



HORSE RACING ALBERTA

2008 ANNUAL REPORT



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VISION

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.

MISSION

Alberta will be recognized internationally for premier horse racing, breeding and quality entertainment.

CORE BUSINESS

The core business of Horse Racing Alberta is horse racing, racehorse breeding and the regulation of horse racing in Alberta, with the overarching goal being: To stabilize, enhance and ensure the growth and integrity of the Alberta horse racing and breeding industry.



GOVERNANCE

Horse Racing Alberta is governed by a Board of Directors, including a Chair, eight directors representing breed organizations and racetracks, three directors representing the public and two government-appointed, ex-officio (non-voting) members. Board members serve a three year term, with a possible reappointment, to a maximum of six years.

Horse Racing Alberta has lost two influential members of our organization. The sudden passing of John MacLeod in August 2008, who represented the community racetracks breed organizations since 2002. Andy Bryant, President and COO of HRA, lost his battle with cancer in January 2009. HRA recognizes Andy's many contributions and his tireless efforts on behalf of the horse racing and breeding industry.

During 2008 there were significant changes in Board personnel, including the appointment of a new Chair and eight new directors. Horse Racing Alberta expresses appreciation for the commitment, integrity, and expertise the outgoing board members have provided during their terms of office.

Horse Racing Alberta Outgoing Directors

Dr. David Reid - Chairman and Chief Executive Officer
Mr. Neil Malloch - Alberta Standardbred Horse Association, Breeders
Mr. Mike Secker - Canadian Thoroughbred Horse Society
Mr. Brian Bygrave - Horsemen's Benevolent and Protective Association
Mr. John MacLeod - Other Breeds
Mr. Max Gibb - "B" Track, Rocky Mountain Turf Club
Dr. Pat Brennan - Public Member
Ms. Ann Hammond - Government Appointee (Ex-officio)

Horse Racing Alberta Board of Directors (As of October, 2008)

Mrs. Shirley McClellan, Chair
Mr. Don Getty, Public Member & Vice Chairman
Mr. Don Buchanan, Canadian Thoroughbred Horse Association
Mr. Jim McFadyen, Horsemen's Benevolent and Protective Association
Mr. Bill Andrew, Alberta Standardbred Horse Association, Breeders
Mr. Ernie Caron, Alberta Standardbred Horse Association
Mr. Harold Silbernagel, Other Breed Organizations (one year appointment)
Mr. Rick Carter, "A" Tracks
Dr. David Chalack, "A" Tracks
Mr. Ken Drysdale, "B" Tracks
Ms. Sue Bohaichuk, Ex-officio – Government Appointee
Mr. Jim Bauer, Ex-officio – Government Appointee
Mr. Gary Belecki, Q.C., Public Member
Mr. Peter Bidlock, Public Member



HORSE RACING ALBERTA CHAIR'S REPORT

Uncertainty can breed many things. But it can't breed a great racehorse, or stabilize and grow an industry.

2008 was a challenging period for the horse racing industry. It faced delays in the construction of the racetrack at CrossIron Mills as well as protracted negotiations for water rights. The need to accommodate two racing breeds at one "A" racetrack placed pressures upon Horse Racing Alberta (HRA) and the industry as a whole.

My appointment to the Horse Racing Alberta Board in October 2008 hopefully provides a necessary change in perspective during changing times. Notwithstanding my complete understanding and empathy of the fear that is generated by uncertainty, it is necessary for the industry to recall where we've come from, what was given to us and what is expected of us.

Horse racing is an industry that receives 80% of our income from the revenue earned at Racing Entertainment Centres (RECs) located at racetracks. These RECs are linked to live days of horse racing at these venues. This funding ensures that there are programs in place to fulfill the expectations of the Alberta Government through the *Horse Racing Alberta Act*, which are; that our agricultural-based industry would survive and grow; that Alberta bred horses would have the opportunity to successfully compete; that old and new owners would be attracted to purchase Alberta foaled or sired racehorses; and, that through rejuvenation, we would restore our fan base and grow our handle.

Through HRA, the horse racing industry has been given an opportunity to flourish and grow. The expectation of the Alberta Government is that all partners work together to optimize these opportunities. The Government anticipates that horsemen cooperate and work together – speaking with one voice. The structure and direction of the HRA Board of Directors ensures that all voices within the industry are represented and heard.

Crisis is an opportunity for members of our industry to unite and find a way forward so that each sector can survive and emerge at the end stronger with a finely tuned plan for the future. We must not lose focus on the impact that today's economic and political realities have on the horse racing industry. In 2008, horsemen and racetracks alike seemingly forgot the magnitude of the opportunities the *Racing Industry Renewal Initiative* provides for our industry. We must continually maximize the potential of this as we move forward.

Alberta's horse racing industry has the tenacity and mettle, not to just endure uncertainty, but to work together to find new solutions that will ensure our collective success and longevity. The challenges we face today will help us focus on the promising opportunities of the future.

Shirley McClellan
Chair



2008 IN PERSPECTIVE

Dr. David Reid, Chief Executive Officer

Horse Racing Alberta has a difficult role to play – sharing the dreams of the industry while dealing with the challenges of reality. 2008 will be reflected upon as a year of great change and uncertainty for Horse Racing Alberta and the horse racing industry -- from both a local and global perspective. Even in Alberta's strong and vibrant economy, the threat of worldwide recession compounds the pressure horsemen already feel about future racing opportunities, scheduled race days and purse structure.

Horse Racing Alberta firmly believes that our strategic direction of steady growth and stabilization has created an industry that is resilient and capable of weathering challenges. We have planned for the transition period to ensure that those within the horse racing industry can "keep the lights on" during this time of change. But this uncertainty is not forever and we anticipate changes for horsemen that will lead to growth and development in the future.

For some owners and horsemen, the best interim solution is to leave the province in search of greener pastures. HRA understands and appreciates the attraction of this approach and hopes that as our current situation improves these owners, breeders and horsemen will return.

Strategic Priorities 2008

HRA's Business Plan focused on eight key strategic areas which support all aspects of the horse breeding and racing industry. In 2008, the strategic priorities were:

- The construction and opening of the CrossIron Mills racetrack for the 2009 racing season.
- Long-term licensing, development and support of racetracks to stabilize and diversify racing in Alberta.
- Provide a purse strategy to encourage horsemen to invest and re-invest in the industry.
- Pursue province-wide branding and marketing to build public awareness and increase participation in horse racing.
- Support the breeding industry with programs that encourage improvements in breeding stock and achieve a solid return at sales.
- Enhance the quality of the working and living environment for racetrack personnel through personal growth, educational and support programs.

The execution of these priorities supported the racing industry during 2008 and will continue into the 2009-2011 business planning cycle.

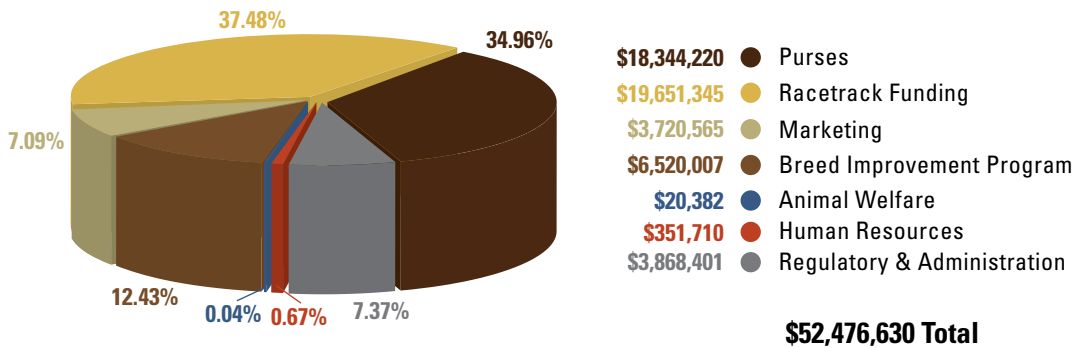
HRA OPERATIONS OVERVIEW

HRA Operational Expenditures and Revenues

HRA forecast the 2008 expenses budget at \$58.8 million. To mitigate the impact of reduced REC revenues, the total operating expenditure forecast was reduced by \$6.4 million, for total operating expenditures of \$52.4 million. Recognizing there was little opportunity for growth in 2008 and the challenges for growth in 2009, HRA undertook spending reductions in all operational areas, with the exception of Racetrack Grants, which are a set percentage return on Pari-Mutuel Handle earned at racetracks.

Operational Expenditures

With the shortfall in REC revenues, HRA made a conscious decision to decrease all operational expenditures in the 2008 fiscal year. Expenditures were reduced an average of 17% while providing continuity and stability in breeding and racing activities and purses.



* HRA began 2008 with a \$5.7 million cash-positive position. This was used to offset the \$4.9 million gap between revenue and expenditures in 2008.

2009 Forecast Expenditures

The 2009 HRA budget will see a further reduction of 14% in regulatory administration (a 22.5% reduction since 2007), 20% reduction in the Breed Improvement Program, 60% reduction in marketing, 40% reduction in human resource development and a 7% reduction in the HRA purse grant. Although each of HRA's strategic areas are extremely important, the minimal reduction in purse structure reflects our ongoing commitment to purses as the backbone of stabilization and growth for the Alberta horse racing industry. As the landscape for 2010 and beyond emerges more clearly, allocations of funds to purses will be adapted to match established incomes.

HRA Horse Revenue Streams

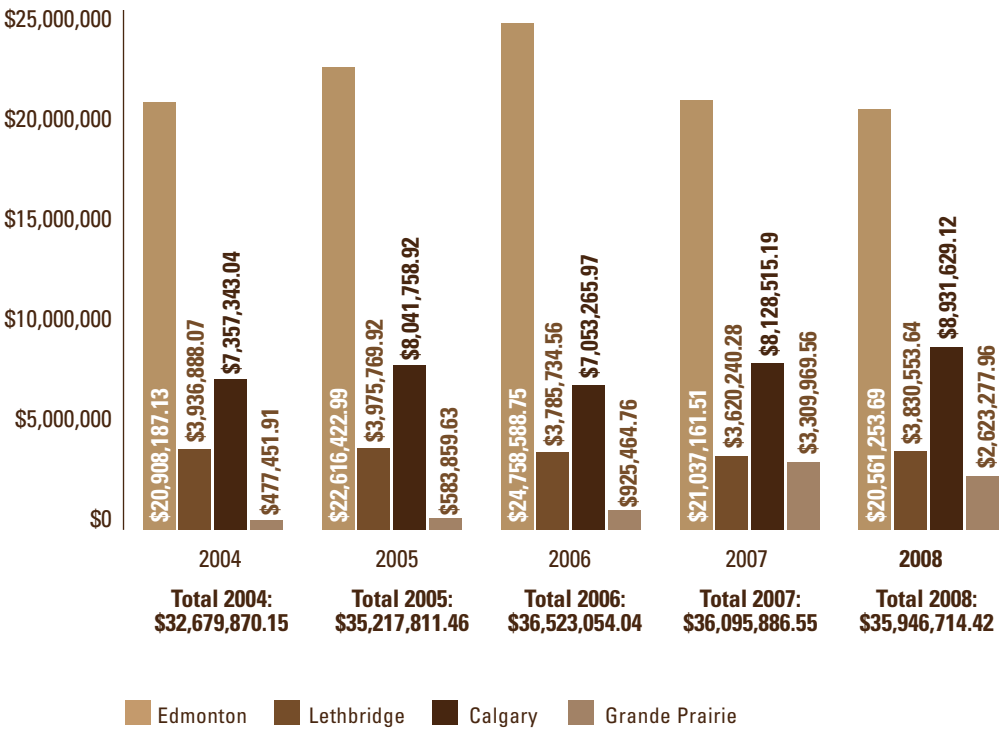
| Revenue | 2008 Budget | 2008 Actual |
|-------------------------------|---------------|---------------|
| General Fees | 6,566,209 | 7,753,215 |
| Promotional Levy | 502,300 | 588,506 |
| HOT Licensing Fees | 1,480,000 | 1,480,000 |
| Assessments, Licenses & Fines | 360,000 | 322,712 |
| ASHA Simulcast - Calgary Are | 1,030,065 | 863,950 |
| Other | 118,000 | 532,857 |
| *Lottery Fund | 44,646,840 | 36,037,738 |
| | \$ 54,703,414 | \$ 47,578,978 |

* The Lottery Fund total is comprised of HRA's portion of Racing Entertainment Centre revenues, plus interest of \$91,023.

Racing Entertainment Centre Revenue

Nearly 80% of the operating funds for Horse Racing Alberta come through the *Racing Industry Renewal Initiative (RIRI)* – a flow-through arrangement which allows HRA and the horse racing industry to receive a percentage of the slot machine revenues earned at HRA licensed Racing Entertainment Centres (REC). This program recognizes that horse racing is a unique industry based in agriculture, entertainment and tourism. HRA is mandated to use this funding to stabilize, support and grow the Alberta horse racing industry as a whole.

Slot Revenue 2004-2008



Slot revenues are critical for HRA, providing \$36 million in REC income for 2008. This was \$8.6 million below projected revenue, and was the first time since HRA was formed that there was not steady and significant growth from Racing Entertainment Centres. There are several factors leading to this decline including; increased competition in the gaming market, particularly with the licensing of new gaming locations close to racetracks; the creation of Aboriginal gaming facilities within the market area, and, slower than expected recovery from the impact of the smoking ban in public facilities. However, racetracks offer a multi-entertainment component that is unmatched by other forms of gaming and it is our strategy to market these benefits to the public and entice them to visit racetrack facilities.

HRA has forecast a decline of 11% in slot revenues for 2009, projected at \$30.5 million, in anticipation of these market forces continuing to impact REC revenue. As well, the global economic situation and the cessation of funds from the Calgary Market Area as of March 2009 are unpleasant realities.



GOVERNMENT AND INDUSTRY

Act as a single voice for the Alberta Horse Racing Industry

The Alberta horse racing industry has faced challenges over the past two years. HRA continues to work closely with government and industry partners to develop strategies and outcomes to support HRA's mandate and the goals of the industry.

HRA Grants License to Lacombe Racetrack

HRA has been working with the municipality of Lacombe and industry partners to ensure all regulatory requirements have been met in anticipation of the 2009 opening of the Lacombe racetrack for a limited number of race days. This racetrack is vitally important for bridging 2009 and the complete development of the community circuit in the future. The determination and commitment of industry partners have played an integral role in securing this new racing license.

Racing Opportunities for all Breeds

In 2008, Northlands Park announced its commitment to a Thoroughbred meet for a three-year period beginning in the spring of 2009. Given the current lack of an "A" racetrack in southern Alberta, this was positive news for Thoroughbred owners. HRA is concerned that Alberta's only "A" racetrack might not provide an array of breeds for racing fans. The impact to the Standardbred industry is significant and HRA will be aggressively supporting opportunities for racing days for Standardbred and Quarter Horse races at Northlands and other racing venues.

Federal Government Makes Legislative Progress

Since 2007, HRA has been cooperating with the Canadian Pari-Mutuel Agency (CPMA) to review the pari-mutuel betting regulations in Canada. These regulations have not significantly changed since the mid-1950s, leaving a framework that didn't reflect today's technology-based gaming environment.

After extensive consultation with industry stakeholders, the federal Minister of Agriculture and AgriFood Canada has directed the CPMA to develop the new regulatory and legislative framework for pari-mutuel betting. The revised legislation is expected to be tabled by the Federal Minister in October 2009.

Industry Satisfaction Performance Measure

Horse Racing Alberta recognizes the importance of monitoring performance and industry satisfaction and it will be important in 2009 to seek industry input into future strategic priorities. In 2007, HRA contracted Longwoods International to measure public perception and attitudes of the Horse Racing Industry in Alberta. Due to the cost involved in public and industry surveying, the next industry specific survey will be completed in 2009.

HANDLE

Pari-mutuel handle is a benchmark of how the horse racing industry is doing. The amount of money wagered provides insight to the quality of the horses racing, the number of fans attending races and the value of the simulcast signal in other markets. Alberta's handle has increased 25% since 2001, while the national handle decreased 10% during the same period. In the United States, wagering dropped 7.2% – one of the lowest wagering amounts seen in nearly ten years.

Alberta continued to steadily increase handle, with a modest growth of 1.19% in 2008 for total handle revenue of \$182.4 million. In 2008, Alberta had the third highest handle revenues, placing just behind Ontario and British Columbia. However, only Alberta and B.C. had growth in handle, compared to the average national handle which saw a decline of – .78% to \$1.7 billion in 2008. Although Alberta did have a marginal handle increase over 2007, the significant decline in live and Alberta simulcast revenue is a worrying trend. HRA will continue to develop strategies that enhance the quality and value of the Alberta racing product through consultations with stakeholders and evaluation of their recommendations.

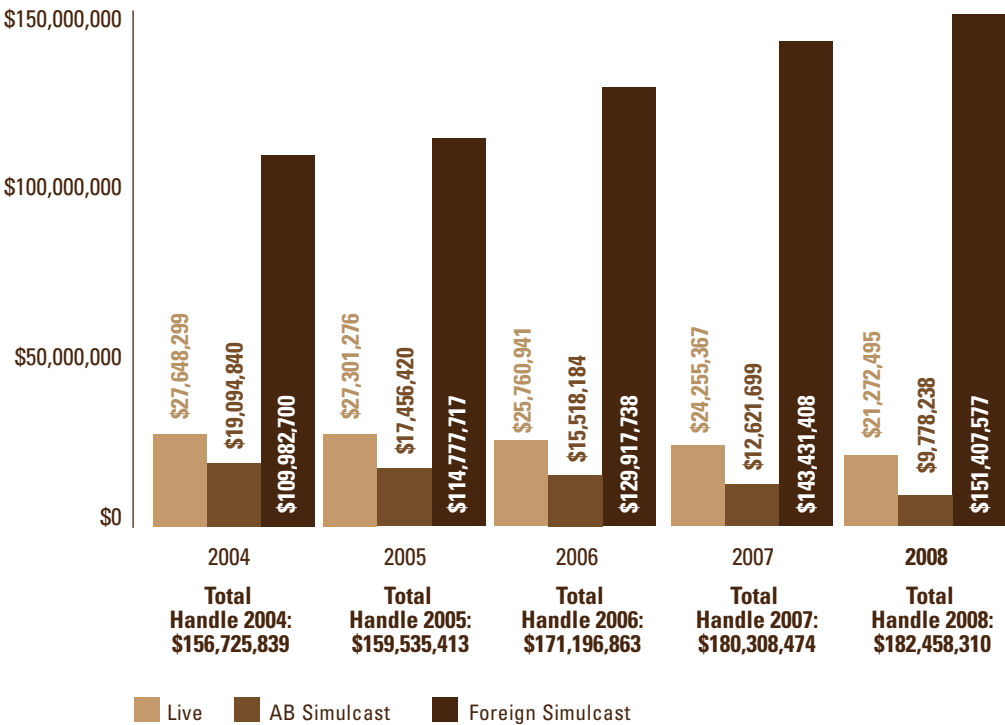
Alberta Pari-Mutuel Handle – Performance Measure

| | 2004 Actual | 2005 Actual | 2006 Actual | 2007 Actual | 2008 Target | 2008 Actual |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Alberta Racing Handle | \$ 46,853,212 | \$ 44,757,696 | \$ 41,297,125 | \$ 36,877,066 | \$ 29,482,580 | \$ 31,050,733 |
| Total Handle | \$ 156,725,839 | \$ 159,535,414 | \$ 171,196,862 | \$ 180,308,474 | \$ 169,375,780 | \$ 182,458,310 |

Simulcast Sustaining Handle Growth

The ability of Alberta’s racetracks to import, export and market simulcast racing played a major role in the success of simulcast wagering. Northlands Park showed a 17% rise in wagering in 2008 on foreign Thoroughbred simulcast races, while harness racing saw a three per cent increase in simulcast wagering. Horse Racing Alberta and Northlands Park’s marketing efforts, particularly in the success of the Canadian Derby, and other major horse racing events, contributed to the increase.

Simulcast and Live Handle 2004-2008

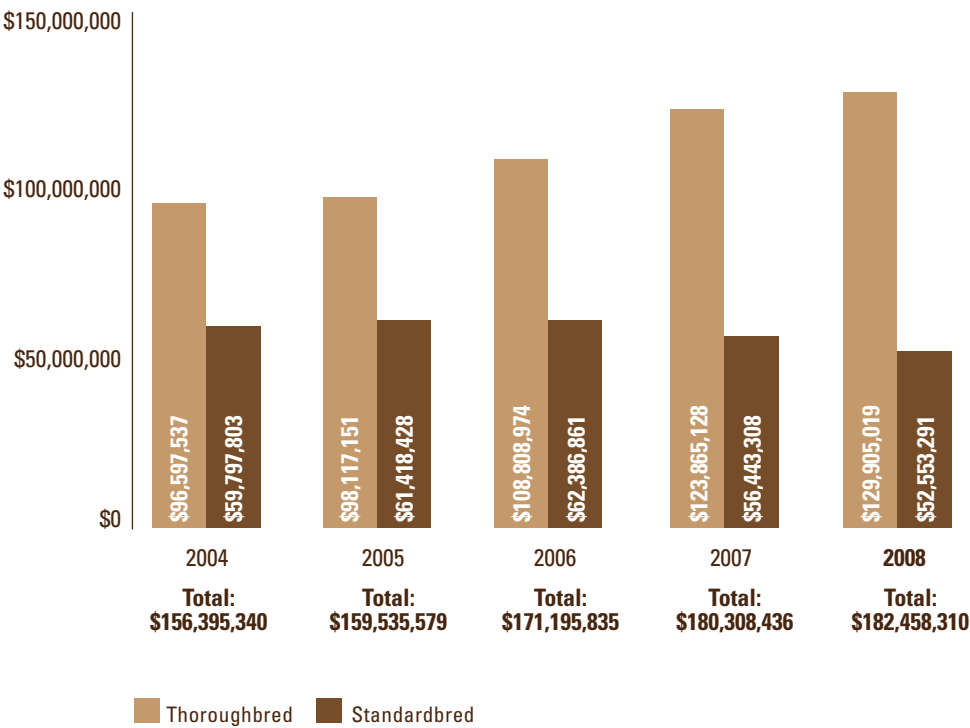


Standardbred Handle

The challenges faced by the Standardbred industry are evident in review of the harness racing handle. This is due in part to the unavailability of racing days at “A” tracks. It is Horse Racing Alberta’s mandate to support all horse racing breeds. Alberta has the second-highest attendance record for harness racing throughout Canada – with Alberta producing some of the most successful earners in the industry. Outside of a few select racetracks in Ontario, the challenges facing harness racing are significant across the country. There would be a negative impact to Standardbred owners, and the horse racing industry as a whole, if this exciting form of horse racing could not be sustained at an ‘A’ track level within the province. HRA believes that Alberta will remain a strong market for harness racing if given the appropriate opportunities and a renewed approach to its business model.

Within the next two years, HRA will be working closely with the Alberta Standardbred Horse Association to develop new racing opportunities and marketing strategies to support this breed.

Alberta Handle 2004-2008



PURSES

“Contribute to purses, based on revenues available, to stimulate the overall activity and investment in the industry.”

Purses are a pivotal element of the horse racing industry, driving investment in breeding, training and racing activities. Without a strong and stable purse structure, there is no reinvestment back into the industry, hampering opportunities for future growth. For HRA, providing a stable purse structure has been a priority and will continue to be a focus during the next business planning cycle.

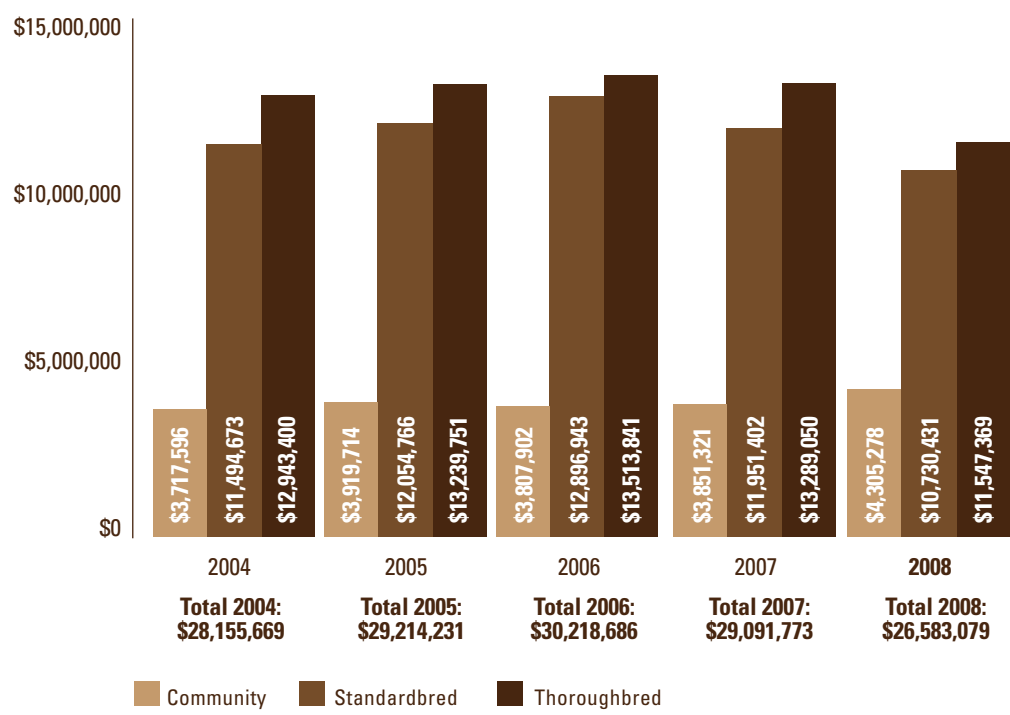
HRA Maintains Investment in Purses

Since 2002, purses have steadily grown in order to provide opportunities for horsemen to make future plans for breeding and racing. HRA continued to prioritize purses in the 2008 budget, investing \$18.3 million. In addition to \$8.2 million invested from other sources, total purses offered was \$26.5 million. Although HRA's contribution decreased from the 2007 figure of \$20.7 million, purses still accounted for over 35% of HRA's total operating expenditures in 2008.

The declining trends seen in handle growth and track attendance have a significant impact on purses. Across North America there has been a 2.7% decrease in purses, with similar trends in European and Australian markets as well. These decreases are partly the result of conflicts between horsemen and racetrack operators in many jurisdictions. This has resulted in public and government scrutiny of the entire horse racing industry. Although purses are of great importance to the ongoing ability of horsemen to raise, train and race horses, there is a need to find equitable solutions to ensure all breeds and track operators can be successful.

Going forward, 2009 is expected to see a further decline in purses, with a forecast purse structure of \$24 million, reflecting the projected reduction in HRA revenue and race days in 2009. HRA has forecast an increase in purse grants by 2010.

Alberta Purses 2004 - 2008



Race Days

2008 represented the second transitional year of racing in Alberta, with Stampede Park closing its doors to live racing in June of 2008. The support and efforts of Stampede Park are greatly appreciated by HRA in providing these additional race days in Southern Alberta. With the delays in the opening of the CrossIron Mills racetrack, there was a corresponding reduction of "A" track racing days. As HRA evaluates the industry going into the future, part of the equation will be to schedule the optimal number of race days with a purse structure that will maximize opportunities for owners.

The pressures of reduced days is a perfect stimulus to review the business model for our industry and determine the appropriate relationship between "A" and "B" racetrack days, horse populations, race days and purses. This will be addressed with the horsemen and tracks in 2009.

Alberta Race Days 2004 - 2008

| RACE DATES | 2004 | 2005 | 2006 | 2007 | 2008 |
|----------------------------|------|------|------|------|------|
| Northlands Thoroughbred | 70 | 72 | 72 | 61 | 61 |
| Northlands Standardbred | 71 | 74 | 79 | 105 | 99 |
| Stampede Park Thoroughbred | 47 | 45 | 47 | 50 | 46 |
| Stampede Park Standardbred | 64 | 59 | 61 | 0 | 0 |
| Lethbridge* | 52 | 47 | 49 | 50 | 47 |
| Grande Prairie** | 36 | 36 | 36 | 59 | 57 |
| Millarville | 2 | 1 | 1 | 1 | 1 |
| | 342 | 334 | 345 | 326 | 311 |

* race days for runners only. ie. All breeds except Standardbred.

** includes race days for mixed breeds. ie. All breeds including Standardbred.



BREEDING

“Facilitate the growth of the breeding industry and the quality of racehorses bred in Alberta.”

There are many long-term benefits to creating a vibrant and successful horse breeding industry within Alberta's borders. For the horse owner, there are greater opportunities to earn in Alberta-bred restricted races or stakes, along with reduced expenses of transporting and breeding horses out of province. For the racing fan, there's the benefit of more quality horses at the track, offering a better racing experience with better pay-offs for the punter.

Horse Racing Alberta's Breed Improvement Programs were designed to achieve three industry goals; to stimulate the agricultural base of the industry; to assist breeders in developing a profitable breeding venture; and to improve the quality, quantity, and competitiveness of the Alberta sired and foaled racehorse. Success in these endeavors would encourage the preferential purchase of Alberta-breds at auction at a more competitive price.

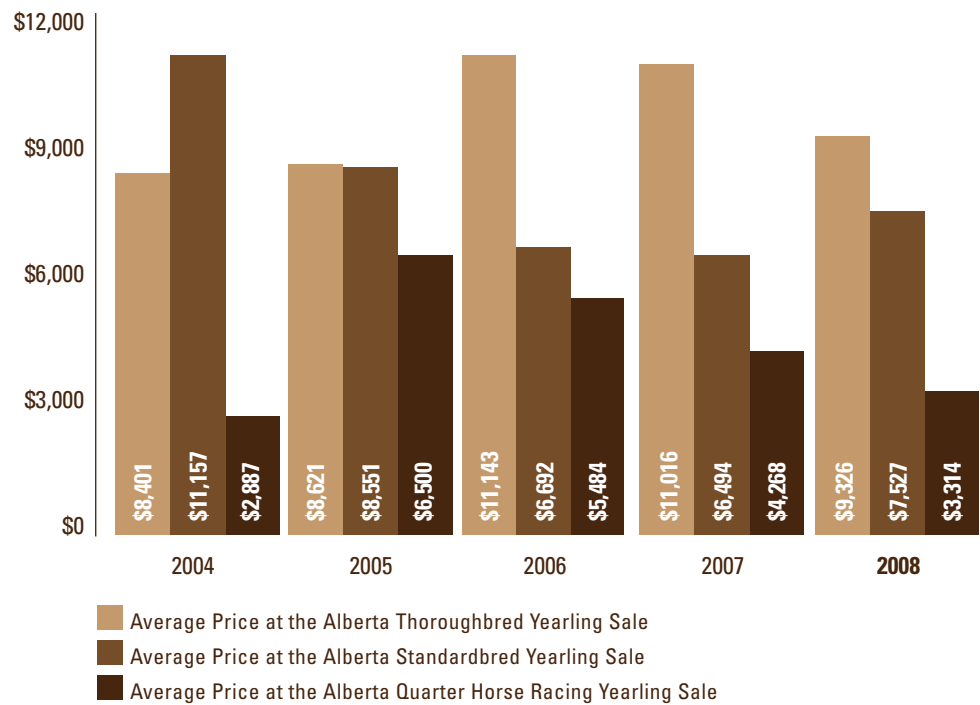
In 2008 the Alberta Select Sales were clearly affected by the uncertainties that surrounded 2009 race dates. In 2008, the Thoroughbred Select Sales were down 15% to \$9,336, while the Standardbred Sale averaged \$7,527, exceeding the target average price of \$7,000. The Quarter Horse sale only averaged a price of \$3,314, below the target sale price of \$4,000.

While HRA is not satisfied with these numbers, the reasons for decline are multifaceted. The sales prices should be considered within the perspective of the North American data for 2008. Traditionally strong and prestigious sales in Kentucky (-16.8%), Florida (-11.2%) and Maryland (-13.7%) all experienced decreases in sale prices.

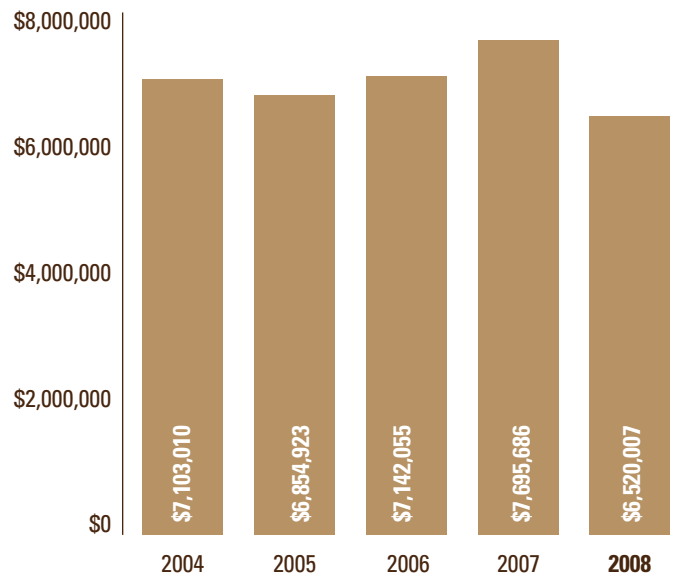
The overall breeding statistics are based on historical data of mares bred, live foals and number of breeders. The pressures of a stressed economy are seen in other areas of the breeding industry. The 2008 Jockey Club Report documents a 5.9% decline in stallion numbers and a 7.7% fall in mares bred. Further, it is anticipated there will be a 10-15% decline in the number of foals registered.

HRA has worked extensively with industry and key government departments to build strategies that will support the successful breeding of Alberta mares and stallions. As well, HRA continued to fund and support Alberta-breds at the racetracks through purse supplements and bonuses for successful racehorses.

Alberta Yearling Prices 2004-2008



HRA Investment in Breed Improvement Programs 2004-2008



RACETRACKS

Promote the development of high quality off-track betting facilities and racetracks for horses, fans, owners and racing personnel.

High quality racing facilities with adequate racing opportunities are essential for industry success. By creating tracks with exciting entertainment features, there is a corresponding increase in the level of participation by horsemen and fans. It is estimated there is over \$365 million invested by industry in existing racetracks and their associated infrastructure. To protect this investment, racetracks must offer the best experience for racing fans, offering exciting races, entertainment opportunities and a comfortable environment.

The tracks also form the hub of off-track opportunities, such as teletheatres. These are locations throughout the province where horsemen and fans can meet and wager on live and foreign races. At many locations they can dine and have other entertainment experiences. Horse Racing Alberta's partnership with the Alberta Hotel and Lodging Association has enabled the industry to move towards better standards for these locations.

The Racetrack at CrossIron Mills

The delays that the United Horsemen of Alberta (UHA) have faced in opening the CrossIron Mills racetrack have had a rippling effect throughout the industry, causing a significant reduction in racing days and a loss of revenue from handle and REC funds, which in turn has had a detrimental impact on purses. At the end of the day, horsemen have taken the greatest hit as a result of the delay.

The new CrossIron Mills racetrack offers a highly innovative destination that has the potential to draw in new racing fans, growing horse racing's value as a fun source of entertainment.

In 2008, UHA completed the majority of the infrastructure related to the racetrack, excluding the roads, while construction continued on the backstretch and front stretch facilities. Ivanhoe-Cambridge continues to draw exciting new tenants that will comprise the retail portion of the development. Together, this partnership will offer one of the most exciting retail and entertainment destinations in Canada.

New Racing Venue Set to Open in Central Alberta

Alberta Downs, the new racetrack in Lacombe, received its provisional racing license from Horse Racing Alberta in 2008 and will be up and running by early 2009. The racetrack features a one mile dirt track with a chute, a 500-yard straightaway for Quarter Horses and a 7/8 turf track on the inside for Thoroughbred racing. This is the only grass racetrack in Western Canada and Canada's second turf track, after Woodbine. The racetrack has been granted an initial race day schedule of 15 days for Standardbreds, offering new racing opportunities for Alberta horsemen in 2009.

Rocky Mountain Turf Club Takes on the South

As the only venue for racing in Southern Alberta, Rocky Mountain Turf Club (RMTC) in Lethbridge undertook extensive upgrading of their facilities over the past two years, resulting in better racing facilities for horsemen and better races for fans. The 2008 season offered a stellar group of entrants, drawing racing crowds in numbers not seen in years. RMTC offered higher purses to horsemen, while injecting millions of dollars back into the Southern Alberta economy.

Racetracks operate within a " Protected Market Area " – ensuring that RECs are not built in close proximity to one another, maximizing business opportunities. To be able to simulcast and offer off-track betting the license previously held by Stampede Park was given to RMTC to sustain and build simulcast racing opportunities in Calgary during the 2009 season.

Grande Prairie Steps Up for 2008 Season

Evergreen Park expanded its facility to better accommodate Thoroughbred, Standard-bred and Quarter Horse races at their 1/2 mile and 5/8 mile twin oval tracks. Grande Prairie offered 57 race days in 2008, up significantly from race days offered during the 2007 racing season. The efforts of the racetrack significantly helped horsemen enter their horses in quality races with good purses. Grande Prairie's race days significantly helped alleviate the problems of only having one 'A' racing facility offering Standard-bred race dates.

Stampede Park

Stampede Park offered live horse racing for Thoroughbreds until June 2008. HRA and Alberta horsemen are extremely appreciative of the efforts Stampede Park made in revising its scheduled closure to accommodate racing days in 2008.

Northlands Park

Northlands Park had a very successful transition year in 2008, showcasing some of the best racing in the province. The Canadian Derby continued to be a gem in Alberta's racing crown, drawing some of the best competitors for the \$300,000 purse and highest attendance seen in years. The Canadian Derby handle broke one million dollars, which Northlands had come close to achieving in previous years. The highly entertaining Western Canada pacing Derby and Northlands Filly Pace showcased another year of standardbred racing at Northlands Park.

Northlands Park handle also grew by 7% in overall wagering compared to 2007 figures, exceeding \$99 million on live and simulcast racing combined. The success of Northlands HOT (Horses OffTrack) network played a key role in this success, with a 17% increase in foreign Thoroughbred simulcast wagering and a three % increase in foreign Standardbred simulcast wagers. Northlands Park focused their efforts on increasing North American coverage resulting in increases from every Canadian partner. Alberta racing was exposed to a record new number of American simulcast locations, including Arizona, Florida, Louisiana, New Jersey and Texas racetracks and Off-Track Betting (OTB) locations.

HORSE RACING CELEBRATES ACHIEVEMENT

Alberta Thoroughbred Winners

| | |
|--|------------------------------------|
| Trainer of the Year Robertino Diodoro | Jockey of the Year Quincy Welch |
| Leading Owner Bar None Ranches | Leading Breeder Horizon Farm |
| Horse of the year Teagues Fight | |

Alberta Standardbred Winners

| | |
|---|---------------------------------------|
| Trainer and Driver of the Year Keith Clark | Breeder of the Year Sky West Farms |
| Owner of the year Bill Boden/Gerry Hudon | Horseman of the Year Keith Clark |
| Horse of the Year Tajma Hall | |

Alberta Quarterhorse Winners

| | |
|--|---|
| Champion Trainer William Leech | Champion Rider Nate Smith |
| Champion Owner and Breeder Shady Lane Stables | Grand Champion Running Horse Its All About Speed |

MARKETING

“Actively market and promote horse racing in Alberta”

Attracting fans to the racetrack to experience live racing is an integral piece of HRA's business strategy – ensuring longevity and growth for the horse racing industry. Horse Racing Alberta's marketing efforts have increased awareness, attendance and handle through its advertising campaigns, live television shows, racetrack marketing support and other opportunities. The focus on the 18 to 34 year old demographic captures an audience that is interested in excitement and new experiences, offering opportunities to entice younger fans to the racetrack.

Standardbred Races Take Centre Stage

The ladies were front and centre in the 25th Filly Pace on May 24th. Classy Import Sprig Hanover with driver Randy Fritz proved to be just too strong as they turned for home in her Northlands Filly, Pace Victory. A few weeks later the circuit's most prestigious race - The Western Canada Pacing Derby - was captured by the very impressive Neil Diamonique. Keith Clark piloted the gutsy colt which marked Keith's 8th WCPD driving victory since 1987.

Thehorses.com Reaches Out to Fans

Thehorses.com undertook significant changes in 2008, offering better organization and new information for horsemen and racing fans alike. These changes resulted in significantly higher website traffic, with visitors spending an average of 14 minutes and 29 seconds per visit to the site.

In August 2008, HRA with the assistance of Northlands and horsemen, **thehorses.com** strategically targeted the industry's biggest property -- the Canadian Derby. The website posted numerous stories about Canadian Derby players and equine athletes. Website traffic for the month of August logged a record one million hits in the month. These efforts culminated in reaching one million dollars in live handle earned on Canadian Derby Day.

The new HRA website now supplies horse racing consumers with what they have been asking for - constant updates, video images, blogs, visual images and much more.

Live Shows Draw Big Downloads

The industry's live television show tracked an increase of Race Program Page downloads. Viewers at home were encouraged to download the Televised Race Program Page and follow along at home as the on air talent educated the audience in an easy to follow format. Every show featuring Northlands Park in 2008 brought in new Horse Player Interactive account sign ups, new Players Club members, increases in wagering, and over 1,000 downloads of the past performance racing page per show. The TV

shows ultimately extend the brand, encourage enrolment and wagering, and are used as an educational tool. The live TV shows also compliment the advertising by encouraging consumers that horse racing is a place where “people like them” hang out.

HRA Receives Industry Accolades

2008 was another remarkable year for HRA, with its marketing efforts being recognized throughout Canada and the United States. HRA won the United States Trotting Association TV Broadcast Award; the Standardbred Canada TV Broadcast Award; and for the third consecutive year, the Canadian Thoroughbred Sovereign Award.

Marketing Efforts Reach New Audiences

The Industry continued its vibrant partnership with the TELUS World of Science in presenting new and exciting IMAX movies. This partnership allowed HRA to gain profile with audiences who may not be familiar with the scope and activities of horse racing in Alberta.

Racetrack Attendance Fluctuates Across the Province

The 2008 attendance numbers paint a diverse picture across the province. As expected, Stampede Park did not meet the target number, due to the shortened racing season. Northlands Park attracted strong crowds, particularly for key racing events. Lethbridge continued its successful marketing programs, bringing in fans looking for great racing in Southern Alberta.

Racetrack Attendance – Performance Measure

| | 2004 Actual | 2005 Actual | 2006 Actual | 2007 Actual | 2008 Target | 2008 Actual |
|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Northlands | 1,164,887 | 1,179,321 | 1,434,968 | 1,427,839 | 1,300,000 | 1,497,924 |
| Calgary | 184,040 | 160,928 | 197,423 | 154,085 | 165,000 | 63,779 |
| Lethbridge | 66,363 | 63,860 | 66,689 | 69,820 | 73,245 | 74,025 |
| Grande Prairie | 29,293 | 31,264 | 29,800 | 29,800 | 33,000 | 23,200 |
| Millarville | 6,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Total | 1,450,583 | 1,440,373 | 1,733,880 | 1,686,544 | 1,576,245 | 1,663,928 |

** Edmonton and Calgary figures are a year round total and the other tracks are for live race dates only. The challenge and difficulty of providing accurate attendance numbers is compounded by the multipurpose nature of racing venues.*

HUMAN RESOURCES

“Facilitate the education, training and well being of individuals involved in Alberta’s horse racing industry.”

HRA placed considerable emphasis on human resource issues by improving conditions for its employees and increasing the available pool of qualified personnel. The unique needs of the horse racing industry have been carefully considered in HRA’s Human Resources plans, offering innovative programming and support to best assist backstretch workers and others. The growth and success of our people has been tremendously rewarding, and HRA will continue to support those who are so vital to the success of our industry.

The Learning Centre

The Learning Centre, which is located on the backstretch at Northlands Park, has developed a loyal clientele. From January to December of 2008, there were 3,017 visits recorded which included participation in a variety of educational programs, chaplaincy and racetrack-specific courses. Some of the courses offered include:

Skills Improvement Series

- Groom Refresher Program
- Stable Bandages and Applications
- Exercise Bandages
- Racing Bandages

General Equivalency Diploma Programs

- Spanish and English as a Second Language (ESL) Classes
- Computer and keyboarding classes

Foreign Worker Program Fills Industry Need

The Foreign Worker Program began in 2007 to fill the industry need for skilled labour, particularly exercise riders and backstretch workers. This program allows HRA to act as third party representatives for trainers and owners. HRA submitted Labour Market Opinion (LMO) applications for 19 employers, which represented a total of 58 foreign workers. HRA was successful in obtaining positive LMO’s for all the applications.

ANIMAL WELFARE

“Promote and encourage continuous improvement in the industry’s animal welfare practices.”

Protecting “the health, safety and welfare of racehorses...” is one of the legislated objectives of HRA. As the racehorse is paramount to the success of our industry, HRA’s Animal Welfare Sub-Committee continues to keep abreast of changes and reforms throughout the global horse racing industry to ensure Alberta continues to provide the highest-quality care for racehorses of all breeds.

“Horse Welfare Alliance of Canada” Forms

The Alberta Equestrian Federation, together with other representatives from the horse industry, formed the “Horse Welfare Alliance of Canada” in July, 2008. This coalition endorses responsible care and use of horses during their lifetime to ensure high standards of health and welfare. This group advocates for all breeds of horses, including livestock, performance animals and horses sold for consumable food products.

Humane Handling Guidelines for Horses Introduced

The Alberta Equine Welfare Group issued new standards for the acceptable care and handling of horses in transport. A new booklet was developed to provide horse owners and handlers with tools to determine the health of the horse and its’ fitness for transport.

Fire Safety Numbers Increase in 2008

Since the Fire Safety Seminar became a mandatory requirement for licenses in 2006, over 1,166 licensees have attended these important seminars.



REGULATORY

“Enhance and foster integrity and ethical conduct as a foundation for all aspects of the horse racing industry in Alberta.”

Stricter Guidelines for Equine Testing

The Canadian Pari-Mutuel Agency (CPMA) has updated regulations concerning the administration of drugs and medicaments to racehorses. The name of the program changed from “Drug Control Surveillance Program” to “Equine Drug Control Program” to better reflect the objectives and scope of the CPMA to controlling the administration of drugs to racehorses.

National Thoroughbred Racing Association Leads Safety Reforms

There has been tremendous scrutiny in the past three years regarding the integrity of racing and the methods used to gain an advantage on the racetrack. In October, the National Thoroughbred Racing Association (NTRA) announced industry-wide safety and integrity reforms for the Thoroughbred industry. The reform initiatives are the broadest and most comprehensive in the sport’s history, including:

- uniform medication rules for each racing jurisdiction
- ban of steroids from racing competition
- out-of-competition testing for blood and gene doping agents and pre-race testing
- uniform penalties for all medication infractions
- mandatory on-track and non-racing injury reporting
- mandatory installation of protective inner safety rail
- mandatory pre- and post-race security
- adoption of a placement program for Thoroughbreds no longer competing

Many of the NTRA’s recommendations have already been implemented in Alberta. The remainder of the recommendations will be further considered by the HRA Regulatory and Animal Welfare Committees in 2009.

Summary of Tests and Rulings

| Rulings | | TCO2 Testing | |
|---------------------------------|------|-----------------------|-----|
| Thoroughbred Steward Rulings | | Thoroughbred | |
| Live race days | 111 | Number of tests | 574 |
| Rulings per race day | 1.0 | Number of positives | 0 |
| | | Percentage occurrence | 0 |
| Standardbred Judges Rulings | | Standardbred | |
| Live race days | 135 | Number of tests | 925 |
| Rulings per race day | .58 | Number of positives | 0 |
| | | Percentage occurrence | 0 |
| Community Circuit | | Community Circuit | |
| Judges/Stewards Rulings | 63 | Number of tests | 67 |
| Live race days | 75 | Number of positives | 0 |
| Rulings per race day | .84 | Percentage occurrence | 0 |
| Medication Testing | | EPO Testing | |
| Thoroughbred | | Thoroughbred | |
| Number of tests | 1760 | Number of tests | 574 |
| Number of positives | 2* | Number of positives | 0 |
| Percentage occurrence | 1.1 | Percentage occurrence | 0 |
| Standardbred | | Standardbred | |
| Number of tests | 2364 | Number of tests | 925 |
| Number of positives | 0 | Number of positives | 0 |
| Percentage occurrence | 0 | Percentage occurrence | 0 |
| Community Circuit | | Community Circuit | |
| Number of tests | 828 | Number of tests | 67 |
| | | Number of positives | 0 |
| | | Percentage occurrence | 0 |
| • Denotes positive under appeal | | | |

APPEAL TRIBUNAL

Established under the *Horse Racing Alberta Act*, the Appeal Tribunal hears appeals from individuals affected by the rulings or directions of horse racing officials. The Appeal Tribunal is a quasi-judicial tribunal, with all members appointed by the Alberta Solicitor General and Minister of Public Security. The Tribunal has the authority to conduct its affairs as set out in the *Horse Racing Alberta Act*. Members of the Appeal Tribunal are: Mr. James Butlin, Q.C. (Chair) from Calgary, Mr. Morris Taylor of Edmonton and Mr. Darrel Florence of Calgary. In 2009, the maximum number of consecutive years of service for Mr. Butlin and Mr. Taylor will be reached. Upon the expiry of their terms in 2009, the Minister will appoint new members. The expertise and dedication of these members during their terms of office is appreciated.

2008 APPEALS HEARD

Owner/Trainer – “B” Circuit

‘B’ Circuit Race 5 on **August 2, 2008** at Evergreen Park, Grande Prairie

Issue: Failure to enforce Rule # 144 which affected the outcome of Race 5

Appeal Heard: October 29, 2008

Written Judgment: December 5, 2008 - attached

Decision: The appeal was dismissed and the decision of the Board of Stewards was upheld.

Owner/Trainer – “B” Circuit

“B” Circuit Race 6 on **July 12, 2008** at Evergreen Park, Grande Prairie

Issue: Failure to enforce Rule # 144 which affected the outcome of Race 6

Appeal Heard: October 29, 2008

Written Judgment: December 5, 2008 - attached

Decision: The appeal is allowed and the order of finish is revised accordingly.

Owner – “B” Circuit

‘B” Circuit Ruling No. 19 dated **September 4, 2007** at Whoop-Up Downs, Lethbridge

Issue: Appealing the amount of the fine.

Appeal Heard: October 15, 2008

Written Judgment: November 25, 2008 - attached

Decision: The penalty of three hundred dollars (\$300.00) is reduced to one hundred and fifty dollars (\$150.00).

Jockey – “B” Circuit

Thoroughbred Ruling No. 41 dated **September 23, 2008** at Whoop-Up Downs, Lethbridge

Issue: Appealing the refusal of being granted a jockey’s license.

Appeal Heard: October 15, 2008

Written Judgment: November 25, 2008 - attached

Decision: Horse Racing Alberta has reached an agreement with the appellant that would allow him to be licensed as a jockey in 2009.

Owner/trainer – “B” Circuit

“B” Circuit Ruling No. 14 dated **June 19, 2008** at Whoop-Up Downs, Lethbridge

Issue: Appealing the Board of Stewards fine in the sum of four (\$400.00) hundred dollars.

Appeal Heard: October 15, 2008

Written Judgment: November 15, 2008 - attached

Decision: The Appeal is dismissed and the decision of the Board of Stewards is upheld.

.....

Owner/trainer/A.A. – Harness

Harness Ruling No. 15 dated **April 11, 2008** at Northlands Park, Edmonton

Issue: Appealing the ruling as it was based on wrongful information.

Appeal Heard: April 29, 2008

Written Judgment: June 11, 2008 - attached

Decision: The appellant and Horse Racing Alberta have come to an agreement whereby by joint submission that the decision of the Judges in Harness Ruling No. 15 is altered.

.....

Trainer – Harness

Harness Racing 1 on **December 5, 2007** at Northlands Park, Edmonton

Issue: Appealing the decision made by the Board of Judges denying future racing of the horse until dispute over ownership has been resolved.

Appeal Heard: April 29, 2008

Written Judgment: June 11, 2008 - attached

Decision: That the decision of the judges dated December 5, 2007 be overturned in part to provide that the horse shall be allowed to race in any race in Alberta save for a claiming race and that this will continue for a period of 2 years up and until June 10, 2009, or at a sooner date if a claim has been resolved or determined by a court.

.....

Owner/trainer – “B” Circuit

Thoroughbred Race 1 dated **September 2, 2008** at Whoop-Up Downs, Lethbridge

Issue: Appealing the fine and penalty administered.

Appeal Heard: April 29, 2008

Written Judgment: June 11, 2008

Decision: The suspension of 30 days is overturned and that the fine of \$1,000.00 (one thousand) remains.



FINANCIAL STATEMENTS OF HORSE RACING ALBERTA

.....

YEAR ENDED DECEMBER 31, 2008



KPMG LLP
Chartered Accountants
Commerce Place
10125-102 Street
Edmonton, Alberta T5J 3V8
Canada

Telephone (780) 429-7300
Fax (780) 429-7379
Internet www.kpmg.ca

AUDITORS' REPORT

To the Members of Horse Racing Alberta

We have audited the statement of financial position of Horse Racing Alberta (the "Corporation") as at December 31, 2008 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation'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 Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Edmonton, Canada

February 17, 2009 except for note 9(b), which is at March 9, 2009
and note 3(c), which is at May 14, 2009

HORSE RACING ALBERTA

Financial Statements

Year ended December 31, 2008

Financial Statements

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HORSE RACING ALBERTA

Statement of Financial Position

December 31, 2008, with comparative figures for 2007

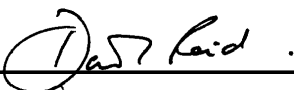
| | 2008 | 2007 |
|---|---------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 1,556,535 | \$ 5,744,612 |
| Accounts receivable | 1,975,485 | 2,114,294 |
| Contributions receivable from the Government of Alberta | 2,556,058 | 2,864,420 |
| Prepaid expenses and deposits | 59,839 | 69,928 |
| Current portion of loans receivable | 2,001,790 | 2,501,657 |
| | <u>8,149,707</u> | <u>13,294,911</u> |
| Loans receivable (note 3) | 1,100,839 | 602,629 |
| Capital assets (note 4) | 67,279 | 90,825 |
| | <u>\$ 9,317,825</u> | <u>\$ 13,988,365</u> |

Liabilities and Net Assets

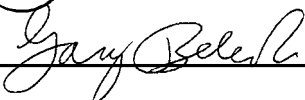
| | | |
|---|---------------------|----------------------|
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 2,288,739 | \$ 2,265,573 |
| Racetrack grants payable | 5,964,231 | 5,733,832 |
| Current portion of obligation under capital lease | - | 26,453 |
| | <u>8,252,970</u> | <u>8,025,858</u> |
| Net assets: | | |
| Invested in capital assets | 67,279 | 64,372 |
| Unrestricted | 997,576 | 5,898,135 |
| | <u>1,064,855</u> | <u>5,962,507</u> |
| Commitments (note 8) | | |
| Contingency (note 9) | | |
| | <u>\$ 9,317,825</u> | <u>\$ 13,988,365</u> |

See accompanying notes to financial statements.

On behalf of the Board:



Chair of the Board



Chair of the Finance & Legal Committee

HORSE RACING ALBERTA

Statement of Operations

Year ended December 31, 2008, with comparative figures for 2007

| | 2008 Budget (Unaudited) | 2008 Actual | 2007 Actual |
|---|-------------------------------|----------------|----------------|
| Revenue: | | | |
| General fees | \$ 8,548,509 | \$ 9,821,721 | \$ 9,436,064 |
| Racing Industry Renewal Initiative revenues (note 5) | 44,646,840 | 36,037,738 | 36,321,198 |
| Other racing revenues | 360,000 | 322,712 | 374,454 |
| ASHA Simulcast - Calgary Area | 1,030,065 | 863,950 | 976,787 |
| Interest and other revenues | 118,000 | 532,857 | 303,685 |
| | 54,703,414 | 47,578,978 | 47,412,188 |
| Expenses: | | | |
| Purse Support Grants: | | | |
| Thoroughbred | 7,506,930 | 7,556,931 | 8,730,360 |
| Standardbred | 6,196,063 | 6,643,667 | 7,224,259 |
| Community | 4,658,333 | 4,143,622 | 4,773,097 |
| | 18,361,326 | 18,344,220 | 20,727,716 |
| Breed Improvement Program: | | | |
| Thoroughbred | 3,514,000 | 3,126,425 | 3,701,388 |
| Standardbred | 2,673,510 | 2,634,458 | 3,071,464 |
| Community | 756,453 | 759,124 | 922,834 |
| | 6,943,963 | 6,520,007 | 7,695,686 |
| | 25,305,289 | 24,864,227 | 28,423,402 |
| Schedule A - Racetrack Grants | 23,262,689 | 18,787,395 | 14,893,213 |
| Schedule B - Marketing and Promotion | 3,865,628 | 3,720,565 | 3,337,306 |
| Schedule C - Regulatory and Administration | 4,686,722 | 3,868,401 | 4,068,989 |
| Human resource development | 500,000 | 351,710 | 419,441 |
| Animal welfare | 100,000 | 20,382 | 72,071 |
| Emerging projects and programs | 100,000 | - | 300,000 |
| Contributions to ASHA Purse | 1,030,065 | 863,950 | 976,787 |
| | 33,545,104 | 27,612,403 | 24,067,807 |
| | 58,850,393 | 52,476,630 | 52,491,209 |
| Excess revenue (expenses) | \$ (4,146,979) | \$ (4,897,652) | \$ (5,079,021) |

See accompanying notes to financial statements.

HORSE RACING ALBERTA

Statement of Changes in Net Assets

Year ended December 31, 2008, with comparative figures for 2007

| | | | 2008 | 2007 |
|--|-------------------------------|--------------|--------------|---------------|
| | Invested in capital assets | Unrestricted | Total | Total |
| Balance, beginning of year | \$ 64,372 | \$ 5,898,135 | \$ 5,962,507 | \$ 11,385,707 |
| Adjustment on implementation of financial instrument standards | - | - | - | (344,179) |
| Excess revenue (expenses) | (49,797) | (4,847,855) | (4,897,652) | (5,079,021) |
| Acquisition of capital assets | 26,251 | (26,251) | - | - |
| Capital lease repayments | 26,453 | (26,453) | - | - |
| Balance, end of year | \$ 67,279 | \$ 997,576 | \$ 1,064,855 | \$ 5,962,507 |

See accompanying notes to financial statements.

HORSE RACING ALBERTA

Statement of Cash Flows

Year ended December 31, 2008, with comparative figures for 2007

| | 2008 | 2007 |
|--|---------------|--------------|
| Cash flows from operating activities: | | |
| Cash received: | | |
| Racing operations | \$ 10,273,142 | \$ 9,024,272 |
| Racing Industry Renewal Initiative program | 36,346,100 | 42,303,788 |
| ASHA Simulcast - Calgary Area | 863,950 | 976,787 |
| Interest received | 309,402 | 289,021 |
| Other revenue | 233,555 | 14,664 |
| Cash paid: | | |
| Purse support | (18,344,220) | (20,727,716) |
| Breed improvement | (6,520,007) | (7,695,686) |
| Racetrack grants | (18,556,996) | (12,270,632) |
| Marketing and promotion | (3,720,565) | (3,337,306) |
| Administrative expenses | (3,784,640) | (3,838,140) |
| Other operating expenses | (372,092) | (491,512) |
| Emerging programs and projects | - | (300,000) |
| Interest paid | (709) | (2,643) |
| Contributions to ASHA Purse | (863,950) | (976,787) |
| Net cash provided (used) by operating activities | (4,137,030) | 2,968,110 |
| Cash flow from financing activities: | | |
| Repayment of obligation under capital lease | (26,453) | (27,132) |
| Cash flows from investing activities: | | |
| Repayment of loan receivable | 1,657 | 1,535 |
| Purchase of capital assets | (26,251) | (7,504) |
| | (24,594) | (5,969) |
| Increase (decrease) in cash | (4,188,077) | 2,935,009 |
| Cash, beginning of year | 5,744,612 | 2,809,603 |
| Cash, end of year | \$ 1,556,535 | \$ 5,744,612 |

See accompanying notes to financial statements.

HORSE RACING ALBERTA

Notes to Financial Statements

Year ended December 31, 2008

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.

HORSE RACING ALBERTA

Notes to Financial Statements (continued)

Year ended December 31, 2008

2. Significant accounting policies (continued):

(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.

(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. No individual receivable is significant to the Corporation's operations. 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.

HORSE RACING ALBERTA

Notes to Financial Statements (continued)

Year ended December 31, 2008

2. Significant accounting policies (continued):

(e) Capital management (continued):

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.

(g) Future accounting changes:

The CICA has issued several amendments to the not-for-profit accounting standards. Under these amended standards, there will no longer be a requirement to treat net assets invested in capital assets as a separate component of net assets and, instead, permit such an amount as a category of internally restricted net assets when an organization chooses to do so. The amended standards also:

- clarify that revenues and expenses must be recognized and presented on a gross basis when an organization is acting as a principal in the transactions;
- make Section 1540, Cash flow statements, applicable;
- make Section 1751, Interim financial statements, applicable;
- make Section 3062, Property, plant and equipment, applicable unless the organization is eligible to use the scope exemption for smaller entities; and
- provide consistency with other sections of the CICA Handbook with respect to related party transactions.

HORSE RACING ALBERTA

Notes to Financial Statements (continued)

Year ended December 31, 2008

2. Significant accounting policies (continued):

(g) Future accounting changes (continued):

The CICA has also issued a new standard, Section 4470, Disclosure of allocated expenses by not-for-profit organizations. This Section establishes disclosure standards for those organizations that choose to classify their expenses by function and allocate expenses from one function to another. These requirements are effective for fiscal years beginning on or after January 1, 2009.

3. Loans receivable:

| | 2008 | 2007 |
|---|--------------|------------|
| Grande Prairie Regional Agricultural & Exhibition Society, non-interest bearing, unsecured, maturing December 31, 2015 (face value of \$850,000 less \$247,371 discount using an 8% interest rate) (2007 - face value of \$900,000 less \$295,714 discount using an 8% interest rate) | \$ 602,629 | \$ 604,286 |
| United Horseman of Alberta (UHA), 8% secured note, principal plus interest, due on demand | 2,500,000 | 2,500,000 |
| | 3,102,629 | 3,104,286 |
| Less current portion | 2,001,790 | 2,501,657 |
| | \$ 1,100,839 | \$ 602,629 |

(a) The Grande Prairie Regional Agricultural & Exhibition Society has agreed to repayments of \$50,000 in each of years 2009 to 2010, and \$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.

(b) The interest bearing loan to UHA is secured by a mortgage on land owned by UHA. The loan was demanded on December 31, 2008. UHA did not repay the loan and related accrued interest at that time.

HORSE RACING ALBERTA

Notes to Financial Statements (continued)

Year ended December 31, 2008

3. Loans receivable (continued):

(c) Subsequent to the year end, the Corporation entered into discussions with UHA and Bar None Ranches Ltd. ("BNR"). BNR agreed to assume UHA's position on the loan and to make principal repayments of \$250,000 per month commencing May 20, 2009. UHA remains responsible for the payment of all interest on the loan.

(d) One of the Corporation's directors also holds a director position with UHA. Additionally, two of the organizations which hold director positions within the Corporation also hold director positions with UHA. These directors abstain from voting on any matters relating to UHA.

The estimated principal receivable for each of the next five years and thereafter is as follows:

| | |
|------------|---------------------|
| 2009 | \$ 2,001,790 |
| 2010 | 501,933 |
| 2011 | 102,087 |
| 2012 | 110,254 |
| 2013 | 119,075 |
| Thereafter | 267,490 |
| | <u>\$ 3,102,629</u> |

4. Capital assets:

| | | | 2008 | 2007 |
|--|-------------------|--------------------------|------------------|------------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Office equipment and furniture | \$ 184,384 | \$ 132,601 | \$ 51,783 | \$ 43,348 |
| Computer hardware and software | 70,510 | 63,460 | 7,050 | 12,475 |
| Leasehold improvements | 18,058 | 9,612 | 8,446 | 10,252 |
| | <u>272,952</u> | <u>205,673</u> | <u>67,279</u> | <u>66,075</u> |
| Computer hardware and software under capital lease | 81,000 | 81,000 | - | 24,750 |
| | <u>\$ 353,952</u> | <u>\$ 286,673</u> | <u>\$ 67,279</u> | <u>\$ 90,825</u> |

HORSE RACING ALBERTA

Notes to Financial Statements (continued)

Year ended December 31, 2008

5. Deferred contributions from the Government of Alberta:

Deferred contributions represent unspent resources received and receivable from the Government of Alberta which are externally restricted. Changes in the deferred contributions balance are as follows:

| | 2008 | 2007 |
|---|--------------|--------------|
| Balance, beginning of year | \$ - | \$ - |
| Contributions during the year | 35,946,715 | 36,095,887 |
| Interest received on deferred contributions | 91,023 | 225,311 |
| Amount recognized as Racing Industry Renewal Initiative revenue in the year | (36,037,738) | (36,321,198) |
| Balance, end of year | \$ - | \$ - |

The Corporation has a Grant Agreement with the Government of Alberta to assist in long-term industry renewal which expires March 31, 2016.

6. Licensing:

The horse racing license issued to Calgary Exhibition and Stampede expired on December 31, 2008. The associated Racing Industry Renewal Initiative revenue received from the license of Calgary Exhibition and Stampede will expire on March 31, 2009. A provisional license was issued to United Horseman of Alberta for the Calgary area.

A horse racing license was granted to Rocky Mountain Turf Club for the Lacombe area, effective April 1, 2009.

HORSE RACING ALBERTA

Notes to Financial Statements (continued)

Year ended December 31, 2008

7. Compensation:

| | Positions | Compensation | Benefits | 2008 | 2007 |
|---------------------------------------|-----------|--------------|------------|--------------|--------------|
| Chair and Chief Executive Officer* | 1.2 | \$ 235,467 | \$ 12,145 | \$ 247,612 | \$ 213,668 |
| Board of Directors | 13.0 | 61,400 | 1,694 | 63,094 | 79,522 |
| President and Chief Operating Officer | 1.0 | 105,284 | 40,142 | 145,426 | 245,735 |
| Managers: | | | | | |
| Racetrack and administration | 4.0 | 358,203 | 41,489 | 399,692 | 323,086 |
| Non-management staff: | | | | | |
| Racetrack | 19.5 | 793,318 | 109,135 | 902,453 | 916,467 |
| Administration | 5.5 | 175,622 | 33,514 | 209,136 | 188,964 |
| | 25.0 | 968,940 | 142,649 | 1,111,589 | 1,105,431 |
| | 44.2 | \$ 1,729,294 | \$ 238,119 | \$ 1,967,413 | \$ 1,967,442 |

Benefits include health and dental, life, accidental death & dismemberment, weekly indemnity and long term disability insurances, CPP and EI contributions, WCB, vacation pay, car allowances, RRSP contributions, and bonuses.

The President and Chief Operating Officer went on disability leave in May 2008 and this contract position will not be renewed at its expiry on March 31, 2009.

* Effective September 1, 2008 the position of Chair and Chief Executive Officer was filled by two employees.

8. Commitments:

The Corporation rents office premises in Edmonton, expiring March 31, 2013 and in Calgary, expiring December 31, 2010. 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.

HORSE RACING ALBERTA

Notes to Financial Statements (continued)

Year ended December 31, 2008

8. Commitments (continued):

Annual payments are as follows:

| | | |
|---------------------|----|---------|
| 2009 | \$ | 177,930 |
| 2010 | | 168,186 |
| 2011 | | 151,322 |
| 2012 | | 119,666 |
| 2013 and thereafter | | 35,920 |
| | \$ | 653,024 |

9. Contingency:

(a) The Corporation is one of several defendants in a lawsuit alleging a breach of agreement for the building and operations of a new racetrack, interference with the economic interests of the Plaintiff, and wrongfully revoking the racing license.

Management is of the opinion that this claim is without merit, and accordingly, no provision has been recorded in the financial statements.

(b) Subsequent to year end, this claim was settled and the Corporation was held harmless.

HORSE RACING ALBERTA

Schedule A - Racetrack Grants

Year ended December 31, 2008, with comparative figures for 2007

| | Budget (Unaudited) | 2008 | 2007 |
|--|-----------------------|---------------|---------------|
| Northlands Park | \$ 10,352,292 | \$ 9,338,058 | \$ 6,329,100 |
| Calgary Exhibition and Stampede | 9,925,616 | 6,799,935 | 4,546,321 |
| Rocky Mountain Turf Club | 950,704 | 1,019,577 | 962,416 |
| Grande Prairie Regional Agricultural & Exhibition Society | 1,290,178 | 985,180 | 1,322,034 |
| Millarville | 20,000 | 20,000 | 19,200 |
| Alberta racetrack capital fund grants | 723,899 | 624,645 | 1,714,142 |
| | \$ 23,262,689 | \$ 18,787,395 | \$ 14,893,213 |

Schedule B - Marketing and Promotion

Year ended December 31, 2008, with comparative figures for 2007

| | Budget (Unaudited) | 2008 | 2007 |
|--|-----------------------|--------------|--------------|
| Branding | \$ 1,297,000 | \$ 1,498,682 | \$ 967,462 |
| Marketing grants to racetracks | 882,011 | 877,542 | 875,103 |
| Live race broadcasting | 1,306,617 | 828,385 | 1,084,769 |
| Internal and other marketing initiatives | 380,000 | 515,956 | 409,972 |
| | \$ 3,865,628 | \$ 3,720,565 | \$ 3,337,306 |

HORSE RACING ALBERTA

Schedule C - Regulatory and Administration

Year ended December 31, 2008, with comparative figures for 2007

| | Budget (Unaudited) | 2008 | 2007 |
|--------------------------------------|-----------------------|--------------|--------------|
| Compensation (note 7) | \$ 2,248,422 | \$ 1,967,413 | \$ 1,967,442 |
| Legal, consulting and audit fees | 570,000 | 370,787 | 428,656 |
| Travel | 460,000 | 392,842 | 430,871 |
| Contractors | 310,800 | 290,888 | 277,818 |
| Committee expenses | 234,000 | 117,522 | 237,294 |
| Office and administration | 215,000 | 176,457 | 155,870 |
| Office rent and operating costs | 196,500 | 177,355 | 142,693 |
| Racetrack licensing expense | 130,000 | 103,590 | 119,404 |
| Amortization | 65,000 | 49,797 | 65,497 |
| Telephone | 70,000 | 50,695 | 71,636 |
| Other | 50,000 | 47,631 | 53,252 |
| Toxicology | 50,000 | 33,472 | 40,953 |
| Memberships | 20,000 | 20,728 | 21,160 |
| Insurance | 40,000 | 33,624 | 37,783 |
| Meetings and seminars | 12,000 | 25,272 | 11,633 |
| Appeal tribunal | 15,000 | 9,619 | 4,384 |
| Interest on capital lease obligation | - | 709 | 2,643 |
| | \$ 4,686,722 | \$ 3,868,401 | \$ 4,068,989 |

HORSE RACING ALBERTA

Corporate Office

720, 9707 - 110 St.

Edmonton, AB T5K 2L9

Phone: 780.415.5432

Fax: 780.488.5105

Toll Free: 1.888.553.7223

www.thehorses.com

Calgary office

602 Sloane Square

5920 - 1 A St. SW

Calgary, AB

(Mailing Address)

Box 5684 Postal Station A

Calgary, AB T2H 1Y1

Phone: 403.543.8951

Fax: 403.543.8950

