

WORKING HARD TO BE SUCCESSFUL



HORSE RACING ALBERTA
2010 Annual Report



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Vision

ALBERTA WILL
BE RECOGNIZED
INTERNATIONALLY
FOR PREMIER HORSE
RACING, BREEDING
AND QUALITY
ENTERTAINMENT.

Mandate

- ▶ To govern, direct, control, regulate, manage, market and promote horse racing in any or all of its forms.
- ▶ To protect the health, safety and welfare of racehorses and, with respect to horse racing, the safety and welfare of racing participants and racing officials.
- ▶ To safeguard the interests of the general public in horse racing.

Mission

To be a governing body whose role is to promote and facilitate the growth, integrity and economic contribution of the Alberta horse racing and breeding industry. This shall be done by providing quality entertainment, employment, economic and value-added agricultural opportunities within a unified, viable, progressive, accountable and self-regulated industry environment.

Core Business

To stabilize, enhance and ensure the growth and integrity of the Alberta horse racing and breeding industry.

Chair's Message

2010 WAS ANOTHER CHALLENGING YEAR FOR THE HORSE RACING INDUSTRY. REVENUES WERE DOWN AGAIN, IN PART DUE TO A SLUGGISH ECONOMY STILL RECOVERING FROM A GLOBAL FINANCIAL DISASTER.

Economic uncertainty results in fewer entertainment dollars spent by fans and less investment in facilities and horses by operators, breeders and owners. This is not something unique to Alberta. Horse racing organizations throughout North America have similar stories to tell.

Racing Entertainment Centres at local racetracks contributed \$15.38M to the Alberta Lottery Fund in 2010. This money supports community groups throughout the province.

The year came and went without the opening of an 'A' racetrack in the Calgary area. Track developers United Horsemen of Alberta are committed to completing the project but still have unresolved issues. An 'A' track in southern Alberta is pivotal to industry recovery. It would provide more opportunities for owners, breeders and fans, attract new fans to the sport and generate much needed revenue.

This did not mean HRA played a waiting game in 2010. Our commitment to build horse racing in a way that provides opportunities for all breeds to race in the province continued. Successful events like the Canadian Derby, Alberta Sires Stakes Finals and the Canada Quarter Horse Cup Futurity demonstrated promotion twinned with a quality product can produce very positive results. More off track betting sites were opened in the Calgary area to broaden the sport's exposure, attract more fans and respond to consumer requests. Similarly, Internet simulcast and on-line betting are being studied as a response to fan requests and as revenue opportunities.





Horse Racing Alberta and its partners continue to work together on tackling major issues through strategic planning, understanding that our strength lies with a common voice and effort. During the year, meetings were held with major industry players and every spectrum of the industry – from grooms to owners – took part in a retreat to identify issues and work on solutions. This work contributed to HRA’s new multi-year business plan that has been forwarded to the Alberta government.

A communications audit conducted in the fall of 2010 revealed that stakeholders want to be more engaged and informed. It also showed there is significant opportunity to showcase and raise awareness of the existence, involvement and contribution of those involved in horse racing. The HRA Board has accepted all of the report’s recommendations and will be implementing them in 2011. This includes launching a website dedicated exclusively to Horse Racing Alberta in order to provide more timely and focused information of our activities to industry and fans.

This year’s annual report features a story about Omar Moreno, a truly remarkable young man who defied the odds to become North America’s top apprentice jockey in 2010. A graduate of Olds College’s Certified Exercise Rider and Jockey Program, a program sponsored by HRA and Olds College, Moreno is living proof Alberta’s horse racing industry is vibrant, alive and contributing to the hopes and dreams of average Albertans who yearn to ply their trade in a sport they love.

A year of strategic change, including to HRA’s governance structure, has positioned us well to recover from several difficult years. 2011 will tell us if our efforts - in cooperation with breeders/owners, track operators, government, horsemen’s associations, trainers, staff and others - will bear fruit.

A handwritten signature in black ink, reading "Shirley McClellan". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Shirley McClellan
HRA Board Chair

THE ECONOMIC BENEFIT OF HORSE RACING TO ALBERTA IS ESTIMATED TO BE NEARLY \$400 MILLION PER YEAR. ABOUT HALF OF THIS BENEFIT IS IN RURAL ALBERTA.

Governance

HRA IS GOVERNED BY A BOARD CHAIR, 11 DIRECTORS AND TWO GOVERNMENT-APPOINTED, NON-VOTING MEMBERS.

Recommendations from a governance review were fully implemented in 2010. This clarified responsibilities and lines of authority between the Board Chair, Committee Chairs, Directors and staff.

The Chair is accountable to the Board and must regularly communicate and report. However, the Chair is empowered to act, speak and negotiate on behalf of HRA with government and industry partners. These responsibilities will be reviewed during 2011 to see if adjustments are required. HRA continues to review its organizational structure to ensure its current administrative structure, process and systems are aligned with the organization's mandate, strategic direction and business plan.

COO Terry Keyko left the organization late in 2010. The Board determined this position would remain vacant at this time.

2010 Board of Directors

Shirley McClellan	Chair
Peter Bidlock	Vice-chair and public member
Norm Kennedy	Alberta Standardbred Horse Association representative
Bill Andrew	Alberta Standardbred Horse Association representative
Bob Giffin	Horsemen's Benevolent and Protective Association representative
Howard Dixon	Other breeds representative
David Chalack	"A" track representative
Richard Andersen	"A" track representative
Ralph Eeson	"B" track representative
Dawn Ringrose	Public member
John Brennan	Public member
Gill Hermanns	Alberta Gaming and Liquor Control representative (non-voting)
Jamie Curran	Alberta Agriculture and Rural Development representative (non-voting)
Don Buchanan/ Gordon Wilson	Canadian Thoroughbred Horse Society

2010 HRA Committee Chairs

Governance	David Chalack
Breed Improvement	Bill Andrew
Audit	John Brennan
Sustainable Business	Peter Bidlock
Regulatory and Licensing	Howard Dixon



Operations

A SLUGGISH ECONOMY AND LACK OF AN 'A' TRACK IN SOUTHERN ALBERTA CONTINUED TO PLAY HAVOC WITH HRA REVENUES.

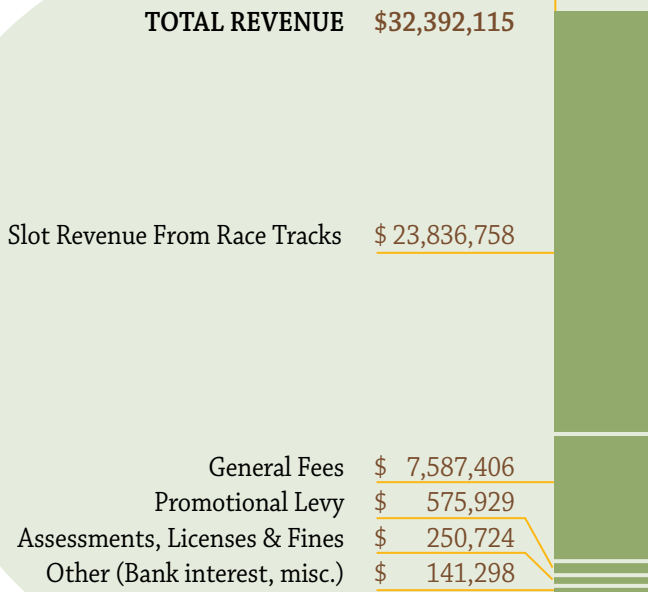
Slots continue to be the main revenue driver for HRA, representing almost 74% of the organization's budget. Unfortunately, HRA's portion of the slot revenue declined by almost four million in 2010. Most of this drop (\$2.9m) resulted in the loss of the slots from Stampede Park.

Revenue reductions required operational adjustments and a 15% decline in purse support and racetracks grants. HRA continued to invest at the same level

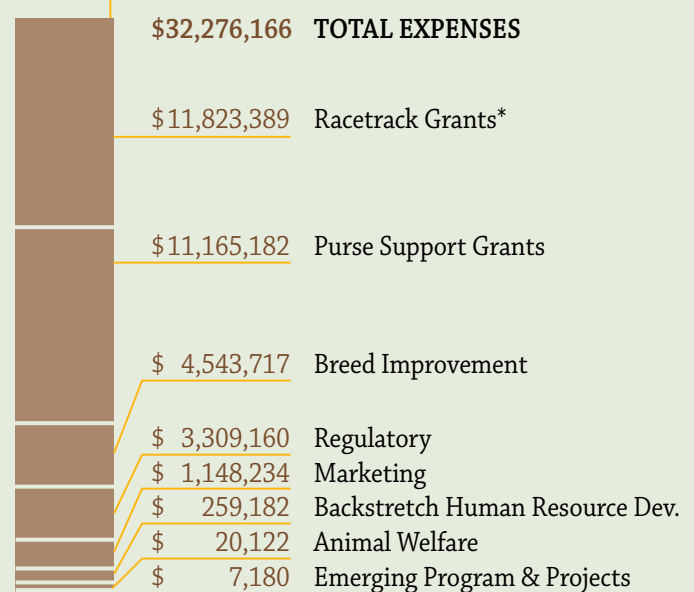
though in marketing and promotion as this has proven to yield positive results in fan attraction, interest and investment. Revenues are expected to decline even further next year before they stabilize and see improvement.

In 2010, the Racing Entertainment Centres at local racetracks contributed \$15.38M to the Alberta Lottery Fund in 2010. This money is redistributed by the Fund to support community groups throughout the province.

WHERE THE MONEY CAME FROM 2010



WHERE THE MONEY WENT 2010



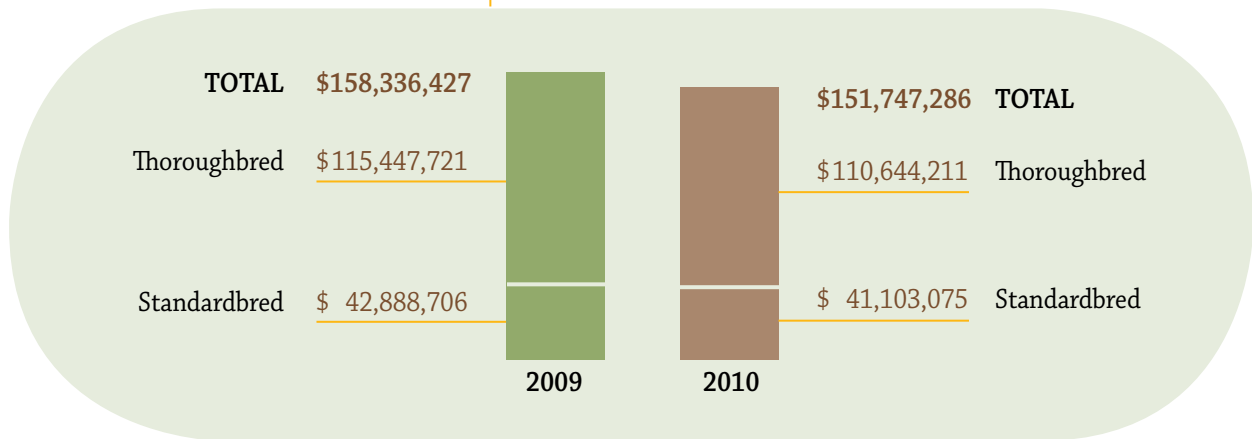
* Racetrack grants are comprised of a percentage of Racing Entertainment Centres revenue, pari-mutuel handle and additional industry support.

IN 2010, THE HORSE INDUSTRY CONTRIBUTED MORE THAN \$15 MILLION TO THE ALBERTA GOVERNMENT IN SLOT REVENUE AND MORE THAN \$4 MILLION IN TAXES.

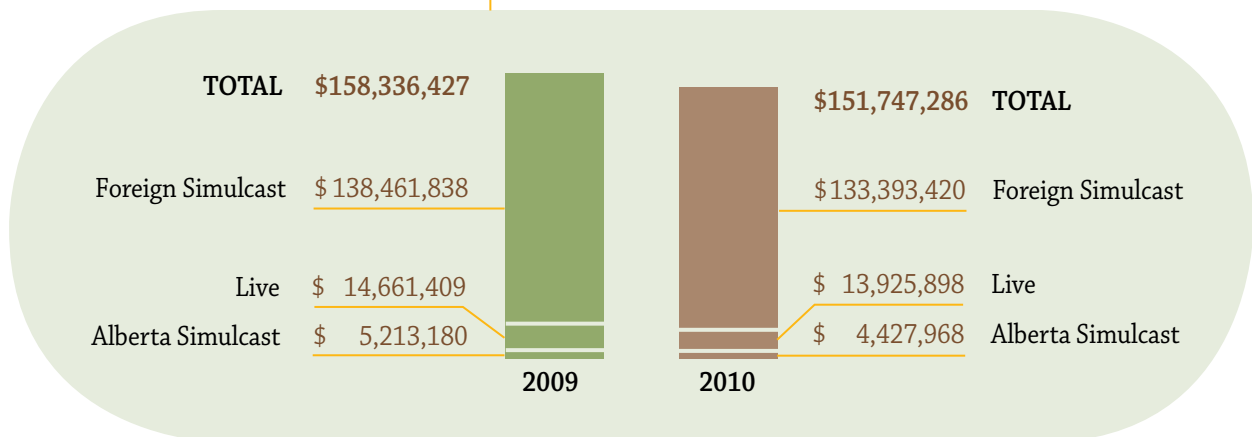
Money wagered on horse races (pari-mutuel handle) is an indicator of fan interest and participation. Overall, the handle was down 4.2 per cent this year compared to 2009. Both live and simulcast wagering declined, reflecting the impact a slow economic recovery throughout North America had on horse racing in Alberta.

Despite a decline in 2010, foreign simulcast continues to far outstrip other forms of wagering in terms of popularity and revenue. HRA spent 2010 studying Internet simulcast and on-line platforms as ways to maximize off-track revenue sources. It also continued to work with track operators to draw fans to race tracks and generate interest in live wagering.

HANDLE (BY BREED)

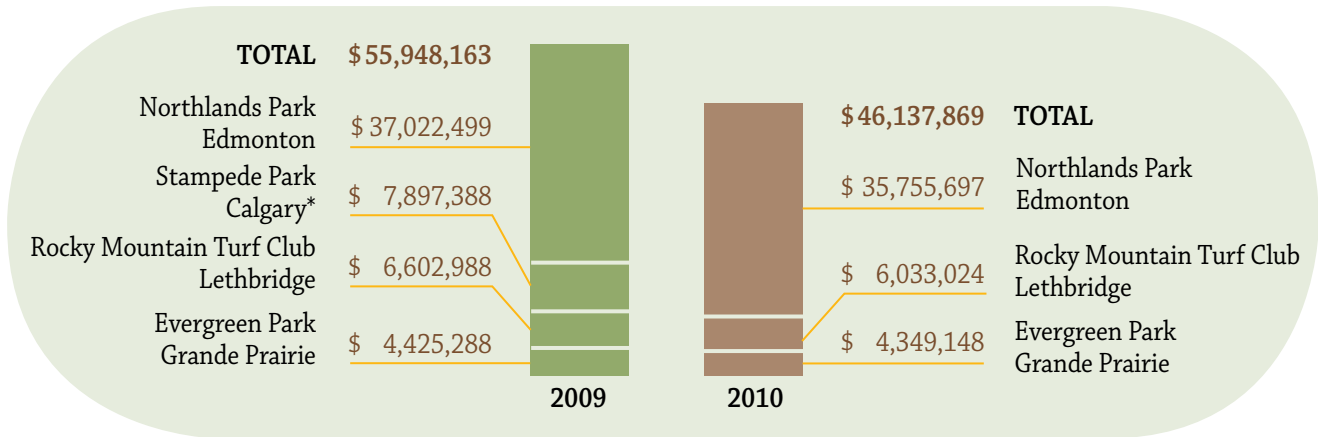


HANDLE (BY TYPE)



HRA RECEIVES NO MONEY FROM ALBERTA GOVERNMENT GENERAL REVENUES. ABOUT 74% OF ITS FUNDING COMES FROM SLOT REVENUE GENERATED AT THE RACETRACKS; THE REST COMES DIRECTLY FROM INDUSTRY SOURCES.

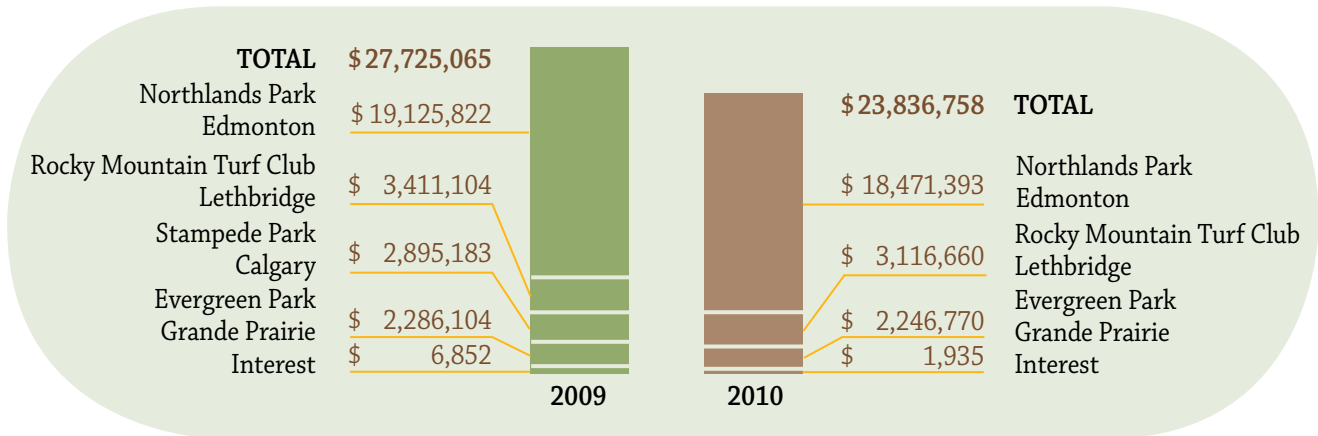
SLOT REVENUE FROM RACING ENTERTAINMENT CENTRES



* Horse racing at Stampede Park ended in 2009

Under a 2002 Government of Alberta agreement called the Racing Industry Renewal Initiative HRA receives 51.66% of all slot revenue generated at Racing Entertainment Centres which exists at three Alberta racetracks. In 2010, this amounted to \$23.83 million. The Alberta Lottery Fund took in \$15.38 million while Racing Entertainment Centre operations retained 15% or \$6.92 million.

SLOT REVENUE HORSE RACING ALBERTA'S PORTION



Regulatory and Appeals

THE INTEGRITY AND OBJECTIVITY OF JUDGES AND STEWARDS AT RACE TRACKS IS ENCOURAGED AND ENHANCED BY THE EXISTENCE OF THE APPEALS TRIBUNAL.

Racing participants can appeal any decision of a judge or steward to the quasi-judicial Tribunal and know they will get an impartial, objective hearing. Its authority is entrenched in the *Horse Racing Alberta Act*. Its members are appointed by Alberta's Solicitor General

and Minister of Public Security. 2010 Appeals Tribunal members included Dr. Maggie Fulford (Chair), Dr. Darrel Florence and Darryl Trueman.

In 2010, judges and stewards made 225 rulings. Only three were appealed.

SUMMARY OF 2010 RULINGS

	Rulings	Race Days	Percentage per Day
Thoroughbred Stewards	81	84	.96
Standardbred Judges	75	116	.64
Community Circuit Judges and Stewards	69	71	.97

In 2010, 3,969 drug tests for medication abuse and 1,116 tests for Total Carbon Dioxide (TCO2) were conducted.

ANIMAL TESTING

	Medication		TCO2	
	Tests	Positives	Tests	Positives
Thoroughbred	1,387	0	561	0
Standardbred	1,809	0	438	0
Community Circuit	773	0	117	0
Total	3,969	0	1,116	0

Appeals Heard in 2010

Thoroughbred:

No appeals heard in 2010

Standardbred:

Ruling # 9, March 26, 2010

Issue – appealed penalty imposed
Decision – appeal allowed and penalty lifted

Ruling #57, November 29, 2009

Issue – appealed decision of Board of Judges
Re: disqualification and penalty imposed
Decision – Board of Judges' decision reversed

Ruling #23, June 29, 2010

Issue – appealed decision of Board of Judges
Re: disqualification and penalty imposed
Decision – Board of Judges' decision reversed

Community Circuit "B"

Appeal filed June 17, 2008

Issue – appealed exclusion from a race
Decision – appeal dismissed

Ruling #40, August 8, 2010

Issue – appealed penalty imposed
Decision – appeal allowed and penalty lifted

THE CLOSURE OF THE STAMPEDE PARK RACETRACK IN CALGARY IN 2009 MEANT A LOSS OF ABOUT \$9 MILLION PER YEAR IN SLOT REVENUE. THE ALBERTA LOTTERY FUND'S SHARE OF THAT LOSS IS APPROXIMATELY \$3 MILLION.

Industry and Government Relations

In the 2009 Annual Report, we reported that HRA had participated in an extensive study with George Cuff & Associates as part of a Government of Alberta review of all Crown Corporations. HRA had implemented all the recommendations of the “Cuff Report” in 2009, with the exception of changing the committee structure as recommended in the report.

Those changes have now been made. The new committee structure will be reflected in future annual reports and business plans. In 2010, the ex-officio government memberships on the HRA Board were changed. Our board welcomed Gill Hermanns, representing Alberta Gaming and Liquor Control and Jamie Curran, representing Alberta Agriculture and Rural Development.



Race Track Licensing and Purses

ALBERTA PURSES

	HRA Grant		Industry Contribution		Total Purses		
	2010	2009	2010	2009	2010	2009	
Thoroughbred	\$4,551,750	\$5,693,625	\$4,584,759	\$4,622,952	\$9,136,509	\$10,436,577	
Standardbred*	3,967,700	2,324,300	2,060,200	1,918,389	6,027,900	4,184,489	
Community Circuit*	2,645,732	5,256,354	340,247	147,209	2,985,979	5,341,763	
Totals	\$11,165,182	\$13,274,279	\$6,985,206	\$6,688,550	\$18,150,388	\$19,962,829	
					Breed Improvement Program contribution	3,861,940	4,303,948
					Total Alberta Purses	\$22,012,328	\$24,266,777

* 2010 Standardbred purses include both Northlands and Alberta Downs and are based on an average daily rate.

THE LACK OF A RACING ENTERTAINMENT CENTRE AT AN 'A' TRACK IN THE CALGARY AREA IS COSTING HRA AN ESTIMATED \$5 MILLION PER YEAR IN LOST REVENUE.



Breeding

THE YEARLING SALE IS A GOOD INDICATOR OF HORSEMEN'S CONFIDENCE IN THE INDUSTRY.

For the first time, there was only one Canadian Thoroughbred Horse Society sale in Alberta in 2010. This sale contained yearlings, weanlings, mares and horses of racing age. One hundred and thirty-six yearling Thoroughbreds were on sale but only 96 were sold. This includes buy backs. The purchases totaled nearly half a million dollars with an average sale price of \$5,389, 34% below 2009's average.

The average Quarterhorse sale for 2010 increased slightly from 2009, to \$3,538. Average Standardbred sales were \$5,804, a 10% decline from 2009.

Half of the thoroughbreds which competed at Northlands Park were Alberta bred. These horses won \$3.81 million or 41.7%* of the total purse available. HRA's breed improvement program encourages owners to purchase quality breeding stock and, in addition to purses, rewards Alberta bred horses for outstanding performance. The program invested more than \$4.5 million in 2010.

** HRA and industry contributions. Does not include any industry carryover from 2009.*

AVERAGE YEARLING SALE PRICES 2010

Thoroughbred	\$5,389
Standardbred	\$5,804
Quarterhorse	\$3,538

BREED IMPROVEMENT PROGRAM 2010 INVESTMENTS

Thoroughbred	\$2,517,945
Standardbred	\$1,526,431
Community Circuit	\$ 499,341
Total	\$4,543,717



HORSE RACING MAKES A HORSE INDUSTRY IN ALBERTA MORE VIABLE. 80% OF RACING STOCK COMES FROM ALBERTA BREEDING FARMS AND RACING STOCK PROVIDES MOST OF THE BROODMARES ON ALBERTA FARMS.

Marketing

THE INDUSTRY'S MARKETING STRATEGY IN 2010 CONTINUED TO CHANGE DUE TO BUDGETARY CONSTRAINTS AND RESULTS OF CONSUMER RESEARCH.

The industry was forced to make more tough decisions and cuts in marketing while identifying initiatives that returned the most for the investment.

HRA and Northlands Park's joint industry website www.thehorses.com continued to provide racing fans with constant racing information, video postings, industry profiles and regional racing reports. Industry marketing underwent significant changes in social networking by strategically placing brand properties on Facebook, Google, Yahoo, MySpace, MSN and other high profile search platforms.

Key research indicated to the industry that on-line could play more of an important role in reaching the target audience. In response an industry micro site was developed to provide a stronger connection with the consumer while encouraging an easier trial visit.

New Public Service Announcements in 2010 informed Albertans of the role of slot machines and racing facilities and how the industry contributes to the Alberta Lottery Fund. In an effort to raise awareness of live horse racing in Alberta, HRA sponsored

THE HORSES, an IMAX film at the TELUS World of Science and partnered with Disney in the release of the major motion picture Secretariat.

Three live horse racing television shows occurred in 2010. For the first time ever the industry showcased the Alberta Downs facility in Lacombe on CTV Alberta with two live exciting Standardbred races in early August. For the second straight year the Canadian Derby was showcased nationally on TSN with an audience of over 500,000. In late September the Fall Classic showcased Alberta bred horses on CTV Alberta.

Horse Racing Alberta once again was recognized by its peers, receiving for the third consecutive year the Hervey Award in Broadcasting by the United States Trotting Association for the touching feature on Gordon Rumpel and his horse 'A Special Lady'. The same feature was one of two finalists in Standardbred Canada's Media Excellence Award. The TSN Canadian Derby broadcast was a runner-up for a 2010 sovereign award by the Jockey Club of Canada.

Human Resource Development and Welfare

HRA IS A PROUD SUPPORTER OF MANY EDUCATION AND SUPPORT PROGRAMS FOR THE HUNDREDS OF PEOPLE EMPLOYED AS GROOMS, EXERCISE RIDERS, JOCKEYS AND OTHERS AT RACETRACKS.

The Learning Centre at Northlands Park, where language training, high school upgrading, foreign worker and other programs are held, had 3,264 visits in 2010. The 75 foreign workers and new crop of 15 jockeys in 2010 had a huge impact on the backstretch, giving smaller trainers access to more talented jockeys. This contributed to smaller trainers getting more wins.

Twenty people graduated from the racetrack education program co-sponsored by Olds College and HRA. Now in its tenth year, this program is unique to North America. It provides a formal course of education for those wishing to make a career of working in the horse racing industry as groomers, exercise riders or jockeys. Graduates of the program have gone on to work at race tracks or at horse training and breeding facilities throughout North America.

In addition to 12 weeks of instruction, grooms do a practicum of 88 hours, and exercise riders have to successfully ride 60 mounts in order to graduate. Successful graduates include groom Amber Lynn Van Wiebe, who received the Kentucky Thoroughbred Farm Managers Club Management Award in 2010. Seven exercise riders are now professional jockeys including Omar Moreno, the 2009 Sovereign Award winner as leading apprentice rider in Canada and the 2010 Eclipse Award winner for leading apprentice jockey in North America.

The Backstretch Chaplaincy, led by Chaplain Jim Haggan, works to improve the quality of life for backstretch employees and advocates on their behalf. Monthly events, funded largely from money raised from horsemen, are held through the year and backstretch achievements celebrated through awards. A monthly newsletter keeps industry partners informed of upcoming events and news.



MOST PEOPLE WHO OWN RACE HORSES DO IT FOR THE LOVE OF THE SPORT; MOST LOSE MONEY EACH YEAR.

ONE-THIRD OF ALL HORSES IN CANADA ARE IN ALBERTA (ABOUT 350,000); MORE THAN HALF A MILLION ALBERTANS RIDE HORSES FOR RECREATION.

Animal Welfare

REGULAR TESTING OF HORSES PRIOR TO OR IMMEDIATELY AFTER A RACE IS ONE OF THE WAYS HRA ENSURES THE HEALTH AND WELFARE OF ANIMALS USED IN COMPETITION.

Elevated levels of TCO₂ in horses can have a performance-enhancing effect in horse racing by countering the naturally-occurring buildup of lactic acid that takes place during vigorous exercise. All of the tests for TCO₂ in 2010 were negative, indicating the purity of the sport and the importance horsemen place on the welfare of animals in their care.

For the first time, HRA introduced out of competition testing in 2010. This allows for the testing of horses not scheduled to race. The tests are aimed at detecting prohibited substances, mainly blood-doping agents that are less likely to be detected in post-race tests but can have a lengthy positive effect upon a horse's performance.



Horse Racing Alberta Program Student Omar Moreno a Major Success Story

This article by Brenda Kossowan originally appeared in the Red Deer Advocate on February 2, 2011. It is reprinted here by permission.

THE HORSE DOES 90 PER CENT OF THE WORK, SAYS A YOUNG JOCKEY BEING TOUTED AS THE WAYNE GRETZKY OF HORSE RACING.

OMAR MORENO, 25, RETURNED TO OLDS COLLEGE ON TUESDAY FOR A REUNION WITH THE PEOPLE WHO SET HIM ON THE PATH TO HORSE RACING STARDOM, INCLUDING THE ECLIPSE AWARD FOR THE MOST SUCCESSFUL APPRENTICE JOCKEY IN NORTH AMERICA AND THE SOVEREIGN AWARD FOR THE BEST IN CANADA.



Now a fully-qualified jockey, Moreno's horses have earned \$5.8 million in his short career and he's on line for a second Sovereign award, says Dennis Ejack, the Red Deer-based bloodstock agent who first pushed Moreno into horse racing. Jockeys get 10 per cent of the purse, with a minimum of \$100 to \$150 per ride.

Rescued from the war in El Salvador and brought to Canada when he was six, Moreno had been living with a foster family in Edmonton. The house was only two blocks from the Edmonton Northlands racetrack, but that meant nothing to Moreno at the time. Ejack first met him in the boxing ring while he was still a teenager.

"I coached Omar in boxing — that's my hobby," said Ejack. Over the next few years, Moreno would win three national titles in his weight division. But there is not much of a future in amateur boxing and Moreno was struggling with a shoulder injury.

As a young adult, he had started house painting to earn a living. Ejack thought Moreno could do better than that. Assessing the young man's small stature, athletic ability and enormous work ethic, Ejack hit on a plan.

Moreno had never touched a racehorse and didn't even know what a jockey was in the fall of 2006 when Ejack brought him to Olds to have a look at the 15-week race rider program offered at Olds College. Moreno said on Tuesday that he was nervous at the time, but wasn't keen on spending the rest of his life painting houses, so decided to give it a try.

But just getting by wasn't an option. "I hate being second best at things. I'm a competitive person. I'm a sore loser." Before he could even start, he had to take riding lessons to pass the entry requirements.

Moreno earned his diploma the next year and started out in Alberta, riding races in Grande Prairie, Lethbridge and Edmonton before moving on to Woodbine at Toronto, where he is now based. Last year alone, Moreno rode about 1,100 horses and people are banging on his agent's door, asking him to ride their horses.

That's outstanding performance for any jockey, never mind one with no background in the industry, said Shirley McClellan, chair of Horse Racing Alberta, a member of the Olds College Board of Governors and the person for whom the college named its new riding arena.

“(Moreno’s success) means a lot for the program because he’s an inspiration for the students. He’s a hero for them, and everybody needs a hero,” said McClellan. “You know, he started so raw (but) he worked hard. Everybody talks about his work ethic, and I think because of his work ethic he got more and more opportunities.”

Jim Haggan, manager of programs for Horse Racing Alberta, said the racing programs at Olds College are part of a scheme to improve the industry in Alberta. The groom program was first, followed about six years ago with the exercise rider program. Another program for barn managers is now being developed, said Haggan. The goal is to create something

similar to the four-year degree program being offered at the University of Arizona in Tucson, where training is available in all aspects of the industry, he said.

So far, the Alberta programs are filling a huge gap in the number of people available not just to ride the races, but to help exercise the horses between races, said Haggan. “On any given day, we have anywhere between 15 and 20 exercise riders that graduated from this program,” said Haggan.

“On average, they ride 10 horses a day, so that’s 200 a day being galloped. If we didn’t have those kids, we wouldn’t be able to get those horses out there.” Right now, there are nine students enrolled in the program, which has a capacity for 15, said Mara-Coote Freeman, who recently retired as head of the animals sciences department within the college’s continuing education program.

Moreno said he feels lucky to have had encouragement and support in a career that, five years ago, he didn’t know existed. He’s had some memorable rides so far and looks forward to constantly improving his performance on the track, knowing that his job is to get the best performance possible from the horse he is riding.

“A bad rider will put a horse in a bad spot, then the horse is going to get shut out and have nowhere to go. Great riders have told me the best way to ride a horse is just to be a good passenger. A good jockey gives a good horse a fighting chance.”



HORSE RACING ALBERTA

FINANCIAL STATEMENTS

Year ended December 31, 2010



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INDEPENDENT AUDITORS' REPORT

To the Members of Horse Racing Alberta

We have audited the accompanying financial statements of Horse Racing Alberta, which comprise the statement of financial position as at December 31, 2010, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Chartered Accountants

April 21, 2011

Edmonton, Canada

HORSE RACING ALBERTA

STATEMENT OF FINANCIAL POSITION

December 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Current assets:		
Cash	\$ 264,326	\$ 645,225
Accounts receivable	1,223,271	2,825,056
Contributions receivable (note 5)	1,686,372	1,594,754
Prepaid expenses and deposits	47,897	63,322
Current portion of loans receivable (note 3)	102,087	2,501,933
	3,323,953	7,630,290
Loans receivable (note 3)	496,819	598,907
Capital assets (note 4)	44,977	52,125
	\$ 3,865,749	\$ 8,281,322
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 586,406	\$ 1,481,582
Amounts due to ASHA and HBPA	-	866,820
Racetrack grants payable	2,855,615	5,625,141
	3,442,021	7,973,543
Net assets:		
Invested in capital assets	44,977	52,125
Unrestricted	378,751	255,654
	423,728	307,779
Commitments (note 8)		
	\$ 3,865,749	\$ 8,281,322

See accompanying notes to financial statements.

On behalf of the Board:

Chair of the Board

Chair of the Audit and Finance Committee

HORSE RACING ALBERTA

STATEMENT OF OPERATIONS

Year ended December 31, 2010, with comparative figures for 2009

	2010 Budget (Unaudited)	2010 Actual	2009 Actual
Revenue:			
General fees	\$ 8,739,017	\$ 8,163,335	\$ 8,518,178
Racing Industry Renewal Initiative revenues (note 5)	25,943,990	23,836,758	27,725,065
Other racing revenues	228,370	250,724	230,632
Interest and other revenues	246,000	141,298	291,952
	<u>35,157,377</u>	<u>32,392,115</u>	<u>36,765,827</u>
Expenses:			
Purse Support Grants:			
Thoroughbred	4,551,750	4,551,750	5,693,625
Standardbred	2,077,400	1,961,051	2,324,300
Community	4,667,000	4,652,381	5,256,354
	<u>11,296,150</u>	<u>11,165,182</u>	<u>13,274,279</u>
Breed Improvement Program:			
Thoroughbred	2,913,475	2,517,945	2,492,781
Standardbred	1,607,434	1,526,431	2,074,410
Community	502,323	499,341	527,000
	<u>5,023,232</u>	<u>4,543,717</u>	<u>5,094,191</u>
	<u>16,319,382</u>	<u>15,708,899</u>	<u>18,368,470</u>
Schedule A - Racetrack Grants	12,779,517	11,823,389	13,902,315
Schedule B - Marketing and Promotion	1,500,000	1,148,234	1,134,318
Schedule C - Regulatory and Administration	3,032,509	3,309,160	3,768,858
Human resource development	300,000	259,182	322,649
Animal welfare	41,000	20,122	26,293
Emerging projects and programs	415,000	7,180	-
	<u>18,068,026</u>	<u>16,567,267</u>	<u>19,154,433</u>
	<u>34,387,408</u>	<u>32,276,166</u>	<u>37,522,903</u>
Excess (deficiency) of revenue over expenses	\$ 769,969	\$ 115,949	\$ (757,076)

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

Year ended December 31, 2010, with comparative figures for 2009

			2010	2009
	Invested in capital assets	Unrestricted	Total	Total
Balance, beginning of year	\$ 52,125	\$ 255,654	\$ 307,779	\$ 1,064,855
Excess (deficiency) of revenue over expenses	(14,302)	130,251	115,949	(757,076)
Purchase of capital assets	7,154	(7,154)	-	-
Balance, end of year	\$ 44,977	\$ 378,751	\$ 423,728	\$ 307,779

See accompanying notes to financial statements.

HORSE RACING ALBERTA

STATEMENT OF CASH FLOWS

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Cash flows from operating activities:		
Cash received:		
Racing operations	\$ 9,155,043	\$ 8,099,829
Racing Industry Renewal Initiative program	23,745,140	28,686,369
ASHA and HBPA Simulcast - Calgary Area	293,410	1,837,925
Interest received	93,232	27,762
Other revenue	250,724	99,489
Cash paid:		
Purse support grants	(11,165,182)	(13,274,279)
Breed improvement program	(4,543,717)	(5,094,191)
Racetrack grants	(14,592,915)	(14,241,405)
Marketing and promotion	(1,148,234)	(1,134,318)
Regulatory and administrative expenses	(3,857,942)	(3,484,694)
Other operating expenses	(286,484)	(348,942)
Contributions to ASHA and HBPA Purse	(866,820)	(2,131,617)
	(2,923,745)	(958,072)
Cash flows from investing activities:		
Repayment of loans receivable	2,550,000	50,000
Purchase of capital assets	(7,154)	(3,238)
	2,542,846	46,762
Net increase (decrease) in cash	(380,899)	(911,310)
Cash, beginning of year	645,225	1,556,535
Cash, end of year	\$ 264,326	\$ 645,225

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2010

1. Authority and purpose of the Corporation:

Horse Racing Alberta (the “Corporation”) was created as a Provincial Corporation on June 25, 2002 by the Horse Racing Alberta Act, Chapter H-11.3, Revised Statutes of Alberta, 2000. The Corporation is a non-profit organization as defined in Section 149(1)(l) of the Income Tax Act and is exempt from income taxes. The Corporation is responsible for the regulation of the horse racing industry in the Province in any or all of its forms, and for the facilitation of long-term racing industry renewal.

2. Significant accounting policies:

(a) Capital assets:

Capital assets are recorded at cost. Capital assets are amortized on the straight-line basis over their estimated useful lives as follows:

Asset	Rate
Office equipment and furniture	3-10 years
Computer hardware and software	3 years
Leasehold improvements	Term of lease

(b) Revenue recognition:

The Corporation follows the deferral method of accounting for contributions. Unrestricted contributions are recognized when received or receivable if the amount can be reasonably estimated and collection is reasonably assured. Restricted contributions and interest earned thereon are recognized as revenue in the year in which the related expenses are incurred.

Assessments, fines, levies and interest on unrestricted funds are recognized as revenue when earned and collection is reasonably assured.

(c) Financial instruments:

Financial instruments are initially recorded at fair value.

The Corporation has designated cash as a held-for-trading financial asset. All other financial assets are classified as loans and receivables. All liabilities are classified as other financial liabilities.

Transaction costs are recognized immediately in the statement of operations. Financial instruments are recorded on a trade date basis. The Corporation has elected to exclude the application of Section 3855 of the CICA Handbook for contracts to buy or sell non-financial items and embedded derivatives within these contracts and for embedded derivatives within lease and insurance contracts.

The fair values of the Corporation’s financial instruments do not differ significantly from their carrying values unless otherwise noted.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended December 31, 2010

(d) *Risk management and fair value:*

The risks that arise from transacting financial instruments include credit risk, liquidity risk, and price risk. Price risk arises from changes in interest rates, foreign currency exchange rates and market prices. The Corporation does not use derivative financial instruments to alter the effects of these risks. The Corporation manages these risks through the use of prudent risk management policies and practices.

Changes in interest rates and credit ratings are the main cause of change in the fair value of Corporation's loans and receivables resulting in a favourable or unfavourable variance compared to book value. Credit risk is mitigated by dealing with counterparties that it believes are creditworthy. The accounts receivable are concentrated with parties in the horse racing industry. Interest rate risk effecting cash flow is mitigated by using fixed rates and payment frequency.

(e) *Capital management:*

The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going concern, so that it can continue to provide service to stakeholders, including its members, to continue to promote and assist in the development of horse racing in Alberta.

The Corporation sets out the sufficiency of capital to maintain the service needs of the stakeholders and makes adjustments to its budget to respond to potential changes in economic conditions. In order to maintain a sufficient capital structure, management looks forward to future needs and will recommend increased fees or decrease in program and grant expenditures.

(f) *Use of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

HORSE RACING ALBERTA

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended December 31, 2010

3. Loans receivable:

	2010	2009
Grande Prairie Regional Agricultural & Exhibition Society, non-interest bearing, unsecured, maturing December 31, 2015 (face value of \$750,000 less \$151,094 discount using an 8% interest rate) (2009 face value of \$800,000 less \$199,160 discount using an 8% interest rate)	\$ 598,906	\$ 600,840
United Horseman of Alberta Inc. (UHA), 8% secured note, principal plus interest, due on demand	-	2,500,000
	598,906	3,100,840
Less current portion	102,087	2,501,933
	\$ 496,819	\$ 598,907

The Grande Prairie Regional Agricultural & Exhibition Society has agreed to repayments of \$150,000 in each of years 2011 to 2015. The Corporation has committed to advance \$500,000 for Phase 2 of Grande Prairie's grandstand project. Interest revenue includes \$48,066 (2009 \$ 48,211) related to the amortization of the fair value discount.

The principal amount of the secured note from UHA was repaid on July 2, 2010. Accrued interest of \$316,667 was not collected and has been recorded as a loss on settlement of loan receivable.

The principal receivable less fair value discount for each of the next five years is as follows:

	Total receivable	Unamortized discount	Principal due
2011	\$ 150,000	\$ 47,913	\$ 102,087
2012	150,000	39,746	110,254
2013	150,000	30,925	119,075
2014	150,000	21,400	128,600
2015	150,000	11,110	138,890
	\$ 750,000	\$151,094	\$ 598,906

HORSE RACING ALBERTA

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended December 31, 2010

4. Capital assets:

		2010	2009
	Cost	Accumulated amortization	Net book value
Office equipment and furniture	\$188,977	\$153,151	\$35,826
Computer hardware and software	76,308	71,991	4,317
Leasehold improvements	18,058	13,224	4,834
	\$283,343	\$238,366	\$44,977
			\$52,125

5. Contributions from the Government of Alberta:

Contributions represent resources received and receivable from the Government of Alberta which are subject to external restrictions as follows:

	2010	2009
Unspent contributions, beginning of year	\$ -	\$ -
Contributions during the year	23,834,823	27,718,213
Interest received on deferred contributions	1,935	6,852
Amount recognized as Racing Industry Renewal Initiative revenues in the year	(23,836,758)	(27,725,065)
Unspent contributions, end of year	\$ -	\$ -

The Corporation has a grant agreement with the Government of Alberta to assist in long-term industry renewal with monies derived from slot revenue from racing entertainment centres. This agreement expires March 31, 2016.

The reduction in Racing Industry Renewal Initiative revenue in 2010 is due to the loss of the Calgary area racing entertainment centres' contributions and an overall decrease in slot revenues.

The contributions receivable from the Government of Alberta at December 31, 2010 are \$1,686,372 (2009 - \$1,594,754).

HORSE RACING ALBERTA

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended December 31, 2010

6. Licensing:

The Racing Industry Renewal Initiative revenue received from the license of Calgary Exhibition and Stampede expired on March 31, 2009. A ten year provisional license was issued to United Horseman of Alberta for the Calgary area which expires on December 31, 2016.

Subsequent to year end, a one year conditional race track license was granted to Alberta Downs Horse Racing for the Lacombe area effective March 1, 2011. Prior to that time, the track was operated under a license effective April 1, 2009 to Rocky Mountain Turf Club.

7. Compensation:

	Positions	Base salary (1)	Other cash benefits (2)	Other non-cash benefits (3)	2010 Total	2009 Total
Chair (5)	1	\$ 210,000	\$ -	\$ 16,197	\$ 226,197	\$ 152,588
CEO (4)	-	-	-	-	-	\$356,312
COO (6)	0.8	150,000	2,769	19,263	172,032	2,046
CFO	1	124,976	-	12,054	137,030	134,116
Board of Directors	13	-	51,800	1,320	53,120	51,484
Managers:						
Racetrack and administration	3	249,664	22,435	32,378	304,477	315,487
Non-managers:						
Racetrack	14	616,082	14,957	79,777	710,816	917,461
Administration	3	123,805	-	27,257	151,062	199,844
	35.8	\$ 1,474,527	\$91,961	\$188,246	\$1,754,734	\$2,129,338

- (1) Base salary includes pensionable base pay.
- (2) Other cash benefits include bonuses, vacation payments, honoraria, overtime and lump sum payments including severance.
- (3) Other non-cash benefits paid include the Corporation's share of all employee benefits and contributions made on behalf of the employees including health and dental, life, accidental death & dismemberment, weekly indemnity and long term disability insurances, CPP and EI contributions, WCB, vacation pay, car allowances and RRSP contributions.
- (4) Effective July 15, 2009 the position of Chief Executive Officer was terminated.
- (5) The Chair informally filled the role of COO and assisted during the transition of the new COO during the year.
- (6) The Chief Operating Officer commenced employment on March 1, 2010 and ceased employment on December 31, 2010.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended December 31, 2010

8. Commitments:

The Corporation rents office premises in Edmonton, expiring March 31, 2013 and in Calgary, expiring December 31, 2011. The Corporation is responsible for its proportionate share of property taxes and building operating costs for the leased premises. The Corporation also has automotive and office equipment under operating leases through to 2014.

Annual payments are as follows:

2011	\$ 306,152
2012	190,476
2013	54,072
2014	1,509
	<u>\$ 552,209</u>

9. Trust funds:

The Corporation collects and disburses trust funds related to the simulcast handle in the Calgary market area on behalf of Alberta Standardbred Horse Association (ASHA) and Horsemen's Benevolent Protective Association of Alberta (HBPA). In 2009, these funds were held in the accounts of the Corporation. In 2010, the funds were transferred to a separate bank account and are no longer included in the accounts of the Corporation. The 2009 financial statements of the Corporation included \$573,410 in cash, \$293,410 in accounts receivable and \$866,820 in amounts due to ASHA and Horsemen's Benevolent Protective Association of Alberta related to this relationship.

At December 31, 2010 the Corporation held \$90,049 of cash in trust for ASHA under a one year agreement effective January 1, 2010 between Rocky Mountain Turf Club (RMTC), ASHA and the Corporation. The funds are disbursed at the sole discretion of ASHA. The agreement can be renewed for 2011 and 2012 on the same terms.

An agreement effective May 1, 2010 between RMTC, HBPA and the Corporation directed that funds previously remitted by RMTC to the Corporation now be remitted directly to HBPA. The agreement can be renewed for 2011 and 2012 on the same terms.

HORSE RACING ALBERTA

SCHEDULE A: RACETRACK GRANTS

Year ended December 31, 2010, with comparative figures for 2009

	Budget (Unaudited)	2010	2009
Northlands Park	\$10,027,875	\$ 9,296,481	\$10,795,961
Calgary area	-	-	337,997
Rocky Mountain Turf Club	1,337,840	1,155,057	924,427
Grande Prairie Regional Agricultural & Exhibition Society	840,830	798,734	1,048,610
Lacombe	502,972	503,117	375,000
Millarville	20,000	20,000	20,000
Alberta racetrack capital fund grants	50,000	50,000	400,320
	\$12,779,517	\$11,823,389	\$13,902,315

SCHEDULE B: RACETRACK GRANTS

Year ended December 31, 2010, with comparative figures for 2009

	Budget (Unaudited)	2010	2009
Branding	\$ 500,000	\$ 281,509	\$ 428,738
Live race broadcasting	520,000	398,869	379,852
Internal and other marketing initiatives	480,000	467,856	325,728
	\$ 1,500,000	\$ 1,148,234	\$ 1,134,318

HORSE RACING ALBERTA

SCHEDULE C: REGULATORY AND ADMINISTRATION

Year ended December 31, 2010, with comparative figures for 2009

	Budget (Unaudited)	2010	2009
Compensation (note 7)	\$1,717,519	\$1,754,734	\$2,129,338
Loss on settlement of loan receivable (note 3)	-	316,667	-
Travel	325,000	252,712	358,606
Contractors	233,000	241,937	236,824
Office rent and operating costs	198,350	205,471	197,855
Legal, consulting and audit fees	143,000	193,254	412,640
Office and administration	176,590	145,334	156,812
Telephone	46,350	39,485	43,828
Other	34,700	36,026	45,960
Insurance	34,000	32,966	32,177
Meetings and seminars	10,000	20,629	10,228
Memberships	20,000	19,981	22,504
Appeal tribunal	10,000	16,690	22,405
Amortization	16,000	14,302	18,392
Toxicology	30,000	10,091	33,347
Racetrack licensing expense	27,000	5,672	41,843
Committee expenses	11,000	3,209	6,099
	\$3,032,509	\$3,309,160	\$3,768,858

Photography

~ **Photos courtesy of Coady Photo:**

Back cover top image and

Page 5: "Coins in My Pocket"

H. Dixon & R. Francis, Owners

Page 12: "No Hesitation"

Barb Side, Owner

~ **Photos by Dave Landry:**

Front cover top and centre photos,

inside front cover, table of contents,

pages 3, 4, 11, 14, 15, 16 and 18,

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~ **Photos by Jeff Robillard:**

Front cover bottom and

Page 10: "Special Lady"

Gordon Rumpel, Owner

