

**ONTARIO RACING COMMISSION
QUARTER HORSE RACING INDUSTRY
DEVELOPMENT PROGRAM**

FINANCIAL STATEMENTS

DECEMBER 31, 2006

Hilborn Ellis Grant LLP

Chartered Accountants

Toronto, Ontario



Hilborn Ellis Grant LLP
Chartered Accountants

Auditors' Report

To the Board of
Ontario Racing Commission

We have audited the statement of financial position of **Ontario Racing Commission - Quarter Horse Racing Industry Development Program** as at December 31, 2006 and the statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance 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.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Program as at December 31, 2006 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Hilborn Ellis Grant LLP

Toronto, Ontario
March 12, 2007

Chartered Accountants
Licensed Public Accountants

**ONTARIO RACING COMMISSION
QUARTER HORSE RACING INDUSTRY DEVELOPMENT PROGRAM**

Statement of Financial Position

December 31	2006	2005
	\$	\$
ASSETS		
Current assets		
Cash	4,500,683	-
Accounts receivable	237,442	-
	<u>4,738,125</u>	<u>-</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	103,636	-
Loans payable (note 3)	-	738,411
	<u>103,636</u>	<u>738,411</u>
NET ASSETS (DEFICIENCY IN ASSETS)	<u>4,634,489</u>	<u>(738,411)</u>
	<u>4,738,125</u>	<u>-</u>

Approved on behalf of the Board:

Commission Chair

Commission Member

**ONTARIO RACING COMMISSION
QUARTER HORSE RACING INDUSTRY DEVELOPMENT PROGRAM**

Statement of Operations

Year ended December 31	2006 \$	2005 \$
Revenues		
Slot revenue	7,038,334	-
Interest income	70,808	-
	<u>7,109,142</u>	<u>-</u>
Expenditures		
Purse supplement	930,000	-
Residency bonus	251,099	-
Stake purses	135,000	-
Breeders' awards	36,503	-
Owners' awards	20,000	-
Early season starting award	20,000	-
First time starter awards	20,000	-
Equine research	35,000	-
Receiving barns	40,000	-
Funding to Quarter Racing Owners of Ontario, Inc.	108,800	-
Administration (note 4)	139,840	-
	<u>1,736,242</u>	<u>-</u>
Excess of revenues over expenditures for year	<u>5,372,900</u>	<u>-</u>

Statement of Changes in Net Assets

Year ended December 31	2006 \$	2005 \$
Deficiency in assets, beginning of year	(738,411)	-
Assumption of loans payable (note 3)	-	(738,411)
	<u>(738,411)</u>	<u>(738,411)</u>
Excess of revenues over expenditures for year	5,372,900	-
Net assets (deficiency in assets), end of year	<u>4,634,489</u>	<u>(738,411)</u>

ONTARIO RACING COMMISSION

QUARTER HORSE RACING INDUSTRY DEVELOPMENT PROGRAM

Notes to Financial Statements

December 31, 2006

1. **Organization**

The objective of the Quarter Horse Racing Industry Development Program ("Program") is to support development of a strong and sustainable Quarter Horse racing industry in Ontario. Specifically, the Program's main objectives are to achieve measured, balanced growth for the sector and to improve the quantity and quality of Ontario-bred racing stock active in Quarter Horse racing in Ontario. The Program was established during 2005 with revenues and disbursements beginning in calendar 2006. The Site Holder Agreement for Ajax Downs between Picov Downs Inc. and the Ontario Lottery and Gaming Corporation ("OLG") names the Ontario Racing Commission ("ORC") to receive the industry share of the Slots Program fund, and to develop programs to benefit the Quarter Horse Industry and the horse racing industry generally. The Program has been developed in cooperation with the industry and has been approved by the ORC.

These financial statements pertain only to the activities of the Program and do not include the assets, liabilities, revenues or expenses of the ORC or any other program for which it has administrative responsibility. Separate financial statements have been prepared for the ORC and each respective program it administers.

2. **Significant accounting policies**

(a) **Revenue recognition**

The ORC is entitled to receive a portion of slot revenue collected from slot machines at Ajax Downs for the purposes of planning and directing the use of the funds for the benefit of the industry. The terms of the Site Holder Agreement states that the Program will receive 10% of the "net win" which represents the full entitlement of the slot revenues at Ajax Downs by the horse racing industry. The 10% is paid by the OLG to the Program on a weekly basis. The Program follows accrual accounting and slot revenues are recognized in the year in which the "net win" is earned by the OLG.

(b) **Financial instruments**

The carrying amount of the Program's financial instruments, consisting of all assets and liabilities, approximate their fair value unless otherwise noted.

It is management's opinion that, unless otherwise noted, the Program is not exposed to significant interest rate, currency or credit risks arising from these financial instruments.

(c) **Management estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**ONTARIO RACING COMMISSION
 QUARTER HORSE RACING INDUSTRY DEVELOPMENT PROGRAM**

Notes to Financial Statements (continued)

December 31, 2006

3. Loans payable

	2006	2005
	\$	\$
Loan payable to OHRIA - Capital Allowance Fund	-	298,411
Loan payable to Picov Farms Inc.	-	150,000
Loan payable to Picov Downs Inc.	-	290,000
	<u>-</u>	<u>738,411</u>

During 2005, the board of the ORC, in connection with the establishment of the Program, approved the assumption of certain loans payable. These proceeds of these loans, received from various industry participants, were used to supplement purses at Ajax Downs (formerly Picov Downs) prior to the commencement of the Program. The terms of the loan agreements stipulated that repayment could occur once slot machines were implemented at Ajax Downs. The assumption of these liabilities is consistent with the Program's main objective. As such, these financial statements present, for comparative purposes, loans payable as of December 31, 2005. Slot revenues were sufficient to enable the Program to repay all loans during calendar 2006.

4. Administration expenditures

	2006	2005
	\$	\$
Consulting	56,456	-
Audit	13,332	-
Administrative fees to the ORC	47,811	-
Meetings, printing and other administration	22,241	-
	<u>139,840</u>	<u>-</u>

5. Statement of cash flows

A statement of cash flows has not been presented, as the information is readily apparent.