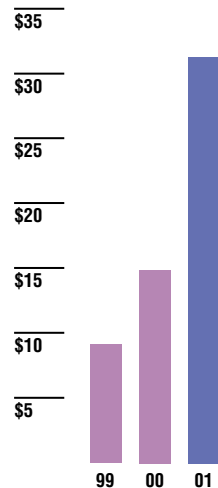
Management's Discussion and Analysis of Results of Operations and Financial Position

Racetrack Revenues (US\$ Millions)



**EBITDA Before Gains
On The Sale Of
Real Estate**

(US\$ Millions)



Year Ended December 31, 2000 Compared to December 31, 1999

Racetrack operations

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 115.4%. 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 of live racing and simulcast operations for all the racetracks we owned except for Great Lakes Downs and Bay Meadows, revenues for which are included from their dates of acquisition 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 125.0% to \$301.3 million in 2000, compared to \$133.9 million in 1999, primarily as a result of our racetrack acquisitions. Non-wagering revenues in 2000 were \$54.0 million, compared to \$31.0 million in 1999, an increase of 74.0%. 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 customers that would generate non-wagering revenues.

Purses, awards and other increased 122.2%, 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 total racetrack revenues, operating costs decreased from 38.4% in 1999 to 36.2% in 2000, purses, awards and other increased from 51.9% to 53.5%, and general and administrative expenses increased from 3.6% to 5.1%. The reduction in operating costs as a percentage of revenues is primarily the result of cost savings and other synergies realized in connection with the consolidation of racetrack operations in 2000. Racetrack general and administrative expenses increased to \$18.1 million in 2000, compared to \$6.0 million in 1999. The increase was primarily due to the additional racetracks acquired in late 1999 and 2000, the significant costs incurred to restructure our corporate office and other one-time costs, primarily related to severance payments and the closing of our Santa Monica office, 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. Earnings before interest, taxes, depreciation and amortization from real estate operations increased to \$7.6 million in 2000 from \$0.1 million in 1999. This increase was primarily attributable to an increase in the amount of Non-Core Real Estate sold in 2000 compared to 1999. For the year ended December 31, 2000, we had gains of \$7.0 million on the sale of real estate, compared to gains of \$0.6 million in 1999.

Predevelopment and other costs

Predevelopment and other costs related to both our racing operations and our real estate operations were \$4.2 million in 2000, compared to \$0.5 million in 1999, resulting from increasing our predevelopment activities in 2000.

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 full year depreciation and amortization charges related to Gulfstream Park, Thistledown, Remington Park and Golden Gate Fields, all acquired in the second half of 1999, and partial year depreciation and amortization charges related to Great Lakes Downs and Bay Meadows, both 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 in 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 the purchase of land in Palm Beach County, Florida.

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 in 1999. The decrease in our income tax provision resulted primarily from the higher level of operating losses in 1999 of some of our subsidiaries, for which we did not recognize the tax benefit in that period.

Year Ended December 31, 1999 Compared to December 31, 1998

Prior to becoming a separate public company, we and our parent company, Magna, changed our fiscal year ends from July 31 to December 31, effective December 31, 1998. As a consequence of this change in year end, we reported a five-month period ended December 31, 1998 in our consolidated financial statements. Throughout this section of our Management's Discussion and Analysis of Results of Operations and Financial Position, all amounts for the year ended December 31, 1999 are compared to the unaudited results for the year ended December 31, 1998 as restated for comparative purposes only.

(U.S. dollars in thousands)	Years Ended	
	December 31, 1999	December 31, 1998 (Unaudited)
Revenues		
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		
Cost of real estate sold	1,916	-
Operating costs	18,071	25,348
General and administrative	1,833	2,004
Predevelopment and other costs	454	-
Depreciation and amortization	7,924	2,762
Interest (income) expense, net	(920)	2,075
	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 the year ended December 31, 1999, compared to \$8.7 million in 1998. Santa Anita Park's full year 1999 operations contributed revenues of \$147.9 million and the remaining racetracks that were acquired in late 1999 contributed \$17.0 million. The other racetracks' operations are only reflected in our results from the date of acquisition. We earned no revenues from our racetrack operations at Gulfstream Park, Thistledown, Remington Park and Golden Gate Fields in the comparable 1998 period as they were acquired in September 1999, November 1999, November 1999 and December 1999, respectively. Our total revenues from racetrack operations in the comparable 1998 period of \$8.7 million were attributable only to Santa Anita Park, which was acquired on December 10, 1998 and included only a few live race days in 1998.

In 1999, gross wagering revenues for our racetracks were \$133.9 million, of which Santa Anita Park contributed revenues of \$120.1 million and the remaining racetracks contributed \$13.8 million. Non-wagering revenues in 1999 were \$31.0 million, of which Santa Anita Park earned \$27.8 million and the other racetracks earned \$3.2 million. The major components of non-wagering revenues were admission-related revenues of \$13.7 million (consisting primarily of admissions, parking and program sales) and food and beverage sales of \$9.9 million, collectively representing 76% of total non-wagering revenues.

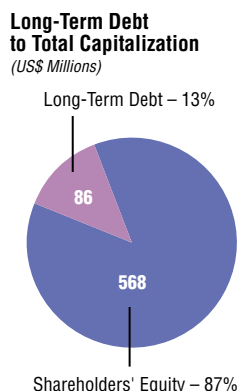
Purses, awards and other in 1999 were \$85.5 million, of which Santa Anita Park incurred \$76.6 million and the remaining racetracks incurred \$8.9 million. Operating costs and general and administrative expenses of \$63.3 million and \$6.0 million, respectively, are largely attributable to Santa Anita Park, given the dates of acquisition of Gulfstream Park, Thistledown, Remington Park and Golden Gate Fields, all of which were acquired in late 1999 and had few live race days in 1999 subsequent to their acquisition date.

Real estate operations

Revenues from real estate operations were \$21.9 million in 1999, compared to \$21.2 million in 1998. Rental and other revenues decreased by \$1.9 million to \$19.3 million in 1999 from \$21.2 million in 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 the fee payable under Magna's access fee agreement with Fontana Sports, which commenced March 1, 1999. Earnings before interest, taxes, depreciation and amortization from real estate operations increased to \$0.1 million in 1999, from a loss of \$6.1 million in the year ended December 31, 1998. Approximately \$0.6 million of the increase is attributable to the sale of Non-Core Real Estate in 1999 compared to no sales in 1998. Operating costs and general and administrative expenses decreased from \$27.4 million in 1998 to \$19.9 million in 1999. 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 in fiscal year 1997.

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

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



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.

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 recording a full year of depreciation and amortization related to our late 1998 acquisition of Santa Anita Park and a partial year of depreciation and amortization related to our 1999 acquisitions.

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 related to higher cash balances in 1999 primarily attributable to Magna's equity investment in us 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.

Liquidity and Capital Resources

Year Ended December 31, 2001

Operating activities

Cash provided by operations before changes in non-cash working capital increased \$18.6 million in 2001 compared to 2000. The increase was attributable to increases in net income, depreciation and amortization and future income taxes, partially offset by additional gains recorded on the disposal of Non-Core Real Estate. In 2001, cash invested in non-cash working capital balances was \$0.7 million.

Investing activities

Cash used in investing activities in 2001 was \$7.5 million, including investments of \$40.0 million in real estate property and fixed asset and other asset additions and \$24.0 million on the acquisitions of MEC Pennsylvania and Multnomah Greyhound Park, partially offset by \$56.5 million of proceeds received on the sale of Non-Core Real Estate. In 2001, we invested \$38.9 million in real estate and fixed asset additions, which included \$6.4 million

for the purchase of real estate, \$14.8 million related to maintenance capital improvements to the racetracks and \$10.7 million on the Magna Golf Club in Aurora, Ontario. The remaining \$7.0 million of expenditures related to racetrack property enhancements, infrastructure and predevelopment costs on certain of our properties and on account wagering activities, including the telephone and Internet and television distribution.

Financing activities

Cash used for financing activities was \$10.2 million in 2001. During 2001, there were repayments of bank indebtedness of \$7.6 million and of long-term debt of \$18.0 million, partially offset by the issuance of long-term debt of \$15.0 million related to our term loan facility and the issuance of share capital of \$0.5 million.

Year Ended December 31, 2000

Operating activities

In 2000, we generated \$7.7 million of cash flow from operations and invested \$23.8 million in working capital, resulting in a net use of cash of \$16.1 million for operating activities. During the comparable period in 1999, we generated \$5.9 million of cash flow from operations and our investment in working capital decreased by \$9.3 million, resulting in net cash from operating activities of \$15.2 million. The decrease in cash flow from operations of \$31.3 million from \$15.2 million in 1999 to a use of cash of \$16.1 million in 2000 is primarily due to the need to fund working capital deficiencies in that period related to acquisitions completed in the latter part of 1999 and early 2000. Those funding requirements had been taken into consideration in the negotiation of the purchase price of those acquisitions.

Investing activities

Cash used in investing activities was \$35.3 million for the year ended December 31, 2000. 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 included the purchase of 481 acres of property in Palm Beach County, Florida, which we are currently developing into a second horse boarding and training center for \$22.9 million, \$22.5 million on continued spending in connection with the Magna Golf Club in Aurora, Ontario and \$8.6 million on upgrades to racetrack facilities, normal ongoing maintenance items and other fixed assets. Cash used in investing activities in 2000 was partially offset by proceeds of \$33.4 million from the sale of Non-Core Real Estate.

Financing activities

Cash provided by financing activities for the year ended December 31, 2000 was \$32.9 million. 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 other real estate 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 in connection with the acquisition of Gulfstream Park and the repayment of a portion of the promissory note issued in connection with the acquisition of Golden Gate Fields.

Year Ended December 31, 1999

Operating activities

Cash provided by operating activities in 1999 of \$15.2 million 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 other operations.

Investing activities

Cash used in investing activities in 1999 totaled \$215.4 million and included primarily \$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, \$56.5 million was spent on real estate property and other fixed asset additions, which included \$45.0 million of spending on a capital renovation program at Santa Anita Park, \$8.0 million on upgrades to our racetrack facilities, normal ongoing maintenance items and other fixed assets, and \$3.5 million on the development of the Magna Golf Club in Aurora, Ontario.

Financing activities

Throughout 1999, cash provided by financing activities was primarily through contributions by Magna. On September 1, 1999, Magna invested \$250.0 million in cash by way of an equity contribution.

Working Capital, Cash and Other Resources

Our working capital (other than cash and cash equivalents) was (\$22.6) million at December 31, 2001, compared to (\$11.1) million at December 31, 2000. The decreased investment in working capital (other than cash and cash equivalents) was primarily a result of an increase in accounts payable and other accruals of \$11.6 million as a result of increased track level activity and the increased number of tracks operating at year end.

At December 31, 2001, we had cash and cash equivalents of \$39.2 million and total shareholders' equity of \$567.9 million.

One of our subsidiaries, The Santa Anita Companies, Inc., is a party to a secured term loan facility, which bears interest at rates ranging between the U.S. prime rate and LIBOR plus 2.2% per annum. At December 31, 2001, \$59.9 million was outstanding under this fully drawn term loan facility. The maturity date of this facility has been extended to November 30, 2004. In addition to this facility, as at December 31, 2001, we have approximately \$26.0 million of other long-term debt with various terms and an unused and available operating line of credit of \$10.0 million.

On November 15, 2001, the Company filed an amendment to its registration statement offering 20 million shares of Class A Subordinate Voting Stock for sale.

We believe that our current cash resources, cash flow from our racetrack and real estate operations and cash available under our Santa Anita credit facility described above will be sufficient to finance our operations and our maintenance capital expenditure program during the next year. However, in order to complete our acquisition and strategic capital programs, we will be required to seek additional debt and/or equity financing through public or private sources. If such additional financing is not available to us as needed or on terms acceptable to us, we may not be able to complete our acquisition or strategic capital programs.

Qualitative and Quantitative 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 the Euro will result in fluctuations in shareholders' equity and comprehensive income. We have generally not entered into derivative financial arrangements for hedging purposes, and have not and will not enter into such arrangements for speculative purposes.

Additionally, we are exposed to interest rate risk. Interest rates are 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, 2001 and our current credit facilities, a 1% increase or decrease in interest rates on our line of credit and other variable rate borrowings would not materially affect our annual future earnings and cash flows. Based on borrowing rates currently available to us, the carrying amount of our debt approximates its fair value.

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

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 2001, the Financial Accounting Standards Board issued Statements No. 141 ("SFAS 141"), Business Combinations and No. 142 ("SFAS 142"), Goodwill and Other Intangible Assets. SFAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method of accounting. In addition, SFAS 141 provides new criteria to determine when an acquired intangible asset should be recognized separately from goodwill.

SFAS 142 requires the application of the non-amortization and impairment rules for existing goodwill and other intangible assets that meet the criteria for indefinite life beginning with fiscal years starting after December 15, 2001. In all cases, SFAS 142 must be adopted at the beginning of a fiscal year.

The Company will apply the new standards on accounting for goodwill and other intangible assets beginning in its first quarter of 2002. Application of the non-amortization provisions of SFAS 142 is expected to result in an increase in income before taxes of approximately \$8.0 million per year. Although the Company will perform the required impairment tests on its intangible assets that meet the criteria for indefinite life, as of January 1, 2002, it has not yet determined the impact, if any, of this test on its consolidated financial statements.

During 2001, the Financial Accounting Standards Board issued Statement No. 143 ("SFAS 143") Accounting for Asset Retirement Obligations. SFAS 143 requires that legal obligations arising from the retirement of tangible long-lived assets, including obligations identified by a company upon acquisition and construction and during the operating life of a long-lived asset, be recorded and amortized over the asset's useful life using a systematic and rational allocation method. SFAS 143 is effective for fiscal years starting after June 15, 2001.

Also during 2001, the Financial Accounting Standards Board issued Statement No. 144 ("SFAS 144"), Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144, which supersedes Statement No. 121 ("SFAS 121"), is effective for fiscal years beginning after December 15, 2001. SFAS 144 provides guidance on differentiating between assets held for sale, and assets held for disposal other than by sale. Consistent with SFAS 121, SFAS 144 continues to require the same approach for recognizing and measuring the impairment of assets to be held and used.

Although the Company is currently reviewing SFAS 143 and SFAS 144, it has not determined the impact, if any, of these pronouncements on its consolidated financial statements.

Forward-looking Statements

This Management's Discussion and Analysis of Results of Operations and Financial Position contains statements which, to the extent that they are not recitations of historical fact, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and/or 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, the Company. 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 ability to renew our existing agreements with the horse owners at our racetracks on satisfactory terms, a significant increase in the taxes and fees to which our business is subject, our continued ability to complete expansion projects designed to generate new revenues and attract new customers, our ability to sell some of our real estate properties 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. Readers are cautioned that such statements are only predictions and that our actual operating results and financial condition may differ materially. In evaluating such forward-looking statements, readers should specifically consider the various factors which could cause our actual operating results and financial condition to differ materially from those indicated by such forward-looking statements, including those contained in the "Risk Factors" section of the Company's Report on Form 10-K for its fiscal year ended December 31, 2001 and our subsequent filings with the United States Securities and Exchange Commission.

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 United States generally accepted accounting principles. 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 United States generally accepted auditing standards 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.



Graham J. Orr
Executive Vice-President
and Chief Financial Officer

Toronto, Canada
February 1, 2002

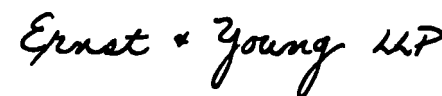
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of **Magna Entertainment Corp.**

We have audited the accompanying consolidated balance sheets of Magna Entertainment Corp. as of December 31, 2001 and 2000, and the related consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for the years ended December 31, 2001, 2000 and 1999. 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 United States generally accepted auditing standards. 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, 2001 and 2000, and the consolidated results of its operations and its cash flows for the years ended December 31, 2001, 2000 and 1999, in conformity with United States generally accepted accounting principles.



Ernst & Young LLP

Toronto, Canada
February 1, 2002

REPORT OF THE INDEPENDENT AUDITORS

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

**CONSOLIDATED
STATEMENTS OF
OPERATIONS AND
COMPREHENSIVE
INCOME (LOSS)**

Magna Entertainment Corp.

		Years ended December 31,		
	Note	2001	2000	1999
Revenues	11, 12			
Racetrack				
Gross wagering		\$393,981	\$301,288	\$133,924
Non-wagering		65,430	53,961	31,022
Real estate				
Sale of real estate		40,600	37,630	2,544
Rental and other		19,050	20,684	19,370
		519,061	413,563	186,860
Costs and expenses				
Racetrack				
Purses, awards and other		243,389	190,043	85,520
Operating costs		152,561	128,612	63,302
General and administrative		31,092	18,117	5,987
Real estate				
Cost of real estate sold		20,171	30,656	1,916
Operating costs		15,789	18,928	18,071
General and administrative		1,130	1,133	1,833
Predevelopment and other costs		3,240	4,245	454
Depreciation and amortization		26,194	20,061	7,924
Interest expense (income), net	7	2,682	215	(920)
		496,248	412,010	184,087
Income before income taxes	11	22,813	1,553	2,773
Income taxes	6	9,349	1,112	2,835
Net income (loss)		13,464	441	(62)
Other comprehensive loss				
Foreign currency translation adjustment		(9,062)	(8,938)	(7,493)
Comprehensive income (loss)		\$ 4,402	\$ (8,497)	\$ (7,555)
Earnings per share for Class A Subordinate Voting Stock, Class B Stock or Exchangeable Share:				
Basic	8	\$ 0.16	\$ 0.01	\$ 0.00
Diluted	8	\$ 0.16	\$ 0.01	\$ 0.00
Average number of shares of Class A Subordinate Voting Stock, Class B Stock and Exchangeable Shares outstanding during the period [in thousands]:				
Basic	8	82,930	80,422	78,686
Diluted	8	83,242	80,424	78,686

See accompanying notes

[U.S. dollars in thousands]

U.S. dollars in thousands

	Note	Years ended December 31,		
		2001	2000	1999
Cash provided from (used for)				
OPERATING ACTIVITIES:				
Net income (loss)		\$13,464	\$ 441	\$ (62)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities				
Depreciation and amortization		26,194	20,061	7,924
Future income taxes	6	7,082	(5,802)	(1,295)
Gain on disposal of real estate properties		(20,429)	(6,974)	(628)
		26,311	7,726	5,939
Changes in non-cash working capital				
Restricted cash		(5,053)	(5,709)	(2,691)
Accounts receivable		(1,587)	(4,139)	(8,607)
Prepaid expenses and other		3,325	1,563	(2,952)
Accounts payable		769	(5,114)	4,688
Accrued salaries and wages		(443)	3,172	1,653
Customer deposits		2,181	—	—
Other accrued liabilities		3,278	(6,840)	11,931
Income taxes payable		(5,023)	(6,146)	6,042
Deferred revenue		1,871	(622)	(777)
		(682)	(23,835)	9,287
		25,629	(16,109)	15,226
INVESTMENT ACTIVITIES:				
Acquisition of businesses, net of cash	2	(23,951)	(24,117)	(160,812)
Real estate property additions		(31,009)	(46,493)	(47,430)
Fixed asset additions		(7,853)	(7,535)	(9,017)
Other assets (additions) disposals		(1,208)	9,493	(683)
Proceeds on real estate sold to Magna	12	12,436	6,147	—
Proceeds on disposal of real estate		44,039	27,250	2,544
		(7,546)	(35,255)	(215,398)
FINANCING ACTIVITIES:				
(Decrease) increase in bank indebtedness		(7,609)	759	(2,722)
Issuance of long-term debt		15,000	48,000	—
Repayment of long-term debt		(18,026)	(15,853)	(3,278)
Issuance of share capital		476	—	—
Net contribution by Magna		—	—	244,458
		(10,159)	32,906	238,458
Effect of exchange rate changes on cash and cash equivalents		(688)	(226)	(68)
Net increase (decrease) in cash and cash equivalents during the year		7,236	(18,684)	38,218
Cash and cash equivalents, beginning of year		31,976	50,660	12,442
Cash and cash equivalents, end of year		\$39,212	\$31,976	\$50,660

See accompanying notes

**CONSOLIDATED
STATEMENTS OF
CASH FLOWS**

Magna Entertainment Corp.

[U.S. dollars in thousands]

**CONSOLIDATED
BALANCE SHEETS**

Magna Entertainment Corp.

	Note	December 31,	
		2001	2000
ASSETS			
Current assets:			
Cash and cash equivalents		\$ 39,212	\$ 31,976
Restricted cash		18,782	13,461
Accounts receivable		33,101	33,399
Prepaid expenses and other		5,162	7,984
		96,257	86,820
Real estate properties, net	3	542,006	536,181
Fixed assets, net	4	32,671	32,084
Other assets, net	5	179,665	117,561
Future tax assets	6	3,657	8,393
		\$854,256	\$781,039
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank indebtedness		\$ —	\$ 7,609
Accounts payable		46,036	39,433
Accrued salaries and wages		7,171	7,614
Customer deposits		2,181	—
Other accrued liabilities		17,418	14,140
Income taxes payable	6	1,312	1,111
Long-term debt due within one year	7	18,133	12,754
Deferred revenue		5,531	3,660
		97,782	86,321
Long-term debt	7	67,768	63,343
Other long-term liabilities	14	2,576	234
Future tax liabilities	6	118,276	89,353
Commitments and contingencies	12, 13		
Shareholders' equity:			
Class A Subordinate Voting Stock	8	157,633	100,770
Exchangeable Shares	8	16,800	57,937
Class B Stock	8	394,094	394,094
Contributed surplus	12	7,290	1,352
Retained earnings (deficit)		11,474	(1,990)
Accumulated comprehensive loss	9	(19,437)	(10,375)
		567,854	541,788
		\$854,256	\$781,039

See accompanying notes

On behalf of the Board:


Director


Director

[U.S. dollars in thousands]

	Magna's Net Investment	Class A Subordinate Voting Stock	Exchangeable Shares	Class B Stock	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Comprehensive Loss
Magna's net investment at December 31, 1998	\$302,502	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Activity for the three-months ended March 31, 1999:							
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 for acquisitions		11,500					
Balances at December 31, 1999	—	11,500	110,000	429,455		(2,431)	(1,437)
Activity for the year ended December 31, 2000:							
Net income						441	
Net contribution by Magna					1,352		
Other comprehensive loss							(8,938)
Conversion of Class B Stock to Class A Subordinate Voting Stock		35,361		(35,361)			
Issue of Class A Subordinate Voting Stock for an acquisition		1,846					
Conversion of Exchangeable Shares to Class A Subordinate Voting Stock		52,063	(52,063)				
Balances at December 31, 2000	—	100,770	57,937	394,094	1,352	(1,990)	(10,375)
Activity for the year ended December 31, 2001:							
Net income						13,464	
Net contribution by Magna					5,938		
Other comprehensive loss							(9,062)
Issue of Class A Subordinate Voting Stock for acquisitions		15,250					
Issue of Class A Subordinate Voting Stock under the Long-term Incentive Plan		476					
Conversion of Exchangeable Shares to Class A Subordinate Voting Stock		41,137	(41,137)				
Balances at December 31, 2001	\$ —	\$157,633	\$16,800	\$394,094	\$7,290	\$11,474	\$(19,437)

See accompanying notes

**CONSOLIDATED
STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY**

Magna Entertainment Corp.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Magna Entertainment Corp.

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements have been prepared in U.S. dollars following United States generally accepted accounting principles ("U.S. GAAP"). These policies are also in conformity, in all material respects, with Canadian generally accepted accounting principles, except as described in Note 15 to these 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 near 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 Grundstücksentwicklungs GmbH (formerly Magna Grundstücksentwicklungs GmbH) (collectively "MGE"). MGE's primary asset is a parcel of land held for development in Ebreichsdorf, Austria.
- Land and improvements in Aurora, Ontario (the "Aurora lands") which are subject to a conditional sale agreement by Magna to the Company. The conditional sale agreement is subject to the successful severance of the affected properties.
- Various other parcels of land and improvements (the "vacant land portfolio") and other non-automotive properties, including any incidental operations associated with such properties. One of these properties is subject to a conditional sale agreement.
- Rights to acquire, from an affiliated company (see Note 12), approximately 200 acres of land and improvements in Aurora, Ontario. An 18-hole golf course was subsequently constructed and a clubhouse is currently under construction on the property known as the Magna Golf Club.

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 the 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 income 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.

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 at acquisition and excludes restricted cash which represents segregated cash accounts held by the Company on behalf of others, primarily horse owners.

Impairment of Long-Lived Assets

The Financial Accounting Standards Board Statement 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 of the long-lived assets 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, based upon using discounted future cash flows, 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, if necessary, the carrying value is reduced to the estimated fair value less costs of disposal. Fair value is determined based upon discounted cash flows of the assets at rates deemed reasonable for the type of property and prevailing market conditions, appraisals and, if appropriate, current estimated net sales proceeds from pending offers.

Real Estate Properties

Revenue-Producing Racetrack Real Estate

Revenue-producing racetrack real estate is 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.

Excess Racetrack Real Estate

Excess racetrack real estate is 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.

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Development Real Estate

Development real estate is 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.

Revenue-Producing Non-Racetrack Real Estate

Revenue-producing non-racetrack real estate is 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.

Non-Core Real Estate

Non-core real estate includes properties available for sale and residential development real estate. 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. Residential development real estate 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.

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 the fixed assets as follows: machinery and equipment over 3 to 15 years and furniture and fixtures over 5 to 7 years.

Government grants and tax credits received for capital expenditures are reflected as a reduction of the cost of the related asset.

Racing Licenses and Goodwill

Racing licenses represent the value attributed to licenses to conduct race meets acquired through the Company's acquisition of racetracks. Goodwill represents the excess of the purchase price of a subsidiary company over the fair value of the underlying net identifiable assets arising on acquisition. Racing licenses and goodwill are amortized on a straight-line basis over 20 years.

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. Wagering revenues are recognized 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 statement of operations and comprehensive income (loss).

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 real estate.

Golf course annual membership fee revenues are recognized into revenue ratably over the applicable season. Non-refundable golf membership initiation fees are deferred and amortized over the expected membership life.

Deferred Revenues

Deferred revenues associated with racetrack operations consist primarily of prepaid box seats, admission tickets and parking, which are recognized into revenue ratably over the period of the related race meet.

Seasonality of Revenues

The Company's racetrack business is seasonal in nature. The Company's racetrack revenues and operating results for any quarter will not be indicative of the revenues and operating results for the year. A disproportionate share of annual revenues and net earnings are earned in the first quarter of each year.

Advertising

Costs incurred for producing advertising associated with horse racing are generally expensed when the advertising program commences. 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 year-end and revenues and expenses are translated at the average rate during the year. 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

The Financial Accounting Standards Board Statement No. 123 ("SFAS 123"), Accounting for Stock-Based Compensation provides companies an alternative to accounting for stock-based compensation as prescribed under APB Opinion No. 25 ("APB 25"). SFAS 123 encourages, but does not require companies to recognize an expense for stock-based awards based on their fair value at the date of grant. SFAS 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 fair value method been used. The Company accounts for stock-based compensation under APB 25 and provides pro-forma disclosure required by SFAS 123.

Earnings per Share

Basic earnings per share is computed by dividing net income (loss) by the weighted average number of Class A Subordinate Voting Stock, Class B Stock and Exchangeable Shares outstanding during the year. 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 2001, the Financial Accounting Standards Board issued Statements No. 141 ("SFAS 141"), Business Combinations and No. 142 ("SFAS 142"), Goodwill and Other Intangible Assets. SFAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method of accounting. In addition, SFAS 141 provides new criteria to determine when an acquired intangible asset should be recognized separately from goodwill.

SFAS 142 requires the application of the non-amortization and impairment rules for existing goodwill and other intangible assets that meet the criteria for indefinite life beginning with fiscal years starting after December 15, 2001. In all cases, SFAS 142 must be adopted at the beginning of a fiscal year.

The Company will apply the new standards on accounting for goodwill and other intangible assets beginning in its first quarter of 2002. Application of the non-amortization provisions of SFAS 142 is expected to result in an increase in income before income taxes of approximately \$8.0 million per year. Although the Company will perform the required impairment tests on its intangible assets that meet the criteria for indefinite life, as of January 1, 2002, it has not yet determined the impact, if any, of this test on its consolidated financial statements.

During 2001, the Financial Accounting Standards Board issued Statement No. 143 ("SFAS 143"), Accounting for Asset Retirement Obligations. SFAS 143 requires that legal obligations arising from the retirement of tangible long-lived assets, including obligations identified by a company upon acquisition and construction and during the operating life of a long-lived asset, be recorded and amortized over the asset's useful life using a systematic and rational allocation method. SFAS 143 is effective for fiscal years starting after June 15, 2001.

Also during 2001, the Financial Accounting Standards Board issued Statement No. 144 ("SFAS 144"), Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144, which supersedes Statement No. 121 ("SFAS 121"), is effective for fiscal years beginning after December 15, 2001. SFAS 144 provides guidance on differentiating between assets held for sale, and assets held for disposal other than by sale. Consistent with SFAS 121, SFAS 144 continues to require the same approach for recognizing and measuring the impairment of assets to be held and used.

Although the Company is currently reviewing SFAS 143 and SFAS 144, it has not determined the impact, if any, of these pronouncements on its consolidated financial statements.

Reclassification

Certain comparative figures have been reclassified to conform to the current year's method of presentation.

2. BUSINESS ACQUISITIONS

The following acquisitions were accounted for using the purchase method:

[a] Acquisitions in the year ended December 31, 2001

MEC Pennsylvania

On April 5, 2001, the Company completed the acquisition of Ladbroke Racing Pennsylvania, Inc. and Sport Broadcasting, Inc. (collectively the "Ladbroke Companies" or "MEC Pennsylvania") for a total purchase price, including transaction costs, of \$46.6 million, net of cash acquired of \$7.0 million. The total purchase price was satisfied by cash payments of \$20.1 million, the issuance of two promissory notes totaling \$13.25 million which bear interest at 6% with the first note in the amount of \$6,625,000 maturing on the first anniversary of the closing date and the second note in the amount of \$6,625,000 maturing on the second anniversary of the closing date and by the issuance of 3,178,297 shares of Class A Subordinate Voting Stock. The Ladbroke Companies include account wagering operations, The Meadows harness racetrack and four off-track betting facilities located around the Pittsburgh, Pennsylvania area.

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Multnomah Greyhound Park

On October 26, 2001, the Company acquired all the outstanding capital stock of MKC Acquisition Co., operating as Multnomah Greyhound Park, for a total purchase price, including transaction costs, of \$5.9 million, net of cash acquired of \$0.3

million. Of the total purchase price, \$3.9 million was paid in cash and the balance of \$2.0 million through the issuance of 330,962 shares of Class A Subordinate Voting Stock. Multnomah Greyhound Park is located in Portland, Oregon and operates a greyhound dog racing and pari-mutuel horse wagering business.

The purchase price of these 2001 acquisitions, which may be adjusted further, has been allocated to the assets and liabilities acquired as follows:

	MEC Pennsylvania	Multnomah Greyhound Park	Total
Non-cash working capital deficit	\$ (6,514)	\$ (292)	\$ (6,806)
Real estate properties and fixed assets	19,947	292	20,239
Other assets	60,587	9,602	70,189
Future taxes	(27,448)	(3,723)	(31,171)
Net assets acquired and total purchase price, net of cash acquired	\$46,572	\$ 5,879	\$52,451
The purchase consideration for these acquisitions is as follows:			
Cash	\$20,072	\$ 3,879	\$23,951
Issuance of two promissory notes	13,250	—	13,250
Issuance of Class A Subordinate Voting Stock	13,250	2,000	15,250
	\$46,572	\$ 5,879	\$52,451

[b] 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 transaction costs, of \$1.8 million, net of cash acquired of \$0.08 million. The total purchase price of \$1.8 million was satisfied by the issuance of 267,416 shares of Class A Subordinate Voting Stock. Great Lakes Downs, Inc. owns and 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 cash purchase price, including transaction costs, of \$24.1 million, net of cash acquired of \$0.09 million. Bay Meadows Operating Co., LLC 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 of these 2000 acquisitions, has been allocated to the assets and liabilities acquired as follows:

	Great Lakes Downs	Bay Meadows	Total
Non-cash working capital (deficit)	\$ (3,370)	\$ 701	\$ (2,669)
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 acquisitions is as follows:			
Cash			\$24,117
Issuance of Class A Subordinate Voting Stock			1,770
			\$25,887

[c] 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 cash purchase price, including transaction costs, of \$81.2 million, net of cash acquired of \$8.0 million. 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 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 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 of land in the cities of Albany and Berkeley, California.

The purchase price of these 1999 acquisitions, has been allocated to the assets and liabilities acquired as follows:

	Gulfstream Park	Golden Gate Fields	Thistledown and Remington Park	San Luis Rey Downs	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)	—	—	—	(6,800)
Future taxes	(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	17,330
Issuance of Class A Subordinate Voting Stock	11,500
	\$189,642

Thistledown and Remington Park

On November 12, 1999, the Company completed the acquisitions of Thistledown and Remington for a total purchase price, including 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 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 leased land in the city of Oklahoma City, Oklahoma, respectively. The Remington Park lease 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.

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[d] Pro-forma Impact

If the acquisitions completed during the years ended December 31, 2001 and 2000 had occurred on January 1, 2000, the Company's unaudited pro-forma revenue would have been \$548.0 million and \$564.2 million for the years ended December 31, 2001 and 2000, respectively, and unaudited pro-forma net income would have been \$13.6 million and \$6.1 million for the years ended December 31, 2001 and 2000, respectively.

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3. REAL ESTATE PROPERTIES

Real estate properties consist of:

	December 31,	
	2001	2000
Revenue-producing racetrack real estate		
Cost		
Land and improvements	143,446	136,792
Buildings	155,256	131,592
Construction in progress	5,580	15,019
	304,282	283,403
Accumulated depreciation		
Buildings	(12,650)	(4,983)
Revenue-producing racetrack real estate, net	291,632	278,420
Excess racetrack real estate	80,839	80,839
Development real estate		
Cost		
Land and improvements	74,728	67,358
Construction in progress	3,549	1,195
Development real estate, net	78,277	68,553
Revenue-producing non-racetrack real estate		
Cost		
Land and improvements	24,892	24,903
Buildings	30,449	23,284
Construction in progress	1,444	—
	56,785	48,187
Accumulated depreciation		
Buildings	(3,974)	(3,402)
Revenue-producing non-racetrack real estate, net	52,811	44,785
Non-core real estate		
Land and improvements	28,705	46,409
Buildings	14,190	19,758
	42,895	66,167
Accumulated depreciation		
Buildings	(4,448)	(2,583)
Non-core real estate, net	38,447	63,584
	\$542,006	\$536,181

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

4. FIXED ASSETS

Fixed assets consist of:

	December 31,	
	2001	2000
Revenue-producing racetrack fixed assets		
Cost		
Machinery and equipment	\$ 37,008	\$ 34,571
Furniture and fixtures	10,785	6,591
	47,793	41,162
Accumulated depreciation		
Machinery and equipment	(17,489)	(12,340)
Furniture and fixtures	(1,510)	—
Revenue-producing racetrack fixed assets, net	28,794	28,822
Revenue-producing non-racetrack fixed assets		
Cost		
Machinery and equipment	\$ 2,232	\$ 2,585
Furniture and fixtures	4,481	3,143
	6,713	5,728
Accumulated depreciation		
Machinery and equipment	(1,009)	(1,182)
Furniture and fixtures	(1,827)	(1,284)
Revenue-producing non-racetrack fixed assets, net	3,877	3,262
	\$ 32,671	\$ 32,084

5. OTHER ASSETS

Other assets consist of:

	December 31,	
	2001	2000
Racing licenses		
Cost	\$184,550	\$114,058
Accumulated amortization	(14,195)	(6,199)
	170,355	107,859
Mortgage receivable and other	8,574	8,927
Goodwill, net	736	775
	\$179,665	\$117,561

6. INCOME TAXES

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

	Years ended December 31,		
	2001	2000	1999
Expected provision:			
Federal statutory income tax rate (35%)	\$ 7,985	\$ 544	\$ 971
State income tax, net of federal benefit	571	84	234
Losses not benefited	262	203	1,512
Foreign rate differentials	546	242	96
Other	(15)	39	22
Income tax provision	\$ 9,349	\$1,112	\$2,835

At December 31, 2001, the Company had United States federal and Austrian income tax loss carry-forwards totaling approximately \$15.0 million. Of the \$15.0 million in loss carry-forwards at December 31, 2001, \$9.3 million have no expiration date and the remainder, which are not available until 2005, expire as follows:

Year:	
2010	\$1,100
2016	1,900
2017	500
2018	2,200
	\$5,700

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

	Years ended December 31,		
	2001	2000	1999
United States	\$ (203)	\$ (605)	\$4,506
Foreign	23,016	2,158	(1,733)
	\$22,813	\$1,553	\$2,773

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

	Years ended December 31,		
	2001	2000	1999
Current provision			
United States	\$ 1,550	\$ —	\$2,178
Foreign	717	3,160	1,952
	2,267	3,160	4,130
Future provision			
United States	(531)	(323)	(345)
Foreign	7,613	(1,725)	(950)
	7,082	(2,048)	(1,295)
	\$ 9,349	\$1,112	\$2,835

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

	Years ended December 31,		
	2001	2000	1999
Tax deferral on sale of real estate	\$10,448	—	—
Amortization of purchase accounting fair value increments, not allowed for tax purposes	\$ (2,732)	\$ (2,174)	\$ (522)
Tax gain in excess of book gain on disposal of real estate property	(2,382)	(751)	(640)
Tax gain on revaluation of foreign real estate	—	—	(310)
Tax benefit of loss carry-forwards	(205)	(557)	(1,512)
Utilization of loss carry-forwards	1,200	1,231	177
Other	761	—	—
Increase in valuation allowance	(8)	203	1,512
	\$ 7,082	\$ (2,048)	\$ (1,295)

- [e] Future tax assets and liabilities at December 31, 2001 consist of the following temporary differences:

	December 31,	
	2001	2000
Assets		
Real estate properties tax value in excess of book value	\$ 12,985	\$17,800
Tax benefit of loss carryforwards		
Pre-acquisition	1,995	2,614
Post-acquisition	3,626	2,936
	18,606	23,350
Valuation allowance		
Valuation allowance against tax benefit of loss carryforwards		
Pre-acquisition	(1,995)	(1,445)
Post-acquisition	(2,960)	(2,582)
Valuation allowance against tax benefit of real estate properties in excess of book value	(9,994)	(10,930)
Future tax assets	\$ 3,657	\$ 8,393
Liabilities		
Real estate properties book basis in excess of tax basis	\$ 52,892	\$52,041
Other assets book basis in excess of tax basis	56,497	34,690
Other	8,887	2,622
Future tax liabilities	\$118,276	\$89,353

- [f] Income taxes paid in cash were \$6.7 million for the year ended December 31, 2001 (for the year ended December 31, 2000 - \$3.2 million; for the year ended December 31, 1999 - \$2.9 million).

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7. DEBT AND COMMITMENTS

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

	December 31, 2001	2000
A term loan facility, bearing interest at LIBOR [London Inter-bank Overnight Rate] plus 2.2% per annum (4.325% at December 31, 2001) with a maturity date of November 30, 2004, (extended during the year from November 30, 2002 to November 30, 2004) secured by a deed of trust against Santa Anita Park racetrack and related real estate. At December 31, 2001, the term loan is fully drawn and is repayable in monthly principal amounts of \$350 thousand until maturity.	\$59,850	\$48,000
Non-interest bearing promissory note (imputed interest of 8.675%), final installment of \$5.0 million which matures in December 2002.	4,599	8,833
Promissory note bearing interest at 6% per annum, payable in two equal installments of \$6.625 million which mature in each of April 2002 and April 2003.	13,250	—
Bank term line of credit denominated in Euros, bearing interest at EURIBOR plus 0.625% per annum (4.147% at December 31, 2001). The term line of credit is repayable in annual installments of \$2.6 million (Euros 2.9 million) due in July of 2002, 2003 and 2004. The Company has provided two first mortgages on real estate properties as security for this facility.	7,695	8,192
Mortgages outstanding with various Austrian banks and local governments repaid in the year.	—	5,392
Mortgages payable to a United States commercial bank repaid in the year.	—	4,877
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%.	507	803
	85,901	76,097
Less due within one year	18,133	12,754
	\$67,768	\$63,343

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

[b] Future principal repayments on long-term debt at December 31, 2001 are as follows:

2002	\$18,133
2003	13,425
2004	54,054
2005	39
2006	39
Thereafter	211
	\$85,901

[c] At December 31, 2001, the Company has an unused and available operating line of credit of \$10.0 million secured by a guarantee from SAC supported by a pledge of the stock of LATC.

[d] Interest expense and interest income include:

	December 31, 2001	2000	1999
Interest cost, gross			
External debt	\$ 8,893	\$ 3,263	\$ 1,308
Magna debt	—	—	701
	8,893	3,263	2,009
Less: Interest capitalized	1,657	—	343
Interest expense	\$ 7,236	\$ 3,263	\$ 1,666
Interest income			
External	\$(4,554)	\$(3,048)	\$(271)
Internal	—	—	(2,315)
	\$(4,554)	\$(3,048)	\$(2,586)
Interest expense (income), net	\$ 2,682	\$ 215	\$ (920)

Interest capitalized relates to real estate properties under development.

Interest paid in cash for the year ended December 31, 2001 was \$7.4 million (for the year ended December 31, 2000 - \$2.5 million; for the year ended December 31, 1999 - \$2.5 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 each 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 each 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 dividends 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 stockholders of the Company. The Board of Directors of MEC Holdings (Canada) Inc. has the right to redeem all of the outstanding Exchangeable Shares provided that written notice of this determination is provided 60 days in advance. 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 Stock 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.

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*(all amounts in U.S. dollars unless otherwise
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- [c]** Changes in the Class A Subordinate Voting Stock, Class B Stock and Exchangeable Shares for the years ended December 31, 2001, 2000 and 1999 are shown in the following table (number of shares in this table are expressed in whole numbers and have not been rounded to the nearest thousand):

	Class A Subordinate Voting Stock		Exchangeable Shares		Class B Stock	
	Number of shares	Stated value	Number of shares	Stated value	Number of shares	Stated 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	—	—	—	—
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
Conversion of Exchangeable Shares to Class A Subordinate Voting Stock	5,544,059	41,137	(5,544,059)	(41,137)	—	—
Issued on acquisition of subsidiaries	3,509,259	15,250	—	—	—	—
Issued under the Long-term Incentive Plan	78,094	476	—	—	—	—
Issued and outstanding at December 31, 2001	23,323,559	\$157,633	2,263,372	\$16,800	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, 2001 have been calculated using 82,930,007 and 83,241,974 shares, respectively. Both amounts have been calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share include the dilution effect of options to purchase 311,967 shares.

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 been calculated using 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 Shares 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.

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

	Years ended December 31,		
	2001	2000	1999
Net income (loss)	\$13,464	\$ 441	\$ (62)
Weighted average shares outstanding	82,930	80,422	78,686
Net effect of dilutive stock options	312	2	—
Diluted weighted average shares outstanding	83,242	80,424	78,686
Earnings per Share:			
Basic	\$ 0.16	\$0.01	\$0.00
Diluted	\$ 0.16	\$0.01	\$0.00

- [e]** On November 15, 2001, the Company filed an amendment to its registration statement offering 20 million shares of Class A Subordinate Voting Stock for sale.

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, 2001, the Company incurred unrealized currency translation losses of \$9.1 million from the weakening of the Euro and the Canadian dollar against the U.S. dollar (an unrealized loss of \$8.9 million for the year ended December 31, 2000; an unrealized loss of \$7.5 million for the year ended December 31, 1999).

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, customer 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, settles wagers for other racetracks and is thereby exposed to credit risk. However, receivables are generally not a significant portion of the Company's total assets and are comprised of a large number of accounts.

[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's reportable segments reflect how the Company is organized and managed by senior management. The Company has two operating segments: racetrack and real estate operations. The racetrack segment includes the operation of eight thoroughbred racetracks, a standardbred racetrack, a greyhound track and a horse boarding and training center. In addition, the racetrack segment includes off-track betting ("OTB") facilities and a national account wagering business. The real estate segment includes the operation of two golf courses and related facilities, a residential housing development adjacent to our golf course located in Austria and other real estate holdings.

The accounting policies of each segment are the same as those described in Note 1 to these consolidated financial statements. The following summary presents key information by operating segment.

Year ended December 31, 2001			
	Racetrack Operations	Real Estate Operations	Total
Revenues	\$459,411	\$59,650	\$519,061
Income before income taxes	1,308	21,505	22,813
Real estate properties and fixed asset additions	24,343	14,519	38,862
Real estate properties, fixed and other assets, net	611,798	142,544	754,342
Current assets			96,257
Future tax assets			3,657
Total assets			\$854,256

Year ended December 31, 2000			
	Racetrack Operations	Real Estate Operations	Total
Revenues	\$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	7,900	54,028
Real estate properties, fixed and other assets, net	522,096	163,730	685,826
Current assets			86,820
Future tax assets			8,393
Total assets			\$781,039

Year ended December 31, 1999			
	Racetrack Operations	Real Estate Operations	Total
Revenues	\$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	8,248	56,447
Real estate properties, fixed and other assets, net	463,032	202,724	665,756
Current assets			88,230
Future tax assets			6,367
Total assets			\$760,353

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Geographic Segments

Revenues by geographic segment of the Company are as follows:

	Years ended December 31,		
	2001	2000	1999
United States	\$463,958	\$362,749	\$167,262
Canada	3,393	24,545	—
Europe	51,710	26,269	19,598
	\$519,061	\$413,563	\$186,860

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

	Years ended December 31,		
	2001	2000	1999
United States	\$629,029	\$539,047	\$483,117
Canada	59,201	58,967	75,070
Europe	66,112	87,812	107,569
	\$754,342	\$685,826	\$665,756

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Magna Entertainment Corp.

12. TRANSACTIONS WITH RELATED PARTIES

- [a] During the year ended December 31, 2001, the Company sold two non-core real estate properties located in Milton, Ontario to Magna for total proceeds of approximately \$12.4 million. The gain on the sale of the properties of approximately \$6.0 million, net of tax, is reported as a contribution to equity.
- [b] During the year ended December 31, 2001, the Company entered into an access agreement with Magna for its use of the golf course and the clubhouse meeting, dining and other facilities in Aurora, Ontario. The agreement, which expires on December 31, 2003, stipulates an annual fee of \$3.1 million (Cdn \$5.0 million). During the year ended December 31, 2001, \$2.7 million has been recognized in revenue related to this agreement.
- [c] Properties under and held for development includes \$17.4 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 \$17.4 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.

- [d] Properties available for sale includes \$2.5 million, which represents the book value of vacant land, transferred to the Company by Magna under a conditional sale agreement. The conditional sale agreement is subject to the successful severance of the affected property. If severance is not obtained within a specified period such that Magna retains ownership of the property, Magna must return \$2.5 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.
- [e] During the year ended December 31, 2000, the Company completed the purchase 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 between Magna and 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 by 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.
- [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] 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.
- [i] 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 \$2.2 million (Euros 2.5 million). During the years ended December 31, 2001, 2000 and 1999, \$2.2 million, \$2.3 million and \$2.6 million, respectively, has been recognized in revenue related to this fee.

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

[j] One of the Company's subsidiaries has been named as a defendant in a class action brought in a United States District Court by various plaintiffs. The plaintiffs in this action claim unspecified compensatory and punitive damages, for restitution and disgorgement of profits, all in relation to forced labor performed by the plaintiffs for such subsidiary and certain other Austrian and German corporate defendants at their facilities in Europe during World War II and certain property right claims. 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. An Austrian subsidiary of Magna has agreed to indemnify such subsidiary for any damages or expenses associated with this case.

[k] A subsidiary of Magna has agreed to indemnify the Company in respect of environmental remediation costs and expenses relating to existing conditions at certain of the Company's Austrian real estate properties.

13. COMMITMENTS AND CONTINGENCIES

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

[b] In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with 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 is currently considering a major redevelopment of its Gulfstream Park racetrack in Florida (the "Gulfstream Park Redevelopment"). Should it proceed as currently contemplated, the Gulfstream Park Redevelopment would include a simulcast pavilion, sports and entertainment arena and a new turf club and grandstand. In addition, there would be significant modifications and enhancements to the racetracks and stable areas. If completed, the Gulfstream Park Redevelopment would require the demolition of a substantial portion of the current buildings and related structures, which include the grandstand, turf club and annex. The aggregate carrying value at December 31, 2001 of the assets that would be demolished if the Gulfstream Park Redevelopment is completed is approximately \$23.0 million. If the Company decides to proceed with the Gulfstream Park Redevelopment and obtains the approval of its Board of Directors, a reduction in the expected life of the existing assets would occur and a write-down would be necessary.

[d] The Company has issued letters of credit to guarantee various construction projects related to activity of its subsidiaries. These letters of credit amount to \$4.5 million with expiration dates ranging from 2002 through 2003.

[e] At December 31, 2001, the Company had commitments under operating leases requiring annual rental payments for the years ending December 31 as follows:

2002	\$3,800
2003	2,799
2004	1,627
2005	1,050
2006	545
	\$9,821

For the year ended December 31, 2001, payments under operating leases amounted to approximately \$3.2 million (for the year ended December 31, 2000 - \$3.0 million; for the year ended December 31, 1999 - \$0.8 million).

The Company occupies land for the Remington Park 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.

[f] Contractual commitments outstanding at December 31, 2001, which related to a land purchase, construction and development projects, amounted to approximately \$5.3 million.

14. OTHER LONG-TERM LIABILITIES

Other long-term liabilities is comprised as follows:

	December 31,	
	2001	2000
Deferred revenue	\$2,494	\$ —
Pension liability	82	234
	2,576	234

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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 net periodic pension cost of the Company for the years ended December 31, 2001, 2000 and 1999 included the following components:

	Years ended December 31,		
	2001	2000	1999
Components of net periodic pension cost:			
Service cost	\$ 361	196	392
Interest cost on projected benefit obligation	556	588	573
Actual return on plan assets	(262)	(922)	(942)
Net amortization and deferral	(331)	348	485
Net periodic pension cost	\$ 324	\$ 210	\$ 508

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

	Years ended December 31,		
	2001	2000	1999
Change in benefit obligation:			
Benefit obligation at beginning of year	\$9,198	\$8,669	\$8,668
Service cost	361	196	392
Interest cost	556	588	573
Benefits paid	(582)	(537)	(508)
Actuarial losses (gains)	1,257	282	(456)
Benefit obligation at end of year	10,790	9,198	8,669
Change in plan assets:			
Fair value of plan assets at beginning of year	9,142	8,287	7,351
Actual return on plan assets	262	922	942
Company contributions	476	470	502
Benefits paid	(582)	(537)	(508)
Fair value of plan assets at end of year	9,298	9,142	8,287
Funded status of plan (underfunded)	(1,492)	(56)	(382)
Unrecognized net gain (loss)	1,410	(178)	(112)
Net pension liability	\$ (82)	\$ (234)	\$ (494)

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

	Years ended December 31,		
	2001	2000	1999
Weighted average discount rate	6.25%	7.0%	7.0%
Weighted average rate of increase in compensation levels	5.0%	5.0%	5.0%
Expected long-term rate of return	7.5%	8.0%	8.0%

The measurement date and related assumptions for the funded status of the Company's retirement income plan are 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 \$2.5 million, \$3.8 million and \$4.8 million, respectively, for the years ended December 31, 2001, 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 \$0.4 million in the year ended December 31, 2001, \$0.3 million in the year ended December 31, 2000 and approximately \$0.2 million 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 can 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.

The Company grants stock options to certain directors, officers and key employees to purchase shares of the Company's Class A Subordinate Voting Stock. All of such stock options give the grantee the right to purchase Class A Subordinate Voting Stock of the Company at a price no less than the fair market value of such stock at the date of grant. Generally, stock options under the Plan vest over a period of two to six years from the date of grant at rates of 1/7th to 1/3rd per year and expire on or before the tenth anniversary of the date of grant, subject to earlier cancellation in the events specified in the stock option agreements entered into by the Company with each recipient of options. Also during 2001, the Company issued 63,094 shares as bonus stock pursuant to the Plan.

Information with respect to shares under option is as follows:

	Shares Subject to Option		Weighted Average Exercise Price	
	2001	2000	2001	2000
Balance, Beginning of Year	3,821,666	—	\$ 6.31	\$ —
Granted	1,250,000	4,665,000	5.17	6.39
Exercised	(15,000)	—	4.90	—
Forfeited	(603,333)	(843,334)	6.33	6.73
Balance, End of Year	4,453,333	3,821,666	5.99	6.31

Information regarding stock options outstanding is as follows:

	Options Outstanding		Options Exercisable	
	2001	2000	2001	2000
Number	4,453,333	3,821,666	2,475,571	1,451,000
Weighted average exercise price	\$ 5.99	\$ 6.31	\$ 6.20	\$ 6.41
Weighted average remaining contractual life (years)	7.6	8.4	7.1	7.5

Pro-forma information regarding net income and earnings per share is required by the Financial Accounting Standard Board Statement No. 123 ("SFAS 123"), Accounting and Disclosure of Stock-Based Compensation and has been determined as if the Company had accounted for its stock options under the fair value method under SFAS 123. The average fair values of the stock option grants were \$2.90. The fair value of stock option grants was estimated at the date of grant using the following assumptions:

Risk free interest rates	4.5%
Dividend yields	0%
Volatility factors of expected market price of Class A Subordinate Voting Stock	0.542
Weighted average expected life (years)	4.28

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.

The Company's SFAS 123 pro-forma net income and the related per share amounts for 2001 are as follows:

Net income, as reported	\$13,464
Pro-forma stock compensation expense	(2,815)
Pro-forma net income	\$10,649
Pro-forma earnings per share	\$ 0.13

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

15. CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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

- Under Canadian GAAP, sale of land to a related party that owns less than 80% of the vendors share capital is considered an income item rather than a contribution to equity as considered under U.S. GAAP.
- Under Canadian GAAP there is no requirement to disclose comprehensive income (loss).

The following table presents net income (loss) and earnings per share information following Canadian GAAP:

	Years ended December 31,		
	2001	2000	1999
Net Income (loss) under U.S. GAAP	\$13,464	\$ 441	\$ (62)
Adjustments [net of related tax effects]			
Gain on sale of land to Magna (a)	5,938	1,352	—
Net income (loss) under Canadian GAAP	\$19,402	\$1,793	\$ (62)
Earnings per share:			
Basic	\$ 0.23	\$ 0.02	\$0.00
Diluted	\$ 0.23	\$ 0.02	\$0.00

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Magna Entertainment Corp.

Quarterly Information

(unaudited)

For the year ended December 31, 2001	March 31	June 30	September 30	December 31	Total
Revenue	\$244,526	\$113,192	\$65,832	\$95,511	\$519,061
Earnings (loss) before interest, income taxes, depreciation and amortization ("EBITDA")	44,622	11,019	(2,825)	(1,127)	51,689
EBITDA before gains on the sale of real estate	32,564	6,025	(2,862)	(4,467)	31,260
Net income (loss)	22,468	2,237	(6,227)	(5,014)	13,464
Diluted earnings (loss) per share	0.28	0.03	(0.07)	(0.06)	0.16

SUPPLEMENTARY FINANCIAL INFORMATION

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

Magna Entertainment Corp.

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
EBITDA	26,434	9,132	(4,063)	(9,674)	21,829
EBITDA before gains on the sale of real estate	26,434	6,777	(7,759)	(10,597)	14,855
Net income (loss)	11,980	2,752	(5,110)	(9,181)	441
Diluted earnings (loss) per share	0.15	0.03	(0.06)	(0.11)	0.01

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
EBITDA	18,096	583	(6,346)	(2,556)	9,777
EBITDA before gains on the sale of real estate	18,096	583	(6,346)	(3,184)	9,149
Net income (loss)	9,325	(1,235)	(5,090)	(3,062)	(62)
Diluted earnings (loss) per share	0.12	(0.02)	(0.06)	(0.04)	0.00