

HORSE RACING ALBERTA

2018

Annual
Report




THE HORSES



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

Vision

MANDATE

1. To govern, direct, control, regulate, manage, market and promote horse racing in any or all of its forms.
2. 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.
3. 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.

2018 Board of Directors

Gill Hermanns	Chairman (as of May, 2018)
Brian Alexander	Acting Chair and Canadian Thoroughbred Horse Society Representative (Breeders) (to April, 2018)
Bob Cramers	Canadian Thoroughbred Horse Society Representative (Breeders) (as of May, 2018)
Bill Andrew	Alberta Standardbred Horse Association representative (Breeders) (to April, 2018)
Blair Corbeil	Alberta Standardbred Horse Association representative (Breeders) (as of May, 2018)
John Hind	Alberta Standardbred Horse Association representative (Breeders) (as of May, 2018)
Norm Castiglione	Horsemen's Benevolent and Protective Association representative (Horsemen)
Martin West	Other Breeds representative
Paul Ryneveld	"A" circuit representative
Kevin Gunderman	"A" circuit representative
Dan Gorman	"B" circuit representative
Erika Bottcher	Public member (as of May, 2018)
Alan Martin	Public member (as of May, 2018)
Mara Coote-Freeman	Public member (as of May, 2018)
Mark Ham	Ex-Officio Finance (non-voting) (to May, 2018)
Tanya Bowerman	Ex-Officio Finance (non-voting) (as of June, 2018)
Jamie Curran	Ex-Officio Agriculture (non-voting) (to June, 2018)
Rick Frederickson	Ex-Officio Agriculture (non-voting) (as of July, 2018)
Shirley McClellan	CEO (non-voting) (to June, 2018)
Kent Verlik	CEO (non-voting) (as of August, 2018)

2018 HRA Committee Chairs

Erika Bottcher	Governance and Compensation Committee
Alan Martin	Audit and Finance Committee
Mara Coote-Freeman	Strategic and Sustainable Development Committee
Martin West	Regulatory and Licensing Committee





Message from the Chairman and the CEO

The Alberta horse racing industry saw the end of an era when Northlands Park in Edmonton held its last horse race and closed the racetrack at the end of October. It was a sad day for generations of horse racing fans, owners, trainers and jockeys who participated in or witnessed many historic moments at the famed track, which opened at that location 118 years ago. On behalf of the Board, we would like to thank Northlands and Northlands Park staff for their dedication and commitment to horse racing over the years.

The closure of Northlands did pave the way for a new 'A' track to be developed near the Edmonton International Airport. The \$61.5M Century Mile Racetrack and Casino, scheduled to open in the spring of 2019, has generated considerable excitement and anticipation. New state-of-the-art facilities surround the only one mile racetrack west of Ontario. Combined with innovative programming to attract and expose many more people to horse racing, Century Mile promises an enhanced experience for both horsemen and fans.

There were many other positive signs that horse racing in Alberta is on an upward trajectory. Renovations and an inaugural 10-day meet in 2018 at Track on 2 near Lacombe drew large crowds. The handle and race field size for both Thoroughbreds and Standardbreds at Century Downs in Balzac continues to increase year over year.

In addition to racetrack grants, HRA was able to increase its support of industry and the community through programs such as Racing to Help Charity, Thoroughbred Lasting Careers, the Backstretch Foundation, the Exercise Rider/ Jockey and Racehorse Groom courses at Olds College and the breed improvement program.

In 2018, Board members Bill Andrew, Brian Alexander, Mark Ham and Jamie Curran left HRA as did CEO Shirley McClellan. We thank them for their many years of devoted service to horse racing in Alberta. In August, HRA welcomed Kent Verlik as its new CEO.

In addition to HRA Board and staff, we would like to recognize and thank all those in the horse racing industry for their passion and dedication. Working collectively towards common goals, and finding solutions together, has proven to be a successful formula for our industry. We look forward to more growth and opportunity in 2019.

Gill Hermanns
Chairman, HRA Board of Directors

Kent Verlik
HRA Chief Executive Officer

Regulatory and Appeals

Summary of 2018 Rulings

	Rulings	Race Days	Average Per Day
Thoroughbred Stewards	91	64	1.42
Standardbred Judges	107	122	0.87
Community Circuit Judges and Stewards	59	65	0.91
TOTAL	257	251	1.02

Summary of Appeals Heard in 2018

Thoroughbred

Date	Ruling	Issue	Decision
February 22	#70 Oct 22, 2017	Appeal disqualification of horse.	Dismissed
July 6	#17 Jun 26, 2018	Appeal of Board of Stewards decision re: penalty.	Withdrawn
	None	Appeal of Board of Stewards decision re: interference.	Upheld
October 17	None	Appeal disqualification of horse.	No Decision
	None	Appeal disqualification of horse (submitted July 5, 2016).	No Decision

Standardbred

Date	Ruling	Issue	Decision
July 18	#49 Jul 9, 2018	Appeal of Board of Judges decision re: interference.	Disallowed
November 16	#72 Jul 29, 2017	Appeal positive drug test of horse.	No Decision
November 30	#74 Aug 10, 2018	Appeal interference of horse.	No Decision

Community Circuit

Date	Ruling	Issue	Decision
October 5	#26 Jul 24, 2018	Appeal positive test of horse.	Withdrawn
	None	Appeal disqualification of horse.	Dismissed
October 23	None	Appeal disqualification and interference of horse.	No Decision
	None	Appeal disqualification of horse.	No Decision

APPEAL TRIBUNAL

Chair: Andrea Fugeman-Millar
(to April, 2018)

Members: Jill Mason
(appointed Chair as of April 25, 2018)
Gary Belecki (as of June, 2018)



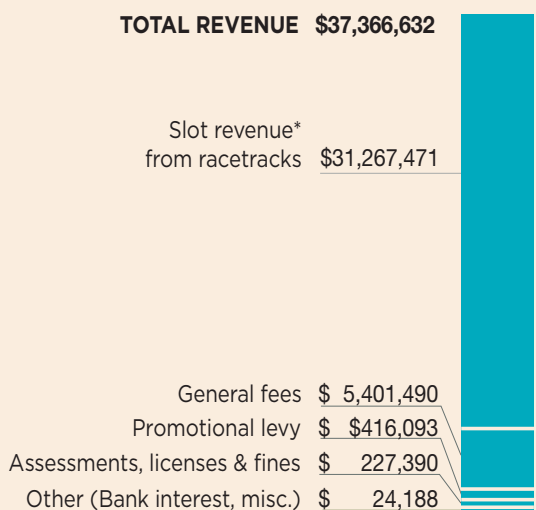
Alberta Purses

	HRA Grant		Breed Improvement Program*		Total Purses	
	2018	2017	2018	2017	2018	2017
Thoroughbred	4,049,487	4,828,572	1,490,190	1,974,600	5,539,677	6,803,172
Standardbred	4,049,487	4,690,872	865,000	1,105,000	4,914,487	5,795,872
Community Circuit	2,419,173	2,796,115	284,030	380,643	2,703,203	3,176,758
Totals	\$10,518,147	\$12,315,559	\$2,639,220	\$3,460,243	\$13,157,367	\$15,775,802

* Estimated money available from the 2018 Breed Improvement Program. Total program investment was \$3.1M.

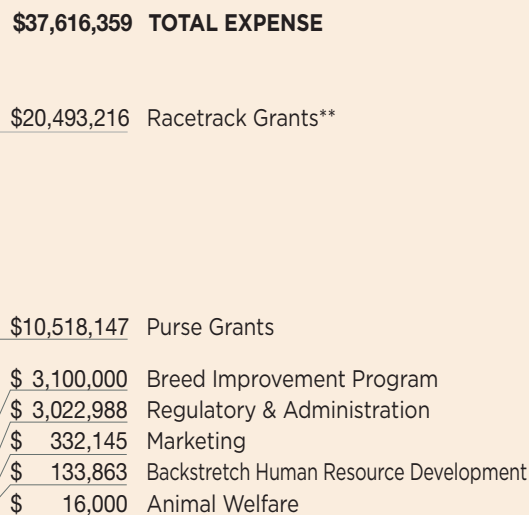
Operations

Where the Money Came From: 2018



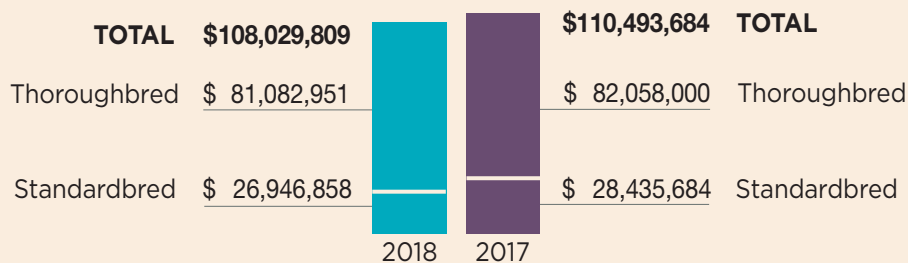
* Represents 45% (Jan-Mar) and 40% (Apr-Dec) of total slot revenue. The net win also includes 15% to the licensee, 40% (Jan-Mar) and 45% (Apr-Dec) to the Government of Alberta.

Where the Money Went: 2018

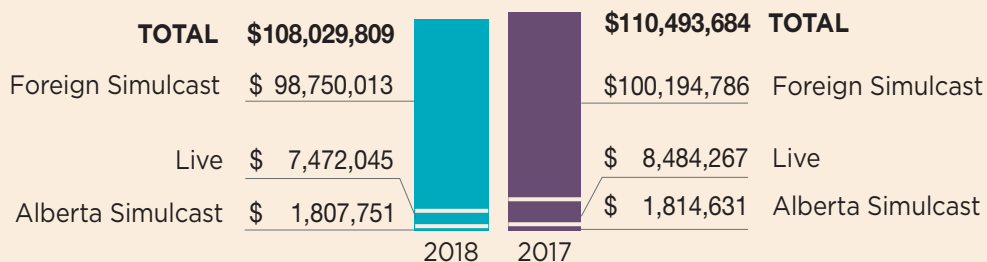


** Racetrack grants are comprised of a percentage of Racing Entertainment Centres revenue generated by each track.

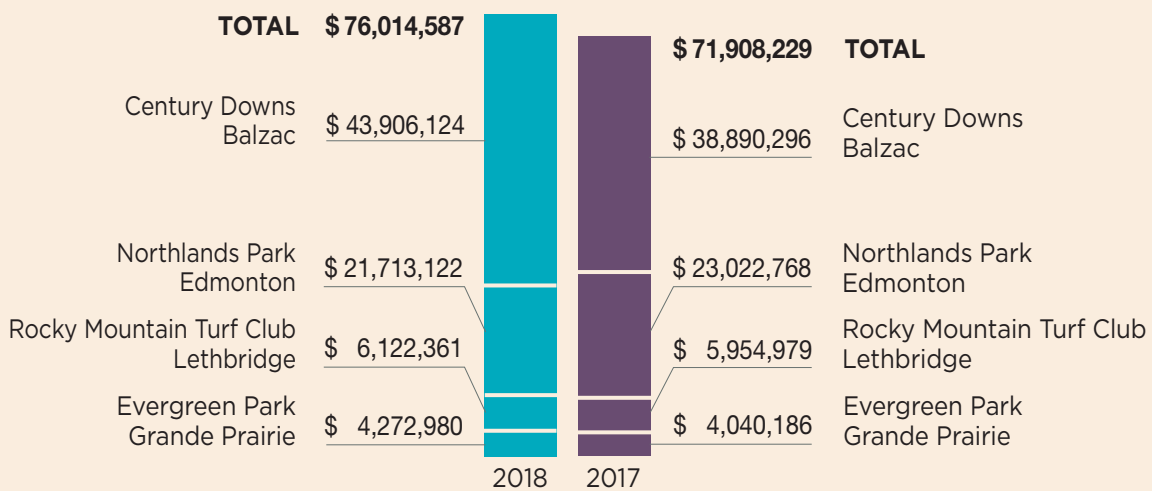
Handle (by breed)



Handle (by type)

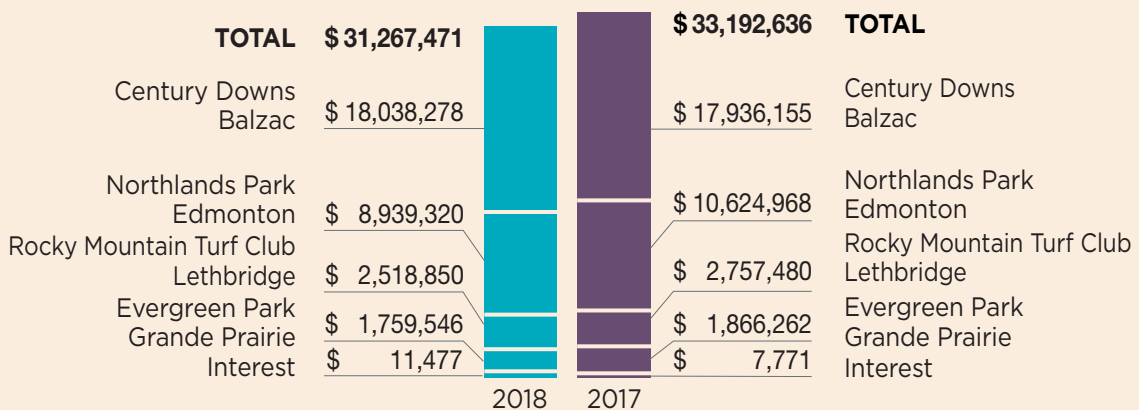


Slot Revenue: From Racing Entertainment Centres



In 2018, HRA received 45% of all slot revenue from January to March, then 40% from April to December. The Government of Alberta received 40% from January-March and 45% from April-December while Racing Entertainment Centre operators retained 15% throughout the year.

Slot Revenue: HRA's Portion



Expectations High for Century Mile Racetrack and Casino

Expectations are high that the Century Mile Racetrack and Casino near Leduc, slated to begin Thoroughbred racing at the end of April, 2019, will do as well or better than its Alberta sister, the Century Downs Racetrack and Casino in Balzac.

The 100 acre, \$61.5M development, adjacent to the Edmonton International Airport, Red Tail Landing golf course and Premium Outlet Collection shopping mall, features the only mile long racetrack in western Canada. It has a modern backstretch, barns with 800 stalls and a 1,700 car parking lot. Inside, the 89,700 square foot grandstand and casino has several floors of amenities including 550 slot machines and other forms of gaming, several viewing areas and a variety of food and beverage options.

Century Casinos' Paul Ryneveld says it is natural for horsemen and fans to be excited about the new facility. He expects large crowds on opening day and early in the racing season, swelled by people curious to check out the new racetrack. However, he recognizes the challenge will be to keep those people coming back.

"We know we have to create a fan experience that is a unique and fun entertainment option. And we've got a number of races and events planned to keep people coming," said Ryneveld. Many events, promotions and marketing that have proven to be successful at Century Downs – such as hosting festivals and other special events in and around race days - will be replicated at Century Mile.





“We’ve proven at Century Downs that people are attracted to horse racing if you offer the proper experience. Millennials in particular see it as a fun night out.” Because of the influence of social media, Ryneveld considers marketing and promotion strategies directed at 18-30-year-olds to be a key to the future health of racetrack enterprises.

“Interaction online leads to discovery of social events that they may not have known of before but are curious to try.” Ryneveld noted that bachelor and bachelorette parties, Packwood Grand (a day of horse racing, fashion and food & drink), a beer and spirit festival and other events targeting a younger demographic builds and sustains patronage beyond traditional horse racing fans.

For horsemen, Ryneveld expects Century Mile to generate a domino effect of benefits that will continue to grow the sport. The new facility and mile long racetrack is already drawing significant interest from horsemen across western Canada to stall and race horses in Edmonton. More horses will add variety, competition and volume to race cards. As has been the experience at Century Downs, this translates to increased handles and larger purses.

“As purse production goes up owners and breeders will be stimulated to invest more in breeding and racing horses,” Ryneveld explained. He noted that in the early 2000s, people were envious of Alberta’s horse racing environment. He’s convinced Alberta’s horse racing industry is on the right track to return to those vibrant days.



Horse Racing Alberta 2018 Recap



Trainer Chris Lancaster (right) from Airdrie received Standardbred Canada's 2018 Future Star Award

AWARDS

- After winning the 2017 Sovereign Award for outstanding broadcast, HRA was one of three Sovereign Award finalists in the outstanding broadcast category for 2018. HRA was also named one of two finalists in the outstanding broadcast category of the Standardbred Canada Media Awards.
- Alberta Quarter Horse Timbersknighttryder was nominated for the American Quarter Horse Association's Canadian Horse of the Year.
- Brady Betlamini, a graduate of Olds College's Exercise Rider program, received a four week mentorship at the prestigious Racing Academy & Centre of Excellence in Ireland.
- Singles Cruise, owned by Barry and Janice Sather of Beaverlodge, traveled to California to represent Canada in the Quarter Horse Juvenile Championship.
- Canadian Derby, Winnipeg Derby and B.C. Derby winner Sky Promise (pictured below left) was the winner of the 2018 Sovereign Award for Champion Three-Year-Old Male.
- Alberta's Escape Clause (pictured below right) was the winner of the 2018 Sovereign Award for Champion Older Female and was also a nominee for the Champion Female Sprinter.



RACETRACKS

- Century Downs set an all sources, one day handle record for Standardbred racing of \$182,000 on July 2. It also had a record handle of \$391,000 for one day during its 2018 Thoroughbred meet.
- At the Canadian Amateur Jockey Association's inaugural pari-mutuel race at Century Downs, donations were collected to support the Prostate Cancer Centre in Calgary.
- Olds College graduate Kaylea Richardson represented Canada in the Fegentri World Championship series at Parx and Laurel racetracks and again at the Sheikh Mansoor Festival (Arabian racing) in Abu Dhabi.
- In 2018, the Horse Racing and Breeding industry was proud to partner with the International Children's Festival, Spinal Cord Injury Association, Kidsport Edmonton, Airdrie Boys and Girls Club, Ronald McDonald House Alberta, Airdrie Over 50 Club, Lacombe Seniors, Stollery Children's Hospital, Calgary Minor Hockey Association and Little Warriors.



Timbersknightryder, winner of the Canada Quarter Horse Cup finals and Alberta Bred finals.

Breeding

Average Yearling Sale Prices

	2018	2017	2016
Thoroughbred	\$ 9,658	\$10,233	\$ 8,253
Standardbred	\$10,940	\$10,698	\$10,941
Quarter Horse	\$ 3,818	\$ 7,781	\$ 3,388

Breed Improvement Program Investments*

	2018	2017	2016
Thoroughbred	\$1,720,190	\$2,219,600	\$2,219,600
Standardbred	\$1,034,780	\$1,335,000	\$1,334,913
Quarter Horse	\$ 345,030	\$ 445,200	\$ 445,200
Total	\$3,100,000	\$3,999,800	\$3,999,713

* Includes Association and breeding support (purses).

Animal Testing 2018

	Medication		TCO2		Out-of-Competition*		Cobalt Testing*
	Tests	Positives	Tests	Positives	Tests	Positives	Positives
Thoroughbred	901	2	346	0	0	0	-
Standardbred	1,507	0	209	0	2	0	-
Community Circuit	617	0	90	0	0	0	1
Total	3,025	2	645	0	2	0	1

* Canadian Product Marketing Association drug testing program



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INDEPENDENT AUDITORS' REPORT

To the Members of Horse Racing Alberta

Opinion

We have audited the financial statements of Horse Racing Alberta (the Entity), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of operations for the year then ended
- the statement of changes in net assets (deficiency) for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not for profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. The other information comprises:

- Information, other than the financial statements and the auditors' report thereon, included in the Entity's Annual Report

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Information, other than the financial statements and the auditors' report thereon, included in the Entity's Annual Report as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not for profit organizations, 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

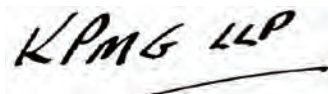
Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

continued on page 12

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity's to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a horizontal line.

Chartered Professional Accountants
Edmonton, Canada
May 1, 2019

2018

Financial Statements

YEAR ENDED DECEMBER 31, 2018



Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
ASSETS		
Current assets:		
Cash	\$ 353,347	\$ 777,239
Accounts receivable (note 2)	250,520	1,200,097
Receivable from the Province of Alberta (note 3)	2,540,255	2,679,355
Prepaid expenses	66,279	65,465
Current portion of loans receivable (note 4)	41,152	38,104
	3,251,553	4,740,260
Loans receivable (note 4)	83,848	110,597
Capital assets (note 5)	231,533	3,818
	\$3,566,934	\$4,874,675
LIABILITIES AND NET ASSETS (DEFICIENCY)		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 750,208	\$ 632,564
Racetrack grants payable	3,522,953	4,668,611
	4,273,161	5,301,175
Net assets (deficiency)		
Invested in capital assets	231,533	3,818
Unrestricted	(937,760)	(430,318)
	(706,227)	(426,500)
Commitments (note 9)		
	\$3,566,934	\$ 4,874,675

See accompanying notes to financial statements.

On behalf of the Board:

Original Signed

Chair of the Board

Original Signed

Chair of the Audit and Finance Committee

Statement of Operations

Year ended December 31, 2018, with comparative information for 2017

	2018 Budget	2018 Actual	2017 Actual
Revenues			
General fees	\$ 6,451,234	\$ 5,817,583	\$ 5,944,820
Racing Industry Renewal Initiative revenues (note 3)	33,336,286	31,267,471	33,192,635
Other racing revenues	246,345	227,390	240,505
Interest	20,000	11,982	14,741
Other revenues	15,000	12,206	16,672
	40,068,865	37,336,632	39,409,373
Expenditures			
Purse Support Grants			
Thoroughbred	4,087,987	3,823,905	4,828,572
Standardbred	4,087,987	4,497,418	4,690,872
Community	2,442,173	2,196,824	2,796,115
	10,618,147	10,518,147	12,315,559
Breed Improvement Program			
Thoroughbred	1,775,680	1,720,190	2,219,600
Standardbred	1,068,160	1,034,780	1,335,000
Community	356,160	345,030	445,200
	3,200,000	3,100,000	3,999,800
Racetrack funding, Schedule 1	22,759,602	20,493,216	20,625,320
Regulatory and administration, Schedule 2	2,958,371	3,022,988	3,239,743
Marketing and promotion	395,000	332,145	371,737
Backstretch human resource development	112,357	133,863	116,315
Animal welfare	16,000	16,000	16,000
	26,241,330	23,998,212	24,369,115
	40,059,477	37,616,359	40,684,474
Excess (deficiency) of revenues over expenditures	\$ 9,388	\$ (279,727)	\$ (1,275,101)

See accompanying notes to financial statements.

Statement of Changes in Net Assets (Deficiency)

Year ended December 31, 2018, with comparative information for 2017

	Invested in capital assets	Unrestricted	Total 2018
Balance, beginning of year	\$ 3,818	\$ (430,318)	\$ (426,500)
Deficiency of revenues over expenditures	(9,049)	(270,678)	(279,727)
Investment of capital assets	236,764	(236,764)	-
Balance, end of year	\$231,533	\$ (937,760)	\$ (706,227)

	Invested in capital assets	Unrestricted	Total 2017
Balance, beginning of year	\$ 6,891	\$ 841,710	\$ 848,601
Deficiency of revenues over expenditures	(3,831)	(1,271,270)	(1,275,101)
Investment of capital assets	758	(758)	-
Balance, end of year	\$ 3,818	\$ (430,318)	\$ (426,500)

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash flow from operating activities:		
Cash received:		
General fees	\$ 6,767,160	\$ 5,583,793
Racing Industry Renewal Initiative	31,406,571	33,012,316
Other racing renewal	227,390	240,505
Interest revenue	24,188	16,693
Cash paid:		
Purse support grants	(10,518,147)	(12,315,559)
Breed improvement program	(3,100,000)	(3,999,800)
Racetrack funding	(21,638,874)	(19,057,090)
Marketing and promotion	(332,145)	(371,737)
Regulatory and administration	(2,923,408)	(3,535,861)
Other operating expenses	(149,863)	(123,015)
	(237,128)	(549,755)
Investing:		
Purchase of capital assets	(236,764)	(758)
Repayment of loan receivable	50,000	50,000
	(186,764)	49,242
(Decrease) increase in cash	(423,892)	(500,513)
Cash, beginning of year	777,239	1,277,752
Cash, end of year	\$ 353,347	\$ 777,239

See accompanying notes to financial statements.

Notes to Financial Statements

Year ended December 31, 2018

NATURE OF OPERATIONS:

Horse Racing Alberta (the “Entity”) 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 Entity is a non-profit organization as defined in Section 149(1)(I) of the Income Tax Act and is exempt from income taxes. The Entity 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.

1. Significant accounting policies:

(a) Basis of presentation:

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO).

(b) Capital assets:

Capital assets are recorded at cost. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the Entity’s ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Useful life
Office equipment and furniture	3-10 years
Licensing management system	10 years
Computer hardware and software	3 years
Leasehold improvements	Term of lease

(c) Revenue recognition:

The Entity follows the deferral method of accounting for contributions.

Unrestricted contributions are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight line basis, at a rate corresponding with the amortization rate for the related capital assets.

Restricted investment income is recognized as revenue in the year in which the related expenses are recognized. Unrestricted investment income is recognized as revenue when earned.

Revenue from fees is recognized when the services are provided.

Notes to Financial Statements *continued*

Year ended December 31, 2018

1. Significant accounting policies (continued):

(d) *Financial instruments:*

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and investments in equities quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the effective interest rate method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Entity determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Entity expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(e) *Use of estimates:*

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

2. Accounts receivable:

	2018	2017
Trade receivables	\$ 241,588	\$ 1,193,451
GST receivable	8,932	6,646
	\$250,520	\$1,200,097

Notes to Financial Statements continued

Year ended December 31, 2018

3. Receivable from the Province of Alberta:

Flow-through amounts represent resources received and receivable from the Province of Alberta which are subject to external restrictions as follows:

	2018	2017
Deferred revenue, beginning of the year	\$ -	\$ -
Flow-through amounts from the Province of Alberta during the year	31,255,994	33,184,865
Interest received on deferred revenue	11,477	7,770
Amount recognized as Racing Industry Renewal Initiative revenues in the year	(31,267,471)	(33,192,635)
Deferred revenue, end of period	\$ -	\$ -

The Entity has an agreement with the Province of Alberta, as represented by the Minister of Finance, to assist in long-term industry renewal with monies derived from the flow-through portion of net revenue from electronic gaming terminals at licensed horse racing tracks. This agreement expires March 31, 2026.

The receivable from the Province of Alberta at December 31, 2018 is \$2,540,255 (2017 - \$2,679,355).

4. Loans receivable:

In March 2006, the Entity issued a loan to the Grande Prairie Regional Agricultural & Exhibition Society for \$1,000,000 at 0% interest with varying repayments based on Evergreen Park slot revenue performance. At December 31, 2018, the loan receivable balance outstanding is \$125,000.

5. Capital assets:

			2018	2017
December 31, 2016	Cost	Accumulated amortization	Net book value	Net book value
Office equipment and furniture	\$ 206,426	\$ 196,946	\$ 9,480	\$ 3,390
Licensing management system	227,395	5,685	221,710	-
Computer hardware and software	77,251	77,251	-	-
Leasehold improvements	18,914	18,571	343	428
	\$529,986	\$ 289,453	\$ 231,533	\$ 3,818

Amortization for the year was \$9,049 (2017 - \$3,831).

Notes to Financial Statements continued

Year ended December 31, 2018

6. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of \$nil (2017 - \$nil), which includes amounts payable for payroll related taxes.

7. Compensation:

	Positions (4)	Base salary (1)	Other cash benefits (2)	Other non-cash benefits (3)	Total 2018	Total 2017
Chair	1	\$ 34,800	\$ -	\$ 2,801	\$ 37,601	\$ 62,366
CEO	2	177,917	22,151	18,067	218,135	251,007
CFO	1	180,566	17,362	18,155	216,083	206,832
Board of Directors	12	-	20,760	663	21,423	14,101
Managers:						
Racetrack and administration	3	237,098	18,477	37,404	292,979	419,209
Non-managers:						
Racetrack	13	583,121	3,617	97,881	684,619	664,775
Administration	4	89,966	2,976	25,865	118,807	127,386
	36	\$1,303,468	\$ 85,343	\$200,836	\$1,589,647	\$1,745,676

	Positions	Base salary (1)	Other cash benefits (2)	Other non-cash benefits (3)	Total 2018	Total 2017
Appeals Tribunal, Chair	2	\$30,037	\$ -	\$ 1,173	\$ 31,210	\$ 113,438
Appeals Tribunal, Members	2	4,950	-	125	5,075	7,214
	4	\$ 34,987	\$ -	\$ 1,298	\$ 36,285	\$ 120,652

(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 include the Entity'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, car allowances and RRSP contributions.

(4) The former CEO retired effective June 2018 and the current CEO commenced August 2018.

Compensation of \$31,560 (2017 - \$33,300) is included in Backstretch human resource development expenditures.

Notes to Financial Statements continued

Year ended December 31, 2018

8. Trust funds:

The Entity collects and disburses trust funds related to the simulcast handle in the Calgary market area on behalf of Alberta Standardbred Horse Association (ASHA). As the trust funds are not owned by the Association, they have been excluded from these financial statements.

At December 31, 2018 the Entity held \$20,483 (2017 - \$744) of cash in trust for ASHA. The funds are disbursed at the sole discretion of ASHA.

9. Commitments:

The Entity rents office premises in Edmonton, expiring March 31, 2026. The Entity is responsible for its proportionate share of property taxes and building operating costs for the leased premises. The Entity also has office equipment under operating leases through to 2022.

Annual payments are as follows:

2019	\$ 206,576
2020	208,985
2021	170,122
2022	143,093
2023	147,287
	\$ 876,063

10. Contingent liabilities:

A potential claim is pending against the Entity. It is the opinion of management that final determination of these proceedings will not materially affect the financial position or the results of the Entity.

Notes to Financial Statements *continued*

Year ended December 31, 2018

11. Financial risks and concentration of risk:

(a) Liquidity risk:

Liquidity risk is the risk that the Entity will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Entity manages its liquidity risk by monitoring its operating requirements. The Entity prepares a budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposures from 2017.

(b) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Entity is exposed to credit risk with respect to the accounts receivable and loan receivable. The Entity has 68% (2017 - 78%) of its trade accounts receivable outstanding with one counterparty operating in the gaming and horse racing industry. The Entity assesses, on a continuous basis, accounts receivable and loan receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts.

Schedule 1 – Racetrack Funding

Year ended December 31, 2018, with comparative information for 2017

	2018 Budget	2018 Actual	2017 Actual
Century Downs:			
Racetrack funding	\$ 11,913,408	\$ 12,623,010	\$ 11,180,960
Northlands Park:			
Racetrack funding	4,574,827	5,740,028	7,137,058
Discretionary project funding	-	-	-
Rocky Mountain Turf Club	1,616,645	1,530,590	1,613,745
Grande Prairie Regional Agricultural Society	558,933	569,588	663,557
Millarville	30,000	30,000	30,000
Century Mile	\$ 4,065,789	-	-
	\$22,759,602	\$20,493,216	\$20,625,320

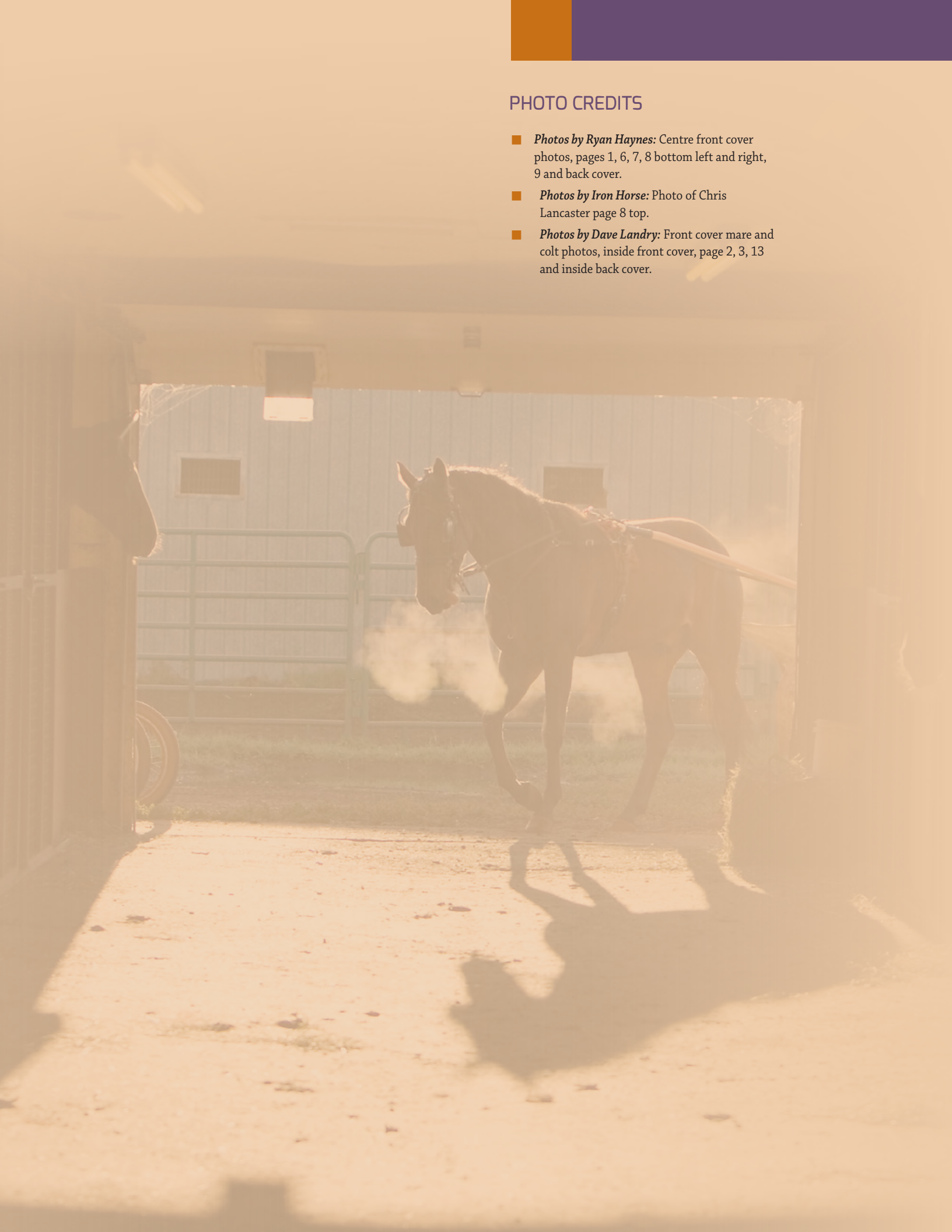
Schedule 2 – Regulatory and Administration

Year ended December 31, 2018, with comparative information for 2017

	2018 Budget	2018 Actual	2017 Actual
Compensation (note 7)	\$ 1,647,611	\$ 1,589,647	\$ 1,745,676
Office and administration	330,260	288,801	280,879
Contractors	256,800	297,792	283,469
Regulatory	233,000	240,656	253,497
Legal, consulting and audit fees	200,700	150,149	168,353
Office rent and operating costs	145,000	127,123	164,429
Travel	95,000	124,710	109,737
Appeal tribunal	50,000	204,110	232,233
Bad debt	-	-	1,470
	\$2,958,371	\$ 3,022,988	\$ 3,239,743

PHOTO CREDITS

- **Photos by Ryan Haynes:** Centre front cover photos, pages 1, 6, 7, 8 bottom left and right, 9 and back cover.
- **Photos by Iron Horse:** Photo of Chris Lancaster page 8 top.
- **Photos by Dave Landry:** Front cover mare and colt photos, inside front cover, page 2, 3, 13 and inside back cover.





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