# FORM 10–Q

## MAGNA ENTERTAINMENT CORP – MECA

**Filed: May 10, 2005 (period: March 31, 2005)**

Quarterly report which provides a continuing view of a company's financial position

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, DC 20549**

# FORM 10–Q

**☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the Quarterly Period Ended: March 31, 2005**
**Commission File Number: 000–30578**

**MAGNA ENTERTAINMENT CORP**

(Exact Name of Registrant as Specified in its Charter)

| **Delaware** | **98–0208374** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**337 Magna Drive, Aurora, Ontario, Canada L4G 7K1**

(Address of principal executive offices, including zip code)

**(905) 726–2462**

(Registrant's telephone number, including area code)

**N/A**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b–2 of the Securities Exchange Act of 1934).

Yes ☒ No ☐

The Registrant had 48,892,971 shares of Class A Subordinate Voting Stock and 58,466,056 shares of Class B Stock outstanding as of April 30, 2005.

**MAGNA ENTERTAINMENT CORP.**
**I N D E X**


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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

MAGNA ENTERTAINMENT CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)
(U.S. dollars in thousands, except per share figures)

| | Three months ended March 31, | |
|---|---|---|
| | **2005** | **2004** |
| **Revenues** | | |
| Racing | | |
| Gross wagering | **$ 216,802** | $ 248,669 |
| Non–wagering | **29,660** | 35,614 |
| | **246,462** | 284,283 |
| Real estate and other | | |
| Sale of real estate | — | 4,038 |
| Golf and other | **5,900** | 3,503 |
| | **5,900** | 7,541 |
| | **252,362** | 291,824 |
| **Costs and expenses** | | |
| Racing | | |
| Purses, awards and other | **136,695** | 153,750 |
| Operating costs | **77,505** | 80,251 |
| General and administrative | **17,076** | 15,962 |
| | **231,276** | 249,963 |
| Real estate and other | | |
| Cost of real estate sold | — | 1,441 |
| Operating costs | **2,982** | 2,486 |
| General and administrative | **404** | 380 |
| | **3,386** | 4,307 |
| Predevelopment and other costs | **4,219** | 3,133 |
| Depreciation and amortization | **9,952** | 8,420 |
| Interest expense, net | **8,085** | 5,026 |
| Equity income | **(87)** | (142) |
| | **256,831** | 270,707 |
| Income (loss) before income taxes | **(4,469)** | 21,117 |
| Income tax recovery | **(349)** | — |
| Net income (loss) | **(4,120)** | 21,117 |
| Other comprehensive income (loss) | | |
| Foreign currency translation adjustment | **(6,772)** | (7,377) |
| Change in fair value of interest rate swap | **389** | 557 |
| Comprehensive income (loss) | **$ (10,503)** | $ 14,297 |
| Earnings (loss) per share for Class A Subordinate Voting Stock or Class B Stock: | | |
| Basic | **$ (0.04)** | $ 0.20 |
| Diluted | **$ (0.04)** | $ 0.19 |
| Average number of shares of Class A Subordinate Voting Stock and Class B Stock outstanding during the period (in thousands): | | |
| Basic | **107,347** | 107,259 |

| Diluted | **107,347** | 137,472 |
|---|---|---|

**MAGNA ENTERTAINMENT CORP.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**
**(U.S. dollars in thousands)**

| | Three months ended March 31, | |
|---|---|---|
| | **2005** | **2004** |
| **Cash provided from (used for):** | | |
| **OPERATING ACTIVITIES** | | |
| Net income (loss) | **$ (4,120)** | $ 21,117 |
| Items not involving current cash flows | **5,173** | 6,076 |
| | **1,053** | 27,193 |
| Changes in non–cash working capital | **(12,727)** | (18,850) |
| | **(11,674)** | 8,343 |
| **INVESTMENT ACTIVITIES** | | |
| Real estate property and fixed asset additions | **(22,360)** | (28,262) |
| Other asset additions | **(108)** | (450) |
| Proceeds on disposal of real estate properties and fixed assets | **1,610** | 4,013 |
| | **(20,858)** | (24,699) |
| **FINANCING ACTIVITIES** | | |
| Increase (decrease) in bank indebtedness | **(500)** | 2,000 |
| Issuance of long–term debt | **22,470** | 18,385 |
| Repayment of long–term debt | **(1,745)** | (1,390) |
| Issuance of share capital | **—** | 852 |
| | **20,225** | 19,847 |
| Effect of exchange rate changes on cash and cash equivalents | **(660)** | (878) |
| Net increase (decrease) in cash and cash equivalents during the period | **(12,967)** | 2,613 |
| Cash and cash equivalents, beginning of period | **60,641** | 99,807 |
| Cash and cash equivalents, end of period | **$ 47,674** | $ 102,420 |

**MAGNA ENTERTAINMENT CORP.**

**CONSOLIDATED BALANCE SHEETS**

**(Unaudited)**
**(U.S. dollars and share amounts in thousands)**

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | **$ 47,674** | $ 60,641 |
| Restricted cash | **30,695** | 25,478 |
| Accounts receivable | **56,679** | 47,655 |
| Income taxes receivable | **—** | 1,798 |
| Prepaid expenses and other | **16,775** | 13,069 |
| | **151,823** | 148,641 |
| Real estate properties, net | **912,062** | 912,243 |
| Fixed assets, net | **49,742** | 51,538 |
| Racing licenses | **240,229** | 240,893 |
| Other assets, net | **13,110** | 14,793 |
| Future tax assets | **39,857** | 35,245 |
| | **$ 1,406,823** | $ 1,403,353 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current liabilities:** | | |
| Bank indebtedness | **$ 27,000** | $ 27,500 |
| Accounts payable | **93,552** | 91,690 |
| Accrued salaries and wages | **8,526** | 10,306 |
| Customer deposits | **2,828** | 2,905 |
| Other accrued liabilities | **20,381** | 27,558 |
| Income taxes payable | **1,867** | — |
| Long–term debt due within one year | **23,211** | 17,763 |
| Deferred revenue | **20,199** | 17,951 |
| | **197,564** | 195,673 |
| Long–term debt | **241,728** | 241,498 |
| Long–term debt due to parent | **35,499** | 23,408 |
| Convertible subordinated notes | **219,529** | 219,257 |
| Other long–term liabilities | **11,448** | 11,919 |
| Future tax liabilities | **132,793** | 132,918 |
| | **838,561** | 824,673 |
| **Shareholders' equity:** | | |
| Capital stock issued and outstanding — | | |
| Class A Subordinate Voting Stock (issued: 2005 — 48,893, 2004 — 48,879) | **318,088** | 318,003 |
| Class B Stock (issued: 2005 and 2004 — 58,466) | **394,094** | 394,094 |
| Contributed surplus | **17,282** | 17,282 |
| Deficit | **(207,774)** | (203,654) |
| Accumulated comprehensive income | **46,572** | 52,955 |
| | **568,262** | 578,680 |
| | **$ 1,406,823** | $ 1,403,353 |

## MAGNA ENTERTAINMENT CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## (Unaudited)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**

The accompanying unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") for interim financial information and with instructions to Form 10−Q and Article 10 of Regulation S−X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from estimates. In the opinion of management, all adjustments, which consist of normal and recurring adjustments, necessary for fair presentation have been included. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10−K for the year ended December 31, 2004.

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

**Impact of Recently Issued Accounting Standards**

Under Staff Accounting Bulletin 74, the Company is required to disclose certain information related to new accounting standards, which have not yet been adopted due to delayed effective dates.

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 123 (revised 2004), "Share−Based Payment" ("Statement 123(R)"), which is a revision of SFAS 123. Statement 123(R) supersedes APB Opinion No. 25 ("APB 25") and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123(R) is similar to the approach described in SFAS 123, however, Statement 123(R) requires all share−based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values. Pro−forma disclosure is no longer an alternative.

As permitted by Statement 123, the Company currently accounts for share−based payments to employees using APB 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of Statement 123(R)'s fair value method will have a significant impact on the results of operations, although it will have no impact on the Company's overall financial position. The impact of adoption of Statement 123(R) cannot be predicted at this time because it will depend on levels of share−based payments granted in the future, however, had the Company adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro−forma net income (loss) and income (loss) per share in the unaudited consolidated financial statements. Statement 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. Statement 123(R) must be adopted no later than January 1, 2006. The Company is currently reviewing the Statement, but has not yet determined the methodology it will follow for implementation, or the impact on the Company's financial statements.

### 2. INCOME TAXES

In accordance with United States generally accepted accounting principles, the Company estimates its annual effective tax rate at the end of each of the first three quarters of the year, based on current facts and circumstances. The Company has estimated a nominal annual effective tax rate for the entire year and accordingly has applied this effective tax rate to income (loss) before income taxes for the three months ended March 31, 2005 and 2004, resulting in an income tax recovery of $0.3 million for the three months ended March 31, 2005 and no income tax provision for the three months ended March 31, 2004.

## 3. BANK INDEBTEDNESS

The Company has a senior secured revolving credit facility in the amount of $50.0 million. The credit facility is available by way of U.S. dollar loans and letters of credit for general corporate purposes. Loans under the facility are secured by a first charge on the assets of Golden Gate Fields and a second charge on the assets of Santa Anita Park, and are guaranteed by certain subsidiaries of the Company which own and operate Golden Gate Fields and Santa Anita Park. At March 31, 2005, the Company had borrowings under the facility of $27.0 million (December 31, 2004 — $27.5 million) and had issued letters of credit totaling $22.6 million (December 31, 2004 — $21.9 million) under the credit facility, such that $0.4 million was unused and available. The credit facility expires on October 10, 2005, and may be extended with the consent of both parties.

The loans under the facility bear interest at either the U.S. Base rate or the London Interbank Offered Rate ("LIBOR") plus a margin based on the Company's ratio of debt to earnings before interest, income taxes, depreciation and amortization. The weighted average interest rate on the loans outstanding under the credit facility as at March 31, 2005 was 6.3% (December 31, 2004 — 6.0%).

On February 18, 2005, the Company amended its credit agreement including the financial covenants for this facility. At March 31, 2005, the Company was not in compliance with certain of the financial covenants contained in the amended credit agreement. A waiver for the financial covenants breach at March 31, 2005 was obtained from the lender on April 26, 2005. The Company has also obtained a waiver in the event that it is in breach of certain of the financial covenants at June 30, 2005, which is the next and only remaining quarterly reporting date required under the facility prior to its expiration on October 10, 2005. The Company is currently negotiating with the lender to amend the credit agreement including the financial covenants for this facility.

## 4. LONG−TERM DEBT

On February 18, 2005, one of the Company's Canadian subsidiaries entered into a financing arrangement, which is secured by an assignment of a portion of the future amounts receivable under the Magna Golf Club access agreement. The Company received proceeds of $11.1 million (Cdn. $13.7 million) that is repayable in three annual installments of Cdn. $5.0 million commencing January 1, 2006 until the third installment has been made in 2008. The interest rate implicit in the arrangement is 5.08%.

## 5. LONG−TERM DEBT DUE TO PARENT

In December 2004, certain of the Company's subsidiaries entered into a project financing arrangement with MI Developments Inc. ("MID") for the reconstruction of facilities at Gulfstream Park of $115 million. The project financing is made by way of progress draw advances to fund reconstruction. The loan has a ten−year term from the completion date of the reconstruction project. The anticipated completion date for the Gulfstream Park reconstruction project is the first quarter of 2006. Prior to the completion date, amounts outstanding under the loan will bear interest at a floating rate equal to 2.55% per annum above MID's notional cost of borrowing under its floating rate credit facility, compounded monthly (March 31, 2005 — 6.2%). After the completion date, amounts outstanding under the loan will bear interest at a fixed rate of 10.5% per annum, compounded semi−annually. Prior to January 1, 2008, payment of interest will be deferred. Commencing January 1, 2008, the Company will make monthly blended payments of principal and interest based on a 25−year amortization period commencing on the completion date. The loan contains cross−guarantee, cross−default and cross−collateralization provisions with the construction loan for The Meadows redevelopment contemplated by the term sheet between the Company and MID entered into on December 9, 2004. The loan is guaranteed by The Meadows and is collateralized principally by first−ranking security over the lands forming part of the racetrack operations at Gulfstream Park and The Meadows and certain lands adjacent to the racetrack operations at Gulfstream Park and over all other assets of Gulfstream Park and The Meadows, excluding licenses and permits. During the three months ended March 31, 2005, $11.4 million was advanced on this loan, such that at March 31, 2005, $38.3 million was outstanding under the Gulfstream Park loan, which includes $0.6 million of accrued interest. Loan origination expenses of $2.8 million have been recorded as a reduction of the outstanding loan balance. The loan balance will be accreted to its face value over the term to maturity.

## 6. CAPITAL STOCK AND LONG–TERM INCENTIVE PLAN

*(a)*

**Capital Stock**

Changes in the Class A Subordinate Voting Stock and Class B Stock for the three months ended March 31, 2005 are shown in the following table (number of shares and stated value have been rounded to the nearest thousand):

| | Class A Subordinate Voting Stock | | Class B Stock | | Total | |
|---|---|---|---|---|---|---|
| | Number of Shares | Stated Value | Number of Shares | Stated Value | Number of Shares | Stated Value |
| Issued and outstanding at December 31, 2004 | 48,879 | $ 318,003 | 58,466 | $ 394,094 | 107,345 | $ 712,097 |
| Issued under the Long–term Incentive Plan | 14 | 85 | — | — | 14 | 85 |
| **Issued and outstanding at March 31, 2005** | **48,893** | **$ 318,088** | **58,466** | **$ 394,094** | **107,359** | **$ 712,182** |

*(b)*

**Long–term Incentive Plan**

The Company has a Long–term Incentive Plan (the "Plan") (adopted in 2000), which allows for the grant of non–qualified stock options, incentive stock options, stock appreciation rights, restricted stock, bonus stock and performance shares to directors, officers, employees, consultants, independent contractors and agents. A maximum of 7.6 million shares of Class A Subordinate Voting Stock are available to be issued under the Plan, of which 6.3 million are available for issuance pursuant to stock options and tandem stock appreciation rights and 1.3 million are available for issuance pursuant to any other type of award under the Plan. During the three months ended March 31, 2005, 14,175 shares were issued under the Plan.

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

Information with respect to shares under option is as follows:

| | Shares Subject to Option | | Weighted Average Exercise Price | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Balance, at January 1 | **4,500,500** | 4,841,500 | **$ 6.18** | $ 6.14 |
| Granted | **490,000** | 150,000 | **6.40** | 6.33 |
| Exercised | — | (175,000) | — | 4.87 |
| Forfeited[(i)] | **(145,000)** | (144,000) | **6.76** | 6.94 |
| Balance, at March 31 | **4,845,500** | 4,672,500 | **$ 6.19** | $ 6.16 |

*(i)* For the three months ended March 31, 2005 and 2004, options forfeited were primarily as a result of employment contracts being terminated and voluntary employee resignations. No options that were forfeited in the three months ended March 31, 2005 or 2004 were subsequently reissued.

At March 31, 2005, the 4,845,500 stock options outstanding had exercise prices ranging from $3.91 to $9.43 per share and a weighted average exercise price of $6.19 per share.

At March 31, 2005, there were 4,089,430 options exercisable with a weighted average exercise price of $6.12 per share.

Financial Accounting Standards Board Statement No. 123 ("SFAS 123"), "Accounting and Disclosure of Stock−Based Compensation", provides companies an alternative to accounting for stock−based compensation as prescribed under APB 25. SFAS 123 encourages, but does not require, companies to recognize an expense for stock−based awards at their fair value on the date of grant. SFAS 123 allows companies to continue to follow existing accounting rules (intrinsic value method under APB 25 which does not give rise to an expense) provided that pro−forma disclosures are made of what net income (loss) and earnings (loss) per share would have been had the fair value method been used. The Company accounts for stock−based compensation under APB 25 and provides pro−forma disclosure required by SFAS 123.

During the three months ended March 31, 2005, 490,000 (three months ended March 31, 2004 — 150,000) stock options were granted with an average fair value of $3.00 (March 31, 2004 — $2.25) per option.

The fair value of stock option grants is estimated at the date of grant using the Black−Scholes option valuation model with the following assumptions:

| | Three months ended March 31, | |
|---|---|---|
| | **2005** | **2004** |
| Risk free interest rates | **4.0%** | 3.0% |
| Dividend yields | — | 0.84% |
| Volatility factor of expected market price of Class A Subordinate Voting Stock | **0.551** | 0.578 |
| Weighted average expected life (years) | **4.00** | 4.00 |

The Black−Scholes option valuation model was developed for use in estimating the fair value of traded options that require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

The Company's SFAS 123 pro−forma net income (loss) and the related per share amounts are as follows:

| | Three months ended March 31, | |
|---|---|---|
| | **2005** | **2004** |
| Net income (loss), as reported | **$ (4,120)** | $ 21,117 |
| Pro−forma stock compensation expense determined under the fair value method, net of tax | **(209)** | (175) |
| Pro−forma net income (loss) | **$ (4,329)** | $ 20,942 |
| Earnings (loss) per share | | |
| Basic — as reported | **$ (0.04)** | $ 0.20 |
| Basic — pro−forma | **$ (0.04)** | $ 0.20 |
| Diluted — as reported | **$ (0.04)** | $ 0.19 |
| Diluted — pro−forma | **$ (0.04)** | $ 0.19 |

*(c)*

**Maximum Shares**

The following table (number of shares have been rounded to the nearest thousand) presents the maximum number of shares of Class A Subordinate Voting Stock and Class B Stock that would be outstanding if all of the outstanding options and convertible subordinated notes issued and outstanding as at March 31, 2005 were exercised or converted:

| | Number of Shares |
|---|---|
| Class A Subordinate Voting Stock outstanding at March 31, 2005 | **48,893** |
| Class B Stock outstanding at March 31, 2005 | **58,466** |
| Options to purchase Class A Subordinate Voting Stock | **4,846** |
| 8.55% Convertible Subordinated Notes, convertible at $7.05 per share | **21,276** |
| 7.25% Convertible Subordinated Notes, convertible at $8.50 per share | **8,824** |
| | **142,305** |

## 7. EARNINGS (LOSS) PER SHARE

The following is a reconciliation of the numerator and denominator of the basic and diluted earnings (loss) per share computations (in thousands, except per share amounts):

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| | Basic | Diluted | Basic | Diluted |
| Net income (loss) | **$ (4,120)** | **$ (4,120)** | $ 21,117 | $ 21,117 |
| Interest, net of related tax on convertible subordinated notes | — | — | — | 4,616 |
| | **$ (4,120)** | **$ (4,120)** | $ 21,117 | $ 25,733 |
| Weighted Average Shares Outstanding: | | | | |
| Class A Subordinate Voting Stock | **48,881** | **48,881** | 48,793 | 79,006 |
| Class B Stock | **58,466** | **58,466** | 58,466 | 58,466 |
| | **107,347** | **107,347** | 107,259 | 137,472 |
| Earnings (Loss) Per Share | **$ (0.04)** | **$ (0.04)** | $ 0.20 | $ 0.19 |

For the three months ended March 31, 2005, as a result of the net loss, options to purchase 4,845,500 shares and notes convertible into 30,100,124 shares have been excluded from the computation of diluted loss per share since the effect is anti−dilutive.

For the three months ended March 31, 2004, as a result of the exercise price of certain options exceeding the average market price of the Class A Subordinate Voting Stock, options to purchase 3,817,500 shares were excluded from the computation of diluted earnings per share since the effect was anti−dilutive.

## 8. COMMITMENTS AND CONTINGENCIES

*(a)*

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

*(b)*

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with, among others, customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to accurately estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Company.

(c) The Company also has letters of credit issued with various financial institutions of $4.5 million to guarantee various construction projects related to activity of the Company. These letters of credit are secured by cash deposits of the Company.

(d) The Company has provided indemnities related to surety bonds and letters of credit issued in the process of obtaining licenses and permits at certain racetracks and to guarantee various construction projects related to activity of its subsidiaries. As of March 31, 2005, these indemnities amounted to $4.3 million with expiration dates through March 31, 2006.

(e) Contractual commitments outstanding at March 31, 2005, which related to construction and development projects, amounted to approximately $70.0 million.

(f) The Maryland Jockey Club is a party to an agreement (the "Maryland Operating Agreement") with Cloverleaf Enterprises, Inc. ("Cloverleaf"), the current owner of Rosecroft Raceway ("Rosecroft"), a standardbred track located in Prince George's County in Maryland. The Maryland Operating Agreement replaced a previous agreement (the "Maryland Revenue Sharing Agreement"), which was effective as of January 1, 2000 and expired on April 18, 2004. The Maryland Operating Agreement has been in effect since June 9, 2004, and expired on April 30, 2005, however both parties intend to informally operate under its terms until a new agreement can be finalized.

The Maryland Revenue Sharing Agreement enabled wagering to be conducted, both day and evening, on live and simulcast thoroughbred and harness races at Pimlico, Laurel Park and Rosecroft and the three Maryland off−track betting facilities operated by them. Under the agreement, wagering revenue from these sources was pooled and certain expenses and obligations were pooled and paid from those revenues to generate net wagering revenue. This net wagering revenue was then distributed 80% to The Maryland Jockey Club and 20% to Rosecroft. Commencing April 19, 2004, The Maryland Jockey Club and Rosecroft are no longer pooling their wagering revenue and distributing net wagering revenue as they did under the Maryland Revenue Sharing Agreement. From April 19, 2004 until June 9, 2004, they operated under a state law which precluded The Maryland Jockey Club from operating after 6:15 p.m. without Rosecroft's consent, and the federal Interstate Horseracing Act, which provides that, without the consent of The Maryland Jockey Club, Rosecroft cannot accept simulcast wagering on horse racing during the times that Pimlico or Laurel Park are running live races.

Since coming into effect on June 9, 2004, the Maryland Operating Agreement has enabled Pimlico, Laurel Park and Rosecroft to conduct simulcast wagering on thoroughbred and harness race signals during the day and evening hours without restriction. Under the Maryland Operating Agreement, Cloverleaf agrees to pay the thoroughbred industry a 12% premium on pari−mutuel wagering (net of refunds) conducted at Rosecroft on all thoroughbred race signals, and The Maryland Jockey Club agrees to pay Cloverleaf a 12% premium on pari−mutuel wagering (net of refunds) conducted at Pimlico and Laurel Park on all standardbred race signals.

Under the Maryland Operating Agreement, the parties have agreed to make a good faith effort to reach a long−term agreement on cross−breed simulcasting and off−track betting facilities in the State of Maryland. Without an arrangement similar in effect to the Maryland Revenue Sharing Agreement or the Maryland Operating Agreement, there would be a material decline in the revenues, earnings and purses of The Maryland Jockey Club. At this time, the Company is uncertain as to the likelihood of a renewal of this agreement on comparable terms.

(g) The Company is considering a redevelopment of the entire stable area at Laurel Park (the "Laurel Park Redevelopment"). In the event this development was to proceed as currently contemplated, the Laurel Park Redevelopment would include the construction of new barns, dormitories and grooms' quarters. The aggregate carrying value at March 31, 2005 of the assets that would be demolished if the Laurel Park Redevelopment is completed is approximately $3.1 million. If the Company decides to proceed with the Laurel Park Redevelopment and obtains the approval of its Board of Directors, a reduction in the expected life of the existing assets would occur and a write−down would be necessary. If the Company proceeds, the project would be scheduled to minimize any interference with Laurel Park's racing season, however, with a project of this magnitude, there will likely be a temporary disruption of Laurel Park's operations during a racing season and there is a risk that the redevelopment will not be completed according to schedule. Any interference with the racing operations would result in a reduction in the revenues and earnings generated at Laurel Park during that season.

*(h)*

The Company is considering a redevelopment of the clubhouse/grandstand at The Meadows ("The Meadows Redevelopment"). In the event the Company obtains a slot machine license for The Meadows and this development were to proceed as currently contemplated, The Meadows Redevelopment would include the construction of a new clubhouse/grandstand with a facility to house slot machines. The aggregate carrying value at March 31, 2005 of the assets that would be demolished if The Meadows Redevelopment is completed is approximately $8.3 million. If the Company decides to proceed with The Meadows Redevelopment and obtains approval of its Board of Directors, a reduction in the expected life of the existing assets would occur and a write−down would be necessary. If the Company proceeds, the Company's goal would be to minimize any interference with The Meadows' operations, however, with a project of this magnitude, there will likely be a temporary disruption of The Meadows' operations and there is a risk that the redevelopment will not be completed according to schedule. Any interference with the racing operations would result in a reduction in the revenues and earnings at The Meadows.

*(i)*

In October 2003, the Company signed a Letter of Intent to explore the possibility of a joint venture between Forest City Enterprises, Inc., ("Forest City") and various affiliates of the Company anticipating the ownership and development of a portion of the Gulfstream Park racetrack. In April 2004, the Company signed a Pre−Development Management Agreement, which governs the activities of the parties and obligates the parties to work together to plan, design, entitle, pre−lease, contract to construct and finance a project. The Agreement also contemplates a conceptual development and business plan for the project. Upon execution of this Agreement, Forest City paid $1 million to the Company in consideration for their right to work exclusively with the Company on this project and to secure the performance of their obligations under the Agreement. Forest City and the Company then collectively developed a Business Plan, which upon completion, Forest City provided an additional $1 million to the Company. These two deposits have been reflected as other accrued liabilities on the Company's consolidated balance sheets. Under certain conditions, these deposits may be refundable to Forest City. Under the terms of the Letter of Intent and also the Pre−Development Management Agreement, the Company may be responsible for additional equity contributions, however to March 31, 2005, the Company has not made any such contributions.

*(j)*

In April 2004, the Company signed a Letter of Intent to explore the possibility of joint ventures between Caruso Affiliates Holdings and various affiliates of the Company to develop certain undeveloped lands surrounding our Santa Anita Park and Golden Gate Fields racetracks. Upon execution of this Letter of Intent, the Company established a joint account to be used for the purpose of co−funding the development of a business plan for each of these projects, with the goal of entering into Operating Agreements by May 31, 2005. To date, the Company has contributed approximately $1.0 million to this initiative, of which $0.6 million was contributed during the three months ended March 31, 2005. The deposits have been reflected as other assets on the Company's consolidated balance sheets. The Company is continuing to explore these developmental opportunities, but to March 31, 2005 has not entered into definitive Operating Agreements on either of these potential developments. Under the terms of the Letter of Intent, the Company may be responsible for additional equity contributions, however to March 31, 2005, the Company has not made any such contributions.

## 9. SEGMENT INFORMATION

The Company's reportable segments reflect how the Company is organized and managed by senior management, including its President and Chief Executive Officer. The Company has two principal operating segments: racing operations and real estate and other operations. The racing segment has been further segmented to reflect geographical and other operations as follows: (1) California operations include Santa Anita Park, Golden Gate Fields, Bay Meadows and San Luis Rey Downs; (2) Florida operations include Gulfstream Park and the Palm Meadows Training Center; (3) Maryland operations include Laurel Park, Pimlico Race Course, Bowie Training Center and the Maryland OTB network; (4) Southern United States operations include Lone Star Park, Remington Park and its OTB network; (5) Northern United States operations include The Meadows and its OTB network, Thistledown, Great Lakes Downs, Portland Meadows, Multnomah Greyhound Park and the Oregon OTB network and the North American production facility for StreuFex™; (6) Canadian operations include Flamboro Downs and its OTB network; (7) European operations include Magna Racino™, MagnaBet™, RaceONTV™ and the European production facility for StreuFex™; and (8) Technology operations include XpressBet®, HorseRacing TV™ and a 30% equity investment in AmTote International, Inc. The Corporate and other segment include costs related to the Company's corporate head office, cash and other corporate office assets and investments in racing related real estate held for development. Eliminations reflect the elimination of revenues between business units. The real estate and other operations segment has also been further segmented to reflect the sale of Non−Core Real Estate and golf and other operations which include the operation of two golf courses and related facilities and other real estate holdings including residential housing developments adjacent to the Company's golf courses.

The Company, including its President and Chief Executive Officer, uses revenues and earnings (loss) before interest, income taxes, depreciation and amortization ("EBITDA") as key performance measures of results of operations for purposes of evaluating operating and financial performance internally. Management believes that the use of these measures enables management and investors to evaluate and compare, from period to period, operating and financial performance of companies within the horse racing industry in a meaningful and consistent manner as EBITDA eliminates the effects of financing and capital structures, which vary between companies. Because the Company uses EBITDA as a key measure of financial performance, the Company is required by U.S. GAAP to provide the information in this note concerning EBITDA. However, these measures should not be considered as an alternative to, or more meaningful than, net income (loss) as a measure of the Company's operating results or cash flows, or as a measure of liquidity.

The accounting policies of each segment are the same as those described in the "Significant Accounting Policies" section of the Company's annual report on Form 10−K for the year ended December 31, 2004.

The following summary presents key information about reported segments for the three months ended March 31, 2005 and 2004 (in thousands):

| | Three months ended March 31, | |
|---|---|---|
| | **2005** | **2004** |
| **Revenues** | | |
| California operations[(i)] | **$ 107,550** | $ 140,565 |
| Florida operations | **62,005** | 68,664 |
| Maryland operations | **25,167** | 24,196 |
| Southern U.S. operations | **15,560** | 15,554 |
| Northern U.S. operations[(ii)] | **21,128** | 21,108 |
| Canadian operations | **6,317** | 6,865 |
| European operations | **2,077** | 540 |
| Technology operations | **11,450** | 10,765 |
| | **251,254** | 288,257 |
| Corporate and other | **64** | 341 |
| Eliminations | **(4,856)** | (4,315) |
| Total racing operations | **246,462** | 284,283 |
| Sale of real estate | **—** | 4,038 |
| Golf and other | **5,900** | 3,503 |
| Total real estate and other operations | **5,900** | 7,541 |
| Total revenues | **$ 252,362** | $ 291,824 |
| **Earnings (loss) before interest, income taxes, depreciation and amortization ("EBITDA")** | | |
| California operations[(i)] | **$ 16,010** | $ 23,935 |
| Florida operations | **9,850** | 15,878 |
| Maryland operations | **(173)** | 1,108 |
| Southern U.S. operations | **(578)** | (979) |
| Northern U.S. operations[(ii)] | **(617)** | (670) |
| Canadian operations | **1,514** | 2,061 |
| European operations | **(4,138)** | (1,582) |
| Technology operations | **(14)** | 1,304 |
| | **21,854** | 41,055 |
| Corporate and other | **(6,581)** | (6,593) |
| Predevelopment costs | **(4,219)** | (3,133) |
| Total racing operations | **11,054** | 31,329 |
| Sale of real estate | **—** | 2,597 |
| Golf and other | **2,514** | 637 |
| Total real estate and other operations | **2,514** | 3,234 |
| Total EBITDA | **$ 13,568** | $ 34,563 |

*(i)* For the three months ended March 31, 2004, the California operations segment included the operations of Bay Meadows, the facility lease for which expired on December 31, 2004. Bay Meadows' revenues and loss before interest, income taxes, depreciation and amortization was $1.6 million and $2.1 million, respectively, for the three months ended March 31, 2004.

*(ii)* For the three months ended March 31, 2004, the Northern U.S. operations segment included the operations of Multnomah Greyhound Park in Portland, Oregon, the facility lease for which expired on December 31, 2004. Multnomah Greyhound Park's revenues and loss before interest, income taxes, depreciation and amortization was $0.2 million and $0.4 million, respectively, for the three months ended March 31, 2004.

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| **Total Assets** | | |
| California operations | **$ 309,929** | $ 310,026 |
| Florida operations | **234,734** | 205,149 |
| Maryland operations | **168,112** | 168,073 |
| Southern U.S. operations | **108,588** | 105,024 |
| Northern U.S. operations | **118,564** | 119,973 |
| Canadian operations | **98,019** | 98,723 |
| European operations | **143,450** | 176,906 |
| Technology operations | **15,710** | 15,439 |
| | **1,197,106** | 1,199,313 |
| Corporate and other | **88,166** | 74,782 |
| Total racing operations | **1,285,272** | 1,274,095 |
| Non−Core Real Estate | **2,509** | 2,512 |
| Golf and other | **119,042** | 126,746 |
| Total real estate and other operations | **121,551** | 129,258 |
| Total assets | **$ 1,406,823** | $ 1,403,353 |

**Reconciliation of EBITDA to Net Income (Loss)**

| | Three months ended March 31, 2005 | | |
|---|---|---|---|
| | Racing Operations | Real Estate and Other Operations | Total |
| **EBITDA** | **$ 11,054** | **$ 2,514** | **$ 13,568** |
| **Interest expense, net** | **8,060** | **25** | **8,085** |
| **Depreciation and amortization** | **9,158** | **794** | **9,952** |
| **Income (loss) before income taxes** | **(6,164)** | **1,695** | **(4,469)** |
| **Income tax recovery** | | | **(349)** |
| **Net loss** | | | **$ (4,120)** |

| | Three months ended March 31, 2004 | | |
|---|---|---|---|
| | Racing Operations | Real Estate and Other Operations | Total |
| EBITDA | $ 31,329 | $ 3,234 | $ 34,563 |
| Interest expense (income), net | 5,308 | (282) | 5,026 |
| Depreciation and amortization | 7,693 | 727 | 8,420 |
| Income before income taxes | 18,328 | 2,789 | 21,117 |
| Income tax provision | | | — |
| Net income | | | $ 21,117 |

**10. SUBSEQUENT EVENT**

On April 5, 2005, one of the Company's Canadian subsidiaries entered into a loan agreement, which is secured by an assignment of the future amounts receivable under the Magna Golf Club access agreement for the years 2009 through 2014. The amount of the loan is $16.9 million (Cdn. $20.5 million) and is repayable in six annual installments of Cdn. $5.0 million commencing January 1, 2009 until the last installment has been made in 2014. The loan bears interest at a rate of 6.36% per annum.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our results of operations and financial position should be read in conjunction with our unaudited consolidated financial statements included in this report.

### Overview

Magna Entertainment Corp. ("MEC", "we" or the "Company") owns and operates horse racetracks in California, Florida, Maryland, Texas, Oklahoma, Pennsylvania, Ohio, Michigan, Oregon, Ontario, Canada and Ebreichsdorf, Austria. Based on revenues, MEC is North America's number one owner and operator of horse racetracks, and is one of the world's leading suppliers, via simulcasting, of live racing content to the growing inter−track, off−track and account wagering markets. We currently operate or manage eleven thoroughbred racetracks, two standardbred (harness racing) racetracks and two racetracks that run both thoroughbred and standardbred meets, as well as the simulcast wagering venues at these tracks. At the end of the fourth quarter of 2004, we ceased operations at Bay Meadows and Multnomah Greyhound Park as these were operations in leased facilities and the leases were not renewed for 2005. In addition, we operate off−track betting ("OTB") facilities, a United States national account wagering business known as XpressBet®, which permits customers to place wagers by telephone and over the Internet on horse races at over 100 North American racetracks and internationally on races in Australia, South Africa and Dubai and a European account wagering service known as MagnaBet™. We also own and operate HorseRacing TV™ ("HRTV™"), a television network focused on horse racing that we initially launched on the Racetrack Television Network ("RTN"). We are in ongoing discussions with cable and satellite operators with the goal of achieving broader distribution for HRTV™. HRTV™ is currently distributed to more than 11 million cable and satellite TV subscribers. RTN, in which we have a minority interest, was formed to telecast races from our racetracks and other racetracks, via private direct to home satellite, to paying subscribers. In 2004, we launched RaceONTV™ in Europe to provide North American racing content from our racetracks and other U.S. racetracks that have agreed to participate in our international distribution network to locations outside North America. We also own a 30% equity interest in AmTote International, Inc., a provider of totalisator services to the pari−mutuel industry. To support certain of our thoroughbred racetracks, we own and operate thoroughbred training centers situated near San Diego, California, in Palm Beach County, Florida and in the Baltimore, Maryland area. We also own and operate production facilities in Austria and in North Carolina for StreuFex™, a straw−based horse bedding product.

In addition to our racetracks, we own a significant real estate portfolio, which includes two golf courses and related recreational facilities as well as three residential developments in various stages of development in Austria, the United States and Canada. We are also working with potential developers and strategic partners for the development of leisure and entertainment or retail−based real estate projects on the excess land surrounding, or adjacent to, certain of our premier racetracks. We have entered into a predevelopment management agreement with Forest City Enterprises, Inc. with respect to the planned development of "The Village at Gulfstream Park™", an 80−acre, mixed−use retail, entertainment and residential project at Gulfstream Park. While we are exploring the development of some of our real estate, we intend to continue to sell our remaining Non−Core Real Estate (which had a book value of $2.5 million as of March 31, 2005) and may also sell our residential developments and certain other real estate in order to generate additional capital for our racing business.

**Recent Developments and Initiatives**

Initiatives related to the passage of legislation permitting alternative gaming at racetracks, such as slot machines, video lottery terminals and other forms of non−pari−mutuel gaming, are actively underway in a number of states in which we operate. The passage of such legislation can be a long and uncertain process. In addition, should alternative gaming legislation be enacted in any jurisdiction, there are a number of factors which will determine the viability and profitability of such an operation at one of our racetracks. These factors include, without limitation, the income or revenue sharing terms contained in the legislation and applicable licenses, the conditions governing the operation of the gaming facility, the number, size and location of the other sites which are licensed to offer alternative gaming in competition with us, the availability of financing on acceptable terms and the provisions of any ongoing agreements with the parties from whom we purchased the racetrack in question. Alternative gaming legislation has passed in each of Pennsylvania and Oklahoma in 2004 and an initiative is currently underway to legalize slot machines at certain pari−mutuel facilities in Florida.

The Pennsylvania Race Horse Development and Gaming Act was passed and signed into legislation in July 2004. This legislation authorizes the granting of slot machine licenses to up to seven Category 1 licensed facilities (i.e. racetracks) and up to five Category 2 licensed facilities (i.e. non−tracks), along with limited licenses to up to two Category 3 licensed facilities (i.e. resort hotels). Those racetracks and non−track facilities, which successfully apply for slot machine licenses, will be permitted to operate between 1,500 and 3,000 slot machines each, subject to future expansion of up to 2,000 additional machines per facility upon the approval of the Pennsylvania Gaming Control Board ("PGCB"). The licensed resort facilities will be permitted to operate, on a limited basis, up to 500 machines each.

Each racetrack slot machine licensee in Pennsylvania will be required to pay 34% of its daily gross revenues from gaming less all monetary payouts ("Gross Terminal Revenues") to the State Gaming Fund, 4% of its Gross Terminal Revenues as a local share assessment, 5% of its Gross Terminal Revenues to the Pennsylvania Gaming Economic Development and Tourism Fund and a maximum of 12% of its Gross Terminal Revenues to a pool (the "Horsemen Pool") for distribution to each racetrack's horsemen, in the form of purses and other awards. Non−track and resort facilities will be bound to make the same percentage distributions but, since they do not conduct horse racing, they will contribute to the Horsemen Pool that portion of their Gross Terminal Revenues which is equal, on a pro rata basis, to the amount contributed to the Horsemen Pool by Category 1 licensees. The Horsemen Pool will then be allocated among the horsemen at each of the Category 1 licensed facilities, with the intention of providing payments to the horsemen at each racetrack, which are equivalent to 18% of that track's Gross Terminal Revenues.

All racetrack licensees offering slot machines in Pennsylvania must pay an upfront fee of $50.0 million and will be required to commit a minimum of $5.0 million over a five year period, and a minimum of $0.25 million annually for five years thereafter, for improvements and maintenance of its backstretch. The legalization of alternative gaming at Pennsylvania racetracks is anticipated to have a significant positive impact on purses and on the Pennsylvania horse racing industry in general. We intend to pursue an application for a slot machine license at The Meadows, our racetrack in the Pittsburgh area, in accordance with the requirements of the legislation and associated regulations without delay. The PGCB, created under the legislation to implement and oversee licensee gaming operations, has been fully constituted but has not yet released the slot machine licensees' operating regulations or form of licensee application. We are closely monitoring this process and will be in a position to pursue our application as soon as the PGCB permits.

The Pennsylvania Race Horse Development and Gaming Act has been subjected to legal challenge by various groups, a move that was not unanticipated at the time of the passage of this legislation. These legal challenges are currently in the courts and are being vigorously defended by both the State of Pennsylvania and interested industry representatives.

Under legislation that was approved by the citizens of the State of Oklahoma in a referendum held on November 2, 2004, Remington Park, our Oklahoma City racetrack, will be permitted, subject to licensing, to operate 650 electronic gaming machines, subject to increases of an additional 50 machines in each of the third and fifth years after the issuance of the applicable license. One of the pre−conditions to Remington Park's right to operate gaming machines under the new legislation was the ratification of a model tribal−state gaming compact by at least four Oklahoma Native American tribes, which has now occurred. The Oklahoma Horse Racing Commission ("OHRC") is empowered under the legislation to oversee licensees' applications and operations and has now issued the form of regulations and applications it will require. We have commenced the license application process and are actively working to prepare Remington Park for gaming operations upon receipt of a gaming license.

On November 2, 2004, Amendment 4 to the Florida State Constitution was approved, permitting the governing bodies of Broward and Miami−Dade counties to each hold a county−wide referendum on whether to authorize slot machines within existing, licensed pari−mutuel facilities that have conducted live racing during each of the last two years. The County referenda were held on March 8, 2005 and on that date, voters in Broward County approved the referendum questions by majority vote, which means that slot machines are authorized at qualifying pari−mutuel facilities in Broward County, subject to the enactment of applicable legislation and licensing. The Miami−Dade County referendum of the same date resulted in a vote against authorization of slot machines at qualifying pari−mutuel facilities in Miami−Dade County. Pursuant to Amendment 4, the state legislature is now required to adopt implementing legislation with an effective date no later than July 1, 2005. We have entered into an agreement with Broward County, identical in principal terms to agreements entered into by the three other pari−mutuel facilities in that county, that contains, among other things, provision for payment to Broward County of 1.5% of Gross Terminal Revenues up to a level of $250.0 million of Gross Terminal Revenues and 2.0% on Gross Terminal Revenues in excess of $250.0 million. We are also required to enter into an agreement with the city in which Gulfstream Park is located, Hallandale Beach, providing for, among other things, a payment of a percentage of Gross Terminal Revenues to that city. To date, we have spent approximately $4.9 million on the advancement of the state−wide referendum campaign and continue to incur lobbying costs during the state legislative campaigns.

The redevelopment of Gulfstream Park, which commenced in 2004, continued in the first quarter of 2005 concurrently with the 2005 race meet. The project includes significant modifications and enhancements to the racing surfaces and stable area, including the construction of a new, wider turf course, which was completed prior to the start of the 2005 race meet. It also includes the construction of a modern clubhouse/grandstand offering an array of restaurants and entertainment facilities. The capital budget for the redevelopment of Gulfstream Park is approximately $145 million, which we are partially financing through a $115 million construction loan from our parent company, MI Developments Inc. ("MID"). Since the project included the demolition of a substantial portion of the current buildings and related structures, temporary facilities were erected to house the 2005 race meet and best efforts were made to minimize the disruption to the live racing operations, however as with any disruption to the racing operations during a race meet, revenues and earnings generated during the 2005 race meet were negatively impacted compared to prior year results. The new clubhouse/grandstand facility is expected to be operational for the 2006 Gulfstream Park race meet, however, with a project of this magnitude, there is a risk that the redevelopment will not be completed according to schedule.

The redevelopment of the racing surfaces at Laurel Park, which commenced in 2004, continued in the first quarter of 2005. The project includes significant modifications and enhancements to the racing surfaces, including the construction of a new, wider turf course. The new dirt track was completed in January 2005 and the new turf track is scheduled to be completed prior to the start of Laurel Park's 2005 summer meet, which commences on August 6, 2005. We are also considering a redevelopment of the entire stable area at Laurel Park. In the event that we proceed with this redevelopment as currently contemplated, it would include the construction of new barns, dormitories and grooms' quarters. The aggregate carrying value at March 31, 2005 of the assets that would be demolished if this redevelopment is completed is approximately $3.1 million. If we decide to proceed with this redevelopment and obtain the approval of our Board of Directors, a reduction in the expected life of the existing assets would occur and a write−down would be necessary. If we proceed, the project would be scheduled to minimize any interference with Laurel Park's racing season, however, with a project of this magnitude, there would likely be a temporary disruption to Laurel Park's operations during the racing season and there is a risk that the redevelopment would not be completed according to schedule. Any interference with the racing operations would result in a reduction in the revenues and earnings generated at Laurel Park during that season.

We are also considering a redevelopment of the clubhouse/grandstand at The Meadows. In the event that we obtain a slot machine license for The Meadows and this development were to proceed as currently contemplated, it would include the construction of a new clubhouse/grandstand with a facility to house slot machines. The aggregate carrying value at March 31, 2005 of the assets that would be demolished if this redevelopment is completed is approximately $8.3 million. If we decide to proceed with this redevelopment and obtain the approval of our Board of Directors, a reduction in the expected life of the existing assets would occur and a write−down would be necessary. If we proceed, our goal would be to minimize any interference with The Meadows' operations, however, with a project of this magnitude, there would likely be a temporary disruption of The Meadows' operations and there is a risk that the redevelopment would not be completed according to schedule. Any interference with the racing operations would result in a reduction in the revenues and earnings generated at The Meadows.

The Maryland Jockey Club is a party to an agreement (the "Maryland Operating Agreement") with Cloverleaf Enterprises, Inc., the current owner of Rosecroft Raceway, a standardbred track located in Prince George's County in Maryland. The Maryland Operating Agreement replaced a previous agreement (the "Maryland Revenue Sharing Agreement"), which was effective as of January 1, 2000 and expired on April 18, 2004. The Maryland Operating Agreement has been in effect since June 9, 2004 and expired on April 30, 2005, however both parties intend to informally operate under its terms until a new agreement can be finalized. Under the Maryland Operating Agreement, the parties have agreed to make a good faith effort to reach a long−term agreement on cross−breed simulcasting and OTB facilities in the State of Maryland. Without an arrangement similar in effect to the Maryland Revenue Sharing Agreement or the Maryland Operating Agreement, there would be a material decline in the revenues, earnings and purses of The Maryland Jockey Club. At this time, we are uncertain as to the likelihood of a renewal of this agreement on comparable terms.

In October 2003, we signed a Letter of Intent to explore the possibility of a joint venture between Forest City Enterprises, Inc., ("Forest City") and various MEC affiliates anticipating the ownership and development of a portion of the Gulfstream Park racetrack. In April 2004, we signed a Pre−Development Management Agreement which governs the activities of the parties and obligates the parties to work together to plan, design, entitle, pre−lease, contract to construct and finance a project. The Agreement also contemplates a conceptual development and business plan for the project. Upon execution of this Agreement, Forest City paid $1 million to MEC in consideration for their right to work exclusively with MEC on this project and to secure the performance of their obligations under the Agreement. Forest City and MEC then collectively developed a Business Plan that upon completion, Forest City provided an additional $1 million to MEC. These two deposits have been reflected as other accrued liabilities on our consolidated balance sheets. Under certain conditions, these deposits may be refundable to Forest City. Under the terms of the Letter of Intent and also the Pre−Development Management Agreement, MEC may be responsible for additional equity contributions, however to March 31, 2005, we have not made any such contributions.

In April 2004, we signed a Letter of Intent to explore the possibility of joint ventures between Caruso Affiliates Holdings and various MEC affiliates to develop certain undeveloped lands surrounding our Santa Anita Park and Golden Gate Fields racetracks. Upon execution of this Letter of Intent, we established a joint account to be used for the purpose of co−funding the development of a business plan for each of these projects, with the goal of entering into Operating Agreements by May 31, 2005. To date, we have contributed approximately $1 million to this initiative, of which $0.6 million was contributed in the first quarter of 2005. The deposits have been reflected as other assets on our consolidated balance sheets. We are continuing to explore these developmental opportunities, but to March 31, 2005 we have not entered into definitive Operating Agreements on either of these potential developments. Under the terms of the Letter of Intent, MEC may be responsible for additional equity contributions, however to March 31, 2005, we have not made any such contributions.

We have applied for horse racing licenses in certain other jurisdictions, including the Detroit, Michigan area where we have proposed to develop a new racetrack, subject to regulatory and other approvals. In October 2003, a subsidiary of MID purchased vacant land in Romulus, Michigan, which may serve as the site of the proposed racetrack. In September 2004, one of our subsidiaries entered into an option agreement with MID and one of its subsidiaries to acquire 100% of the shares of the MID subsidiary that owns the land in Romulus, Michigan for $33.5 million. The option expires on June 30, 2005. If we are unable to obtain a racing license for this site, or if we are unable to renew this option arrangement with MID upon its expiry, then we would incur a write−down of the costs that have been incurred with respect to entitlements on this property and in the pursuit of this license. At March 31, 2005, we have incurred approximately $2.8 million of costs related to this property and in pursuit of the license.

The lease on our Bay Meadows site expired December 31, 2004, and as a result we are continuing to explore alternative venues, including vacant land that we purchased in Dixon, California, for future development of a thoroughbred racetrack with an associated retail shopping and entertainment complex. This project is still in the early stages of planning and is subject to regulatory and other approvals.

**Seasonality**

Most of our racetracks operate for prescribed periods each year. As a result, our racing revenues and operating results for any quarter will not be indicative of our racing revenues and operating results for any other quarter or for the year as a whole. Because five of our largest racetracks, Santa Anita Park, Gulfstream Park, Lone Star Park at Grand Prairie, Pimlico Race Course and Golden Gate Fields, run live race meets principally during the first half of the year, our racing operations have historically operated at a loss in the second half of the year, with our third quarter generating the largest operating loss. This seasonality has resulted in large quarterly fluctuations in revenue and operating results.

**Results of Operations**

***Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004***

*Racing operations*

In the three months ended March 31, 2005, we operated our largest racetracks for 58 fewer live race days compared to the prior year period, primarily due to a change in the racing calendar at Golden Gate Fields, which resulted in live race days being shifted to later in the year such that there was a reduction in live race days of 48 days in the first quarter of 2005. The remaining reduction in live race days were at Gulfstream Park where additional days were shifted to the second quarter of 2005 and at The Maryland Jockey Club due to race day cancellations as a result of inclement weather. Our other racetracks operated an additional seven live race days in the three months ended March 31, 2005 compared to the prior year period, primarily due to an increase in live race days at The Meadows as we shifted additional days into the first quarter of 2005 to minimize the disruption and loss of live race days during the proposed redevelopment contemplated for later in 2005 and the addition of live race days at Magna Racino™, as the racing facility did not open until the second quarter of 2004.

Set forth below is a schedule of our actual live race days by racetrack for the first quarter and awarded live race days for the remaining quarters of 2005 with comparatives for 2004.

**LIVE RACE DAYS**

| Largest Racetracks | Q1 2005 | Q1 2004 | Awarded Q2 2005 | Q2 2004 | Awarded Q3 2005 | Q3 2004 | Awarded Q4 2005 | Q4 2004 | Total 2005(1) | Total 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| Santa Anita Park[2] | 69 | 69 | 11 | 10 | — | — | 6 | 5 | 86 | 84 |
| Gulfstream Park | 71 | 76 | 18 | 15 | — | — | — | — | 89 | 91 |
| Golden Gate Fields | 21 | 69 | 30 | — | — | — | 52 | 36 | 103 | 105 |
| Bay Meadows[3] | — | — | — | 55 | — | 23 | — | 26 | — | 104 |
| Laurel Park | 47 | 58 | — | — | 34 | — | 63 | — | 144 | 58 |
| Lone Star Park | — | — | 58 | 58 | 11 | 8 | 31 | 15 | 100 | 81 |
| Pimlico Race Course | 11 | 5 | 49 | 43 | — | 32 | — | 57 | 60 | 137 |
| | 219 | 277 | 166 | 181 | 45 | 63 | 152 | 139 | 582 | 660 |
| **Other Racetracks[4]** | | | | | | | | | | |
| The Meadows | 57 | 52 | 53 | 53 | 60 | 53 | 50 | 48 | 220 | 206 |
| Thistledown | — | — | 60 | 62 | 66 | 65 | 61 | 56 | 187 | 183 |
| Flamboro Downs | 63 | 65 | 65 | 65 | 65 | 65 | 64 | 63 | 257 | 258 |
| Remington Park | 4 | 4 | 28 | 24 | 35 | 34 | 32 | 31 | 99 | 93 |
| Portland Meadows | 37 | 36 | 7 | 10 | — | — | 35 | 32 | 79 | 78 |
| Great Lakes Downs | — | — | 35 | 42 | 51 | 60 | 19 | 16 | 105 | 118 |
| Magna Racino™ | 3 | — | 17 | 23 | 14 | 17 | 11 | 10 | 45 | 50 |
| | 164 | 157 | 265 | 279 | 291 | 294 | 272 | 256 | 992 | 986 |
| **TOTAL** | **383** | **434** | **431** | **460** | **336** | **357** | **424** | **395** | **1,574** | **1,646** |

*(1)* Includes actual live race days for the first quarter of 2005 and awarded live race days for the remainder of 2005.

*(2)* Excludes The Oak Tree Meet, which runs primarily in the fourth quarter and is hosted by the Oak Tree Racing Association at Santa Anita Park. The Oak Tree Meet is scheduled to operate for 31 days in 2005 compared to 26 days in 2004.

*(3)* The lease on the Bay Meadows site expired December 31, 2004.

*(4)* Excludes Colonial Downs, which is owned by a third party whose racing operations are managed by The Maryland Jockey Club.

In the three months ended March 31, 2005, revenues from our racing operations decreased $37.8 million or 13.3% to $246.5 million, compared to $284.3 million in the comparable 2004 period, primarily due to:

- California revenues below the prior year period by $33.0 million or 23.5% due to:
  - the change in the racing calendar at Golden Gate Fields whereby live race days have been shifted to later in the year such that live race days were reduced from 69 days in the first quarter of 2004 to only 21 days in the current year quarter;
  - lower levels of handle and gross wagering at Santa Anita Park as a result of significant rainfall in Southern California, which resulted in the cancellation of a live race day and significantly reduced the number of races on the turf course. Turf course races typically generate higher levels of wagering; and
  - the expiry of the Bay Meadows lease on December 31, 2004.
- Florida revenues below the prior year period by $6.7 million or 9.7% due to the disruption of the racing operations as a result of the redevelopment project currently underway at Gulfstream Park. The live race meet conducted in the first quarter of 2005 operated out of temporary facilities and best efforts were made to minimize the negative impact of the disruption.
- Increased revenues in our European operations, where revenues were above the prior year period by $1.5 million due to the opening of the Magna Racino™ and the commencement of RaceONTV™ and MagnaBet™ in the second quarter of 2004.

Purses, awards and other decreased 11.1% to $136.7 million in the three months ended March 31, 2005 from $153.8 million in the three months ended March 31, 2004, primarily due to decreased wagering at Golden Gate Fields and Santa Anita Park for reasons noted above. As a percentage of gross wagering revenues, purses, awards and other increased from 61.8% in the three months ended March 31, 2004 to 63.1% in the three months ended March 31, 2005, primarily due to the mix of wagers made, the states the wagers were made in and the mix of on−track versus off−track wagering.

Operating costs in our racing operations decreased $2.8 million to $77.5 million in the three months ended March 31, 2005, from $80.3 million in the three months ended March 31, 2004, primarily due to:

- a decrease of $6.7 million in our California operations as a result of the change in the racing calendar at Golden Gate Fields and the expiry of the Bay Meadows lease;
- an increase of $3.0 million in our European operations as a result of these business units being in operation for the entire first quarter of 2005 and only in early stages of start–up in the first quarter of 2004; and
- an increase of $0.5 million in our Florida operations as cost savings and expense reductions were offset by $3.9 million of amortization relating to the temporary facility construction costs at Gulfstream Park, which are being amortized over Gulfstream Park's 2005 race meet.

As a percentage of total racing revenues, operating costs increased from 28.2% in the three months ended March 31, 2004 to 31.4% in the three months ended March 31, 2005 primarily as a result of the decline in racing revenues.

General and administrative expenses in our racing operations increased $1.1 million to $17.1 million in the three months ended March 31, 2005 compared to $16.0 million in the three months ended March 31, 2004 primarily due to:

- an increase of $0.8 million in our European operations for reasons noted above under operating cost increases;
- an increase of $0.7 million in our Technology operations as a result of severance costs at HRTV™ incurred in efforts to streamline administrative operations;
- a decrease of $0.3 million in our Corporate and other operations as a result of focused efforts to reduce costs in all areas; and
- decreases in our other operations as a result of the expiry of the Bay Meadows lease and continued efforts to reduce costs in all areas were largely offset by increases in health and benefit costs.

As a percentage of total racing revenues, general and administrative expenses increased from 5.6% in the three months ended March 31, 2004 to 6.9% in the three months ended March 31, 2005 primarily as a result of the decline in racing revenues.

*Real estate and other operations*

Revenues from real estate and other operations decreased $1.6 million from $7.5 million in the three months ended March 31, 2004 to $5.9 million in the three months ended March 31, 2005. The decrease in revenues is primarily attributable to:

- in the first quarter of 2004, one Non−Core Real Estate property was sold which generated revenues of $4.0 million. In the three months ended March 31, 2005 there were no sales of Non−Core Real Estate; and
- an increase in golf and other revenues of $2.4 million primarily due to:
  - an additional $1.3 million of golf course access fees being recognized in the first quarter of 2005 compared to the first quarter of 2004 due to the renewal of the golf course access fee agreements in November 2004; and
  - an additional $0.9 million of revenues on sales of housing units in our European operations.

*Predevelopment and other costs*

Predevelopment and other costs increased $1.1 million from $3.1 million in the three months ended March 31, 2004 to $4.2 million in the three months ended March 31, 2005. Predevelopment and other costs in the first quarter of 2005 represent costs of $3.1 million incurred pursuing alternative gaming opportunities in states where we currently operate, $0.4 million of costs relating to the Laurel Park redevelopment and $0.7 million of costs relating to development initiatives undertaken to enhance our racing operations. In the first quarter of 2004, the predevelopment and other costs that we incurred represented costs of $2.0 million pursuing alternative gaming opportunities, $0.5 million on the development of a simplified wagering machine, and $0.6 million of costs relating to developmental initiatives undertaken to enhance our racing operations.

*Depreciation and amortization*

Depreciation and amortization increased $1.6 million from $8.4 million in the three months ended March 31, 2004 to $10.0 million in the three months ended March 31, 2005, primarily due to increased depreciation in our European operations primarily at the Magna Racino™, which commenced operations and depreciation of fixed assets on April 4, 2004.

*Interest income and expense*

Our net interest expense for the three months ended March 31, 2005 increased $3.1 million to $8.1 million in the three months ended March 31, 2005 from $5.0 million in the three months ended March 31, 2004. The higher net interest expense is primarily attributable to increased borrowings in our European and golf operations and a decrease in the amount of interest capitalized. In the three months ended March 31, 2005, $1.0 million of interest was capitalized with respect to projects under development, compared to $1.8 million in the first quarter of 2004.

*Income tax provision*

In accordance with United States generally accepted accounting principles, we estimate an annual effective tax rate at the end of each of the first three quarters of the year, based on current facts and circumstances. We have estimated a nominal annual effective tax rate for the entire year and accordingly have applied this effective tax rate to the income (loss) before income taxes for the three months ended March 31, 2005 and 2004, resulting in an income tax recovery of $0.3 million for the three months ended March 31, 2005 and no income tax provision for the three months ended March 31, 2004.

**Liquidity and Capital Resources**

*Operating activities*

Cash provided by operations before changes in non−cash working capital decreased $26.1 million from $27.2 million in the three months ended March 31, 2004 to $1.1 million in the three months ended March 31, 2005, primarily due to decreased earnings in the current year period. In the three months ended March 31, 2005, cash used by non−cash working capital balances was $12.7 million compared to cash used by non−cash working capital balances of $18.9 million in the three months ended March 31, 2004. Cash used by non−cash working capital balances of $12.7 million in the first quarter of 2005 is primarily due to increases in restricted cash, accounts receivable and prepaid expenses and other, partially offset by an increase in accounts payable and deferred revenue at March 31, 2005 compared to the respective balances at December 31, 2004.

*Investment activities*

Cash used in investment activities in the three months ended March 31, 2005 was $20.9 million, including expenditures of $22.4 million on real estate property and fixed asset additions and $0.1 million on other asset additions, partially offset by $1.6 million of net proceeds received on the disposal of real estate properties and fixed assets. Expenditures on real estate property and fixed asset additions in the three months ended March 31, 2005 consisted of $12.0 million on the Gulfstream redevelopment, $5.8 million at The Maryland Jockey Club, $1.5 million on maintenance capital improvements and $3.1 million of expenditures related to other racetrack property enhancements, infrastructure and development costs on certain of our properties and technology operations.

*Financing activities*

Cash provided by financing activities was $20.2 million in the three months ended March 31, 2005 arising from the issuance of debt of $22.5 million, partially offset by repayments of long−term debt of $1.7 million and on our bank indebtedness of $0.5 million. The issuance of debt of $22.5 million consists of $11.4 million of advances on the Gulfstream Park project financing arrangement with MID and $11.1 million of debt incurred by the Magna Golf Club through a financing arrangement, which is secured by an assignment of the future amounts receivable under the Magna Golf Club access agreement.

**Working Capital, Cash and Other Resources**

Our net working capital, excluding cash and cash equivalents and bank indebtedness, was ($43.2) million at March 31, 2005, compared to ($62.4) million at December 31, 2004. The increased investment in net working capital, excluding cash and cash equivalents and bank indebtedness, was primarily related to an increase in current assets excluding cash and cash equivalents of $16.1 million and a decrease in current liabilities excluding bank indebtedness and the current portion of long−term debt of $3.1 million.

In December 2004, certain of our subsidiaries entered into a project financing arrangement with MID for the reconstruction of facilities at Gulfstream Park of $115 million. The project financing is made by way of progress draw advances to fund reconstruction. The loan has a ten−year term from the completion date of the reconstruction project. The anticipated completion date for the Gulfstream Park reconstruction project is the first quarter of 2006. Prior to the completion date, amounts outstanding under the loan will bear interest at a floating rate equal to 2.55% per annum above MID's notional cost of borrowing under its floating rate credit facility, compounded monthly. After the completion date, amounts outstanding under the loan will bear interest at a fixed rate of 10.5% per annum, compounded semi−annually. Prior to January 1, 2008, payment of interest will be deferred. Commencing January 1, 2008, we will make monthly blended payments of principal and interest based on a 25−year amortization period commencing on the completion date. The loan contains cross−guarantee, cross−default and cross−collateralization provisions with The Meadows Construction Loan (as defined below). The loan is guaranteed by The Meadows and is collateralized principally by first−ranking security over the lands forming part of the race track operations at Gulfstream Park and The Meadows and certain lands adjacent to the racetrack operations at Gulfstream Park and over all other assets of Gulfstream Park and The Meadows, excluding licenses and permits. During the three months ended March 31, 2005, $11.4 million was advanced on this loan, such that at March 31, 2005, $38.3 million was outstanding under the Gulfstream Park loan, which includes $0.6 million of accrued interest. Loan origination expenses of $2.8 million have been recorded as a reduction of the outstanding loan balance. The loan balance will be accreted to its face value over the term to maturity.

In December 2004, certain of our subsidiaries also entered into a binding term sheet with MID for project financing to fund part of the proposed redevelopment at The Meadows for $77 million. The project financing for The Meadows redevelopment would be on substantially the same terms as the project financing for the Gulfstream Park redevelopment and would be guaranteed by our subsidiary that owns and operates Gulfstream Park. The Meadows Construction Loan would be cross−defaulted and cross−collateralized with the Gulfstream Park project financing. The Meadows Construction Loan is contingent on a number of events, including the issuance of a license to The Meadows to operate slot machines and additional financing from other sources.

In December 2004, one of our European subsidiaries entered into a financing arrangement which is secured by an assignment of the future amounts receivable under the Fontana Sports access agreement. We received proceeds of 17.6 million Euros in December 2004 that is repayable in nine annual installments of 2.5 million Euros commencing January 1, 2006 until the last installment has been made in 2014. The interest rate implicit in the arrangement is 5.17%. At March 31, 2005, $22.7 million was outstanding under this arrangement. On February 18, 2005, one of our Canadian subsidiaries entered into a similar arrangement that is secured by an assignment of a portion of the future amounts receivable under the Magna Golf Club access agreement. We received proceeds of $13.7 million Cdn. that is repayable in three annual installments of $5.0 million Cdn. commencing January 1, 2006 until the third installment has been made in 2008. The interest rate implicit in the arrangement is 5.08%. At March 31, 2005, $11.3 million was outstanding under this arrangement. On April 5, 2005, the same Canadian subsidiary entered into a loan agreement that is secured by an assignment of the future amounts receivable under the Magna Golf Club access agreement for the years 2009 through 2014. The amount of the loan is $16.9 million ($20.5 million Cdn.) and is repayable in six annual installments of $5.0 million Cdn. commencing January 1, 2009 until the last installment has been made in 2014. The loan bears interest at a rate of 6.36% per annum.

One of our subsidiaries, The Santa Anita Companies, Inc. ("SAC"), is party to a secured term loan facility that matures on October 7, 2007, however may be extended at SAC's option to October 7, 2009. Under the facility, SAC is entitled to borrow up to a maximum of $75.0 million. Borrowings under the facility bear interest at either the U.S. Prime rate or LIBOR plus 2.0% per annum. Effective November 1, 2004, we have entered into an interest rate swap contract and fixed the rate of interest at 5.38% per annum to October 31, 2007 on a notional amount of 40% of the outstanding balance under the amended and extended facility. The loan facility is guaranteed by the Los Angeles Turf Club, Incorporated ("LATC"), our wholly−owned subsidiary, and is secured by a First Deed of Trust on Santa Anita Park and the surrounding real property, an assignment of the lease between LATC, the racetrack operator, and SAC and a pledge of all of the outstanding capital stock of LATC and SAC. The loan contains cross−default provisions with respect to our $50 million senior secured revolving credit facility. At March 31, 2005, $72.5 million was outstanding under this fully drawn facility.

Our $50 million senior secured revolving credit facility will expire on October 10, 2005, but may be further extended with the consent of both parties. Loans under the facility are secured by a first charge on the assets of Golden Gate Fields and a second charge on the assets of Santa Anita Park, and are guaranteed by certain of our subsidiaries which own and operate Golden Gate Fields and Santa Anita Park. At March 31, 2005, we had borrowed $27.0 million and issued letters of credit totaling $22.6 million under this facility. On February 18, 2005, we amended the credit agreement including the financial covenants for this facility. At March 31, 2005, we were not in compliance with certain of the financial covenants contained in the amended credit agreement. A waiver for the financial covenants breach at March 31, 2005 was obtained from the lender on April 26, 2005. We have also obtained a waiver in the event that we are in breach of certain of the financial covenants at June 30, 2005, which is the next and only remaining quarterly reporting date required under the facility prior to its expiration on October 10, 2005. We are currently negotiating with the lender to amend the credit agreement including the financial covenants for this facility.

A subsidiary of the Company, Pimlico Racing Association, Inc., has a $10.0 million term loan facility, which matures on December 15, 2019. The term loan facility, which bears interest at either the U.S. Prime rate or LIBOR plus 2.6% per annum, is secured by deeds of trust on land, buildings and improvements and security interests in all other assets of the subsidiary and certain affiliates of The Maryland Jockey Club. At March 31, 2005, $9.9 million was outstanding under this term loan facility.

One of our European subsidiaries has a 15 million Euro term loan facility secured by a first and second mortgage on land in Austria owned by the European subsidiary, which bears interest at the European Interbank Offered Rate ("EURIBOR") plus 2% per annum. At March 31, 2005, $19.3 million was outstanding under this facility, which matures on December 15, 2006.

In June 2003, we issued $150.0 million of 8.55% convertible subordinated notes, which are convertible at any time at the option of the holders into shares of our Class A Subordinate Voting Stock at a conversion price of $7.05 per share, subject to adjustment under certain circumstances, and mature on June 15, 2010. The notes are redeemable at the principal amount together with accrued and unpaid interest, at our option, under certain conditions on or after June 2, 2006. At March 31, 2005, all of the notes remained outstanding.

In December 2002, we issued $75.0 million of 7.25% convertible subordinated notes, which are convertible at any time at the option of the holders into shares of our Class A Subordinate Voting Stock at a conversion price of $8.50 per share, subject to adjustment under certain circumstances, and mature on December 15, 2009. The notes are redeemable at the principal amount together with accrued and unpaid interest, at our option, under certain conditions on or after December 21, 2005. At March 31, 2005, all of the notes remained outstanding.

One of our European subsidiaries is party to a Euro denominated term loan facility, secured by a pledge of land and a guarantee by MEC, which bears interest at 4% per annum. At March 31, 2005, $19.3 million was outstanding on this facility which matures on February 9, 2007.

One of our subsidiaries has issued a promissory note denominated in Canadian dollars, secured by two first mortgages and a debenture against Flamboro Downs racetrack and related real estate. At March 31, 2005 the note is valued at $38.4 million and is repayable in annual installments of $2.1 million with the remaining amount due in June 2007.

Also, two of our subsidiaries, which are part of The Maryland Jockey Club, are party to secured term loan facilities that bear interest at 5.0% and 7.0% per annum, respectively. Both term loans have interest rate adjustment clauses that reset to the market rate for U.S. Treasury security of an equivalent term plus 2.6% at set dates prescribed in the agreements. At March 31, 2005, $17.5 million and $4.4 million, respectively, were outstanding under these fully drawn term loan facilities which mature on December 1, 2013 and June 7, 2017, respectively.

On November 27, 2002, contemporaneous with our acquisition of The Maryland Jockey Club, we granted the remaining minority interest shareholders of The Maryland Jockey Club the option to sell such interest to us, at any time during the first five years after closing of the acquisition. A cash payment of $18.3 million plus interest will be required on exercise of the option. At March 31, 2005, this obligation has been reflected on our balance sheet as long−term debt due after one year.

At March 31, 2005, we had cash and cash equivalents of $47.7 million, bank indebtedness of $27.0 million and total shareholders' equity of $568.3 million.

We expect that during the remainder of 2005, in order to fund our current planned operations and the implementation of our strategic plan, including capitalizing on future growth opportunities, we will be required to seek additional financing and sources of funds from one or more of the following possible sources: the sale of real estate holdings and other assets; project financing and equity for alternative gaming developments; investments by partners in certain of our racetracks and other business operations; and additional debt, equity and other sources of funds through public and private sources, which could include MID. If additional financing or other sources of funds are not available to us as needed or are not available on terms that are acceptable to us, our business, operations and financial condition may be materially adversely affected, including, without limitation, our ability to add alternative gaming to our racetracks where permitted or improve or expand our operations as planned.

We believe that our current cash resources, cash flow from our racing and real estate operations, including proceeds from the anticipated sales of real estate holdings and other assets will be sufficient to finance our operations and our maintenance capital expenditure program during the next year. We are currently in active discussions to secure additional financing and sources of funds from, and may enter into transactions with, a variety of public and private sources, which could include MID.

**Qualitative and Quantitative Disclosures About Market Risk**

Our primary exposure to market risk related to financial instruments (or the risk of loss arising from adverse changes in market rates and prices, including interest rates, foreign currency exchange rates and commodity prices) is with respect to our investments in companies with a functional currency other than the U.S. dollar. Fluctuations in the U.S. dollar exchange rate relative to the Canadian dollar and the Euro will result in fluctuations in shareholders' equity and comprehensive income. We have generally not entered into derivative financial arrangements for currency hedging purposes, and have not and will not enter into such arrangements for speculative purposes.

Additionally, we are exposed to interest rate risk. Interest rates are sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control.

Our future earnings, cash flows and fair values relating to financial instruments are primarily dependent upon prevalent market rates of interest, such as LIBOR and EURIBOR. Based on interest rates at March 31, 2005 and our current credit facilities, a 1% per annum increase or decrease in interest rates on our short−term credit facility and other variable rate borrowings would not materially affect our annual future earnings and cash flows. Based on borrowing rates currently available to us, the carrying amount of our debt approximates its fair value.

In order to mitigate a portion of the interest rate risk associated with The Santa Anita Companies, Inc. term loan facility, we have entered into an interest rate swap contract. Under the terms of this contract, we receive a LIBOR based variable interest rate and pay a fixed rate of 5.38% on a notional amount of 40% of the outstanding balance under the credit facility, which is $72.5 million as at March 31, 2005. The maturity date of this contract is October 31, 2007.

**Accounting Developments**

Under Staff Accounting Bulletin 74, we are required to disclose certain information related to new accounting standards, which have not yet been adopted due to delayed effective dates.

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 123 (revised 2004), "Share−Based Payment" ("Statement 123(R)"), which is a revision of SFAS 123. Statement 123(R) supersedes APB Opinion No. 25 ("APB 25") and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in Statement 123(R) is similar to the approach described in SFAS 123, however, Statement 123(R) requires all share−based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values. Pro−forma disclosure is no longer an alternative. As permitted by Statement 123, the Company currently accounts for share−based payments to employees using APB 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of Statement 123(R)'s fair value method will have a significant impact on the results of operations, although it will have no impact on the Company's overall financial position. The impact of adoption of Statement 123(R) cannot be predicted at this time because it will depend on levels of share−based payments granted in the future, however, had the Company adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro−forma net loss and loss per share in our unaudited consolidated financial statements. Statement 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. Statement 123(R) must be adopted no later than January 1, 2006. The Company is currently reviewing the Statement, but has not yet determined the methodology it will follow for implementation, or the impact on the Company's financial statements.

**Forward−looking Statements**

This Report contains "forward−looking statements" within the meaning of applicable securities legislation, including the U.S. Securities Act of 1933, as amended, and the U.S. Securities Exchange Act of 1934, as amended. These forward−looking statements may include, among others, statements regarding: our strategies and plans; expectations as to financing and liquidity; expectations as to operational improvements; expectations as to cost savings, revenue growth and earnings; the time by which certain redevelopment projects or other objectives will be achieved; estimates of costs relating to environmental remediation and restoration; proposed new racetracks or other developments, products and services; expectations as to the timing and receipt of government approvals and regulatory change in gaming and racing laws and regulations; expectations that claims, lawsuits, environmental costs, commitments, contingent liabilities, labor negotiations or agreements, or other matters will not have a material adverse effect on our consolidated financial position, operating results, prospects or liquidity; projections, predictions, expectations, estimates or forecasts as to our financial and operating results and future economic performance; and other matters that are not historical facts.

Forward−looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or the times at or by which such performance or results will be achieved. Forward−looking statements are based on information available at the time and/or management's good faith belief with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements. Important factors that could cause such differences include, but are not limited to, the factors discussed in the "Management's Discussion and Analysis of Results of Operations and Financial Position" and "Risk Factors" sections of our SEC filings, including, but not limited to, our Annual Report on Form 10−K and our quarterly reports on Form 10−Q.

Forward−looking statements speak only as of the date the statement was made. We assume no obligation to update forward−looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward−looking information. If we update one or more forward−looking statements, no inference should be drawn that we will make additional updates with respect thereto or with respect to other forward−looking statements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Information required by this item is incorporated by reference to the information contained in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations — Qualitative and Quantitative Disclosures About Market Risk" of this Quarterly Report.

**Item 4. Controls and Procedures**

Based on an evaluation carried out, as of March 31, 2005, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rule 13a−15(e) and 15d−15(e) under the U.S. Securities Exchange Act of 1934) are effective. As of March 31, 2005, there have been no significant changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

None.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

### Item 3. Defaults Upon Senior Securities

Not applicable.

### Item 4. Submission of Matters to a Vote of Security Holders

None.

### Item 5. Other Information

*(a)*

Not applicable.

*(b)*

None.

### Item 6. Exhibits

***(a)***

**Exhibits**

| Exhibit Number | Description |
|---|---|
| 3.1 | Restated Certificate of Incorporation of Magna Entertainment Corp. (incorporated by reference to the corresponding exhibit number of the Registrant's Report on Form 8−K filed on March 16, 2000) |
| 3.2 | By−laws of Magna Entertainment Corp. (incorporated by reference to the corresponding exhibit number of the Registrant's Report on Form 10−Q filed on May 10, 2004) |
| 4.1 | Form of Stock Certificate for Class A Subordinate Voting Stock (incorporated by reference to exhibit 4 of the Registrant's Registration Statement on Form S−1 originally filed on January 14, 2000 (File number 333−94791)) |
| 4.2 | Indenture dated as of December 2, 2002, between Magna Entertainment Corp. and the Bank of New York, as trustee, including the form of 7 1/4% Convertible Subordinated Notes due December 15, 2009 (incorporated by reference to exhibit 4.1 of the Registrant's Registration Statement on Form S−3 filed January 25, 2003 (file number 333−102889)) |
| 4.3 | Indenture dated as of June 2, 2003, between Magna Entertainment Corp. and the Bank of New York, as trustee, including the form of 8.55% Convertible Subordinated Notes due June 15, 2010 (incorporated by reference to exhibit 4.1 of the Registrant's Registration Statement on Form S−3 filed July 25, 2003 (file number 333−107368)) |
| 4.4 | Registration Rights Agreement between the Company and Bank Austria Creditanstalt AG dated as of June 2, 2003 (incorporated by reference to exhibit 4.1 of the Registrant's Registration Statement on Form S−3 filed July 25, 2003 (file number 333−102889)) |
| 10.1 | Employment Agreement, dated March 22, 2005, between the Company and W. Thomas Hodgson. |
| 10.2 | Employment Agreement, dated February 3, 2005, between the Company and Paul Cellucci. |
| 10.3 | Fourth Amending Agreement to the Amended and Restated Credit Agreement, dated as of June 3, 2003 between the registrant and the Bank of Montreal, et al, made as of February 18, 2005 (incorporated by reference to Exhibit 10.32 to the registrant's Annual Report on Form 10−K for the fiscal year ended December 31, 2004). |
| 10.4 | Offer for Purchase of Receivables dated February 17, 2005 between MEC Holdings (Canada) Inc and Magna International to Bank Austria Creditanstalt AG Inc. (incorporated by reference to Exhibit 10.38 of the registrant's Annual Report on Form 10−K for the year ended December 31, 2004, filed on March 15, 2005). |
| 31.1 | Certification of Chief Executive Officer |
| 31.2 | Certification of Chief Financial Officer |
| 32.1** | Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes−Oxley Act of 2002 |
| 32.2** | Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes−Oxley Act of 2002 |

**In accordance with Item 601(b)(32)(ii) of Regulation S−K and SEC Release Nos. 33−8238 and 34−47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this report on Form 10−Q and will not be deemed "filed" for purposes of Section 18 of the U.S. Securities Exchange Act of 1934. Such certifications will not be deemed to be incorporated by reference into any filing under such Act or the U.S. Securities Act of 1933, except to the extent that the Company specifically incorporates them by reference.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**MAGNA ENTERTAINMENT CORP.**
(Registrant)

by: /s/ W. THOMAS HODGSON

W. Thomas Hodgson,
President and Chief Executive Officer

by: /s/ BLAKE TOHANA

Blake Tohana,
Executive Vice–President and Chief Financial Officer

Date: May 10, 2005

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MAGNA ENTERTAINMENT CORP. I N D E X
MAGNA ENTERTAINMENT CORP. CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (Unaudited) (U.S. dollars in thousands, except per share figures)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
MAGNA ENTERTAINMENT CORP. CONSOLIDATED BALANCE SHEETS (Unaudited) (U.S. dollars and share amounts in thousands)
SIGNATURES

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**Exhibit 10.1**

**Magna Entertainment Corp.**
**337 Magna Drive**
**Aurora, ON**

March 22, 2005

**PRIVATE & CONFIDENTIAL**

Mr. Tom Hodgson
**[ADDRESS]**

Dear Tom:

Re: Employment with Magna Entertainment Corp.

In accordance with our recent discussions, this letter will confirm the terms and conditions of your employment with Magna Entertainment Corp. (the "Corporation"), as follows:

*1.* **Position**: You shall be appointed as President and Chief Executive Officer and Director, reporting to the Chairman and Board of Directors of the Corporation effective March 8, 2005.

*2.* **Remuneration**: You shall receive a Base Salary of US $300,000 per annum (less statutorily required deductions), payable in arrears in equal instalments in accordance with the Corporation's standard payroll practices. Your Base Salary will be reviewed annually during January of each year.

*3.* **Annual Bonus**: In addition to your Base Salary for fiscal 2005, you shall be entitled to receive a Bonus (inclusive of all entitlement to vacation pay, whether vacation is taken or not in any period and less the required withholding taxes and other statutory deductions) in the amount of US $200,000, prorated from your Start Date.

For 2005, fifty percent (50%) of your Guaranteed Bonus shall be paid in Class A shares of the company or 50% of your Guaranteed Bonus shall be invested in Class A shares of the company whichever is determined to be the most efficient from a tax and legal perspective. Ownership of these Class A shares shall vest as to 50% on the first anniversary of the allotment and as to the remaining 50% on the second anniversary of the allotment. On termination of your employment for any reason by either party these Class A shares shall vest and be released to you on a pro rata basis over nine months and twenty–three days commencing March 8, 2005 and ending on the date of termination.

Your Bonus for fiscal year 2006 shall be agreed upon prior to December 31, 2005.

*4.*

**Benefits**: During your employment by the Corporation, you will be entitled to:

*(a)*

participate in all group benefit programs generally applicable to salaried employees of the Corporation from time to time;

*(b)*

four (4) weeks vacation in respect of each completed twelve (12) month period in accordance with the Corporation's policy, to be taken at such time or times as are mutually convenient to you and the Corporation, but not payment in lieu thereof; and

*(c)*

reimbursement for all reasonable and documented business expenses incurred on behalf of the Corporation in carrying out your duties, in accordance with the Corporation's policies from time to time.

*5.*

**MEC Share Investment:** The Corporation requires that you accumulate and maintain an investment in Class A Subordinate Voting shares of the Corporation ("MEC Shares") as a condition of your employment. As a minimum, you agree to accumulate and maintain over each of the three years commencing March 8, 2005, that number of MEC Shares which is calculated by dividing (i) one−third ( $^1/_3$) of your after−tax total cash Annual and/or Special Bonuses for each of those three fiscal years (the calculation of after−tax total cash compensation shall give effect to income tax at a deemed 50% tax rate) by (ii) the average closing trading price on the Toronto Stock Exchange for MEC Shares over each such year.

Subsequent to this three year period, you will annually maintain that number of MEC Shares which is calculated by dividing (i) one−third ( $^1/_3$) of the after−tax total cash Annual and/or Special Bonuses for the three most recent fiscal years (the calculation of after−tax total cash compensation shall give effect to income tax at a deemed 50% tax rate), by (ii) the average trading price on the Toronto Stock Exchange for MEC Shares over such three year period.

Evidence of your ownership of the required number of MEC Shares must be produced each year commencing in April 2006 for the fiscal year ending December 31, 2005, in order to obtain payment of the cash portion of your Annual Bonus for the preceding fiscal year. You may accumulate such MEC Shares in advance at your discretion and may use MEC Shares which are already owned by you to satisfy such requirement.

6. **MEC Stock Options**: Subject to the express approval of the Compensation Committee of the Board of Directors of MEC and compliance with all applicable laws, the Corporation shall grant you options to purchase a total of 300,000 MEC Shares at exercise prices per share equal to the closing trading price of the shares on the trading day immediately preceding the date that the options are granted. Subject to the approval of the Compensation Committee, the options will have a term of ten (10) years from date of grant and will vest one−fifth on the date of grant and an additional one−fifth on each of the first four anniversaries of the date of grant. The grant of options will be subject to you entering into a Stock Option Agreement with the Corporation in the standard form used by the Corporation from time to time for employee stock option grants under the Corporation's Long−Term Incentive Plan. Should your employment with the Corporation terminate, the term of your options shall be reduced as provided in the Stock Option Agreement referred to above. Such options shall be subject to all other terms and conditions set forth in the Stock Option Agreement referred to above and/or in the Corporation's Long−Term Incentive Plan. Upon receipt of an executed copy of this Agreement, we will place this matter before the Compensation Committee of the Board of Directors of MEC at the earliest reasonable opportunity.

7. **Termination**: Your employment and this agreement, including all benefits provided for under this agreement, will terminate on: (a) the acceptance by the Corporation of your voluntary resignation; (b) at the Corporation's option, your disability for an aggregate of twelve (12) months or more in any twenty−four (24) month period, subject to any statutory requirement to accommodate such disability; (c) your death; or (d) your dismissal for cause or by reason of your breach of the terms of this agreement.

Otherwise, you or the Corporation may, at any time for any reason, terminate your employment and this agreement without cause by providing the other party with twelve (12) months prior written notice of intention to terminate. Alternatively, the Corporation may elect to terminate your employment immediately by paying you a retiring allowance equivalent to twelve (12) months' Base Salary (less statutorily required deductions) either in a lump sum within thirty (30) days of the day of termination or monthly in arrears in twelve (12) equal instalments commencing thirty (30) days after the day of termination. If your employment is terminated pursuant to this paragraph, the Corporation shall maintain on your behalf the benefits referred to in paragraph 4(a), except for life and disability insurance benefit coverage, for a period of twelve (12) months. Your life and disability insurance benefit coverage shall be maintained for a period of not less than the period required by applicable statute.

On termination of this agreement, other than your dismissal for cause or for breach of this agreement under sub−paragraph 7(d), the Corporation will also pay your Annual Bonus on a prorated basis to the date of termination, plus any portion of your Annual Bonus which you would have been entitled to receive during the applicable notice period.

In the event that you breach the provisions of paragraph 8, the payment of any further amounts under this agreement will immediately cease.

The termination provisions set forth above are inclusive of any and all statutory, common law and/or contractual entitlement to severance pay, notice of termination or pay in lieu thereof, salary, bonuses, vacation and/or vacation pay and other remuneration and benefits payable or otherwise provided to you in relation to your employment by the Corporation (including, specifically, any preceding employment by the Corporation and its affiliated or associated Corporations and/or their respective predecessors, (all of the foregoing are hereinafter collectively referred to as the "MEC Group")), and the termination of your employment and this agreement.

8. **Other Conditions**: You hereby acknowledge as reasonable, in terms of both scope and duration, and agree that you shall abide by the following terms and conditions:

i) **Technology, Know–How, Inventions, Patents**: That all designs, devices, improvements, inventions and ideas made or conceived by you resulting from your access to the business of the MEC Group shall be the exclusive property of the MEC Group and you and your estate agree to take all necessary steps to ensure that such property rights are protected.

ii) **Confidentiality**: You shall keep confidential at all times during and after your employment, all information (including proprietary or confidential information) about the business and affairs of, or belonging to, the Corporation or any member of the MEC Group or their respective customers or suppliers, including information which, though technically not trade secrets, the dissemination or knowledge whereof might prove prejudicial to any of them. In addition, if requested at any time, you shall immediately execute a separate form of Employee Confidentiality Agreement in the Corporation's standard form as a condition of your continued employment.

iii) **Conflict of Interest**. During the term of your employment with the Corporation, you shall not engage in any business activities, either through yourself or through immediate family member(s), which may place you in an actual or apparent conflict of interest with your duty to act, at all times, in the best interests of the Corporation.

iv) **Non–Competition**: During the term of your employment with the Corporation and for a period of twelve (12) months after the termination of your employment, you shall not, directly or indirectly, in any capacity compete with the business of the Corporation or of any member of the MEC Group in respect of which you have had access to proprietary or confidential information.

v) **Non–Solicitation:** During the term of your employment with the Corporation and for a period of twelve (12) months after the termination of your employment, you shall not, directly or indirectly solicit, attempt to solicit, call upon, or accept the business of any firm, person or company who is a customer or client of the Corporation or any member of the MEC Group or otherwise solicit, attempt to solicit, or communicate in any way with employees of the Corporation or any member of the MEC Group for the purpose of having such employees employed or in any way engaged by another person, firm, corporation, or other entity.

*9.*

**Travel**: You shall carry out your day−to−day duties from the head office of the Corporation in Aurora; however, you acknowledge that you will be expected to engage in business travel based on the nature of your position and job responsibilities and the location of the Corporation's properties and operations.

*10.*

**Severability**: You acknowledge and agree that should any provision in this agreement be held to be invalid, void or unenforceable, it shall be declared separate and distinct, and the remaining provisions shall continue in full force and effect.

*11.*

**Assignability**: This agreement may be assigned by the Corporation in its sole discretion to any other member of the MEC Group without your prior consent. Upon completion of such assignment, the Corporation shall be automatically released from any obligation, liability or responsibility under this agreement.

*12.*

**Start Date**: Your employment with the Corporation shall commence March 8, 2005.

If the terms of employment as set out in this agreement are acceptable to you, please sign and date three copies of this agreement in the places indicated and return two fully signed copies to the attention of Andrew Staniusz by March 28, 2005, after which time, if not so signed and returned, this agreement shall become null and void and of no effect. Upon execution by you, this agreement i) will continue to apply to your employment in a similar or other capacity with the Corporation or any member of the MEC Group and ii) replaces any prior written or oral employment contract or other agreement concerning remuneration between you and the Corporation, or any member of the MEC Group, including specifically the consulting agreement between yourself and M.I. Developments Inc.

Yours very truly,

Frank Stronach
Chairman
/elw

I hereby accept the terms and conditions set out above and acknowledge that this agreement contains all of the terms and conditions of my employment with Magna Entertainment Corp. (the "Corporation") and that no other terms, conditions or representations other than those within this letter form part of this agreement and confirm that I am not subject to any restrictions (contractual or otherwise) arising from my former employment which would prevent or impair me in carrying out my duties and functions with the Corporation.

I understand that in order to manage the employment relationship, it will be necessary for the Corporation to collect and use certain personal information about me, as well as my beneficiaries and dependents. I grant my consent to the collection and use of this information, as well as to the disclosure of relevant personal information to employees, affiliates and agents of the Corporation where necessary for legitimate business reasons, including performance and attendance management, and administration of the Corporation's compensation, employee benefit and retirement programs.

| Date | Tom Hodgson |
|---|---|

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Magna Entertainment Corp. 337 Magna Drive Aurora, ON

**Exhibit 10.2**

**Magna Entertainment Corp.**
337 Magna Drive
Aurora, Ontario,
Canada L4G 7K1
Main Tel (905) 726–2462
Direct Tel (905) 726–7196
Direct Fax (905) 726–7167

PRIVATE & CONFIDENTIAL

February 3, 2005

Mr. Paul Cellucci
**[ADDRESS]**

Dear Paul:

Re: Employment with Magna Entertainment Corp.

In accordance with our recent discussions, this letter will confirm the terms and conditions of your employment with Magna Entertainment Corp. (the "Corporation"), as follows:

1. **Position**: You are appointed as Executive Vice President, Corporate Development, reporting to the Chairman of the Corporation or his designee(s).

2. **Remuneration**: You shall receive a Base Salary of US$515,000 per annum (less statutorily required deductions), payable in arrears in equal instalments in accordance with the Corporation's standard payroll practices.

3. **Guaranteed Bonus**: In addition to your Base Salary, you shall receive a Guaranteed Bonus (inclusive of all entitlement to vacation pay, whether vacation is taken or not in any period and less the required withholding taxes and other statutory deductions) in the amount of US$250,000 for each full fiscal year completed during your employment with the Corporation to be paid in accordance with the Corporation's policies. This bonus shall be prorated for the period commencing with your Start Date and ending December 31, 2005.

You and the Corporation will attempt to settle upon a mutually agreeable profit sharing arrangement, whereby you will receive a percentage of the net profits of MEC based on your success in implementing free enterprise principles and improving the regulatory frameworks for horse racing and gaming, in the jurisdictions in which the Corporation operates (the "Profit Sharing Bonus"). In the event the Profit Sharing Bonus is so determined and agreed upon, you shall receive the greater of the Guaranteed Bonus and the Profit Sharing Bonus for each full fiscal year completed during your employment with the Corporation to be paid in accordance with the Corporation's policies. For the 2005 fiscal year, the Profit Sharing Bonus would be prorated. In the absence of an agreement regarding the Profit Sharing Bonus, the Guaranteed Bonus shall continue until such time as the Profit Sharing Bonus is determined and agreed upon.

4\. **Benefits**: During your employment by the Corporation, you will be entitled to:

(a) participate in all group benefit programs generally applicable to salaried employees of the Corporation from time to time;

(b) four (4) weeks vacation in respect of each completed twelve (12) month period in accordance with the Corporation's policy, to be taken at such time or times as are mutually convenient to you and the Corporation, but not payment in lieu thereof; and

(c) reimbursement for all reasonable and documented business expenses incurred on behalf of the Corporation in carrying out your duties, in accordance with the Corporation's policies from time to time.

5\. **Other**: Subject to the express approval of the Compensation Committee of the Board of Directors of MEC and compliance with all applicable laws, MEC shall grant you options to purchase 75,000 shares of Class A Subordinate Voting Stock of MEC at an exercise price per share which is equal to the greater of: (i) the closing trading price of the shares on the trading day immediately preceding the date that the options are granted, and (ii) 110% of the net book value per share of MEC as of the end of the most recently completed quarterly reporting period for which MEC has publicly announced its results. Subject to the approval of the Compensation Committee, the options will have a term of ten (10) years from date of grant and will vest one−fifth on the date of grant and an additional one−fifth on each of the first four (4) anniversaries of the date of grant. The grant of options will be subject to you entering into a Stock Option Agreement with MEC in the standard form used by MEC from time to time for employee stock option grants under MEC's Long−Term Incentive Plan. Should your employment with the Corporation terminate, the term of your options shall be reduced as provided in the Stock Option Agreement referred to above. Such options shall be subject to all other terms and conditions set forth in the Stock Option Agreement referred to above and/or in MEC's Long−Term Incentive Plan. Upon receipt of an executed copy of this Agreement, we will place this matter before the Compensation Committee of the Board of Directors of MEC at the earliest reasonable opportunity.

6\. **Termination**: This agreement and your employment, including all benefits provided for under this agreement, will immediately terminate (a) upon acceptance by the Corporation of your voluntary resignation, (b) upon your death, (c) at the Corporation's option upon your disability for an aggregate of six (6) months or more in any twenty−four (24) month period, subject to any statutory requirement to accommodate such disability, or (d) if you are dismissed by the Corporation for cause under common or statute law or for breach of the terms of this agreement.

Otherwise, you may, at any time for any reason, terminate your employment and this agreement by providing the Corporation with six (6) months' prior written notice of intention to terminate. The Corporation may, at any time and for any reason, terminate your employment and this agreement immediately, without cause, by providing you with twelve (12) months' prior written notice of intention to terminate. Alternatively, at any time and for any reason, the Corporation may elect to terminate your employment and this agreement immediately, without cause, by paying you a retiring allowance equal to twelve (12) months' Base Salary and Guaranteed Bonus (calculated based on your Base Salary and Annual Bonus in the full fiscal year ending immediately prior to the date of termination), and less statutorily required deductions.

In the event that you breach the provisions of paragraph 7, the payment of any further amounts under this agreement will immediately cease. Further, the amount paid in each instalment will be offset by any income earned by you, during the period you are entitled to receive instalments, regardless of whether such income is earned from alternate or self−employment.

The termination provisions set forth above represent all severance pay entitlement, notice of termination or termination pay in lieu thereof, salary, bonuses, automobile allowances, vacation and/or vacation pay and other remuneration and benefits payable or otherwise provided to you in relation to your employment by the Corporation (including, specifically, any preceding employment by the Corporation, its respective affiliated or associated companies as the case may be, all of the foregoing are hereinafter collectively referred to as the ("MEC Group")), and the termination of your employment and this agreement.

*7.*

You hereby acknowledge as reasonable and agree that you shall abide by the following terms and conditions:

*i)*

**Technology, Know−How, Inventions, Patents**: That all designs, devices, improvements, inventions and ideas made or conceived by you resulting from your access to the business of the MEC Group shall be the exclusive property of the MEC Group and you and your estate agree to take all necessary steps to ensure that such property rights are protected.

*ii)*

**Confidentiality**: You shall keep confidential at any time during or after your employment, any information (including proprietary or confidential information) about the business and affairs of, or belonging to, the Corporation or any member of the MEC Group or their respective customers or suppliers, including information which, though technically not trade secrets, the dissemination or knowledge whereof might prove prejudicial to any of them. In addition, if requested at any time, you shall execute a separate form of Employee Confidentiality Agreement as a condition of your continued employment.

*iii)*

**Non−Competition**: You shall not during the term of your employment with the Corporation and for a period of twelve (12) months after the termination of your employment, directly or indirectly, in any capacity compete with the business of the Corporation or of any member of the MEC Group in respect of which you have had access to proprietary or confidential information or solicit the employees thereof.

*8.*

**Other Conditions**: You shall carry out your day−to−day duties from Massachusetts; however, you acknowledge that you will be expected to engage in extensive business travel based on the nature of your position and job responsibilities and the location of MEC's properties and operations.

*9.*

**Start Date**: Your employment with the Corporation shall commence on May 1, 2005.

*10.*

**Governing Law**: This Agreement and the legal relations hereby created between you and the Corporation shall be governed by and construed under the and in accordance with the internal laws of the State of Delaware, without regard to conflicts of law principles.

*11.*

**Assignability**: This Agreement may be assigned by the Corporation in its sole discretion to any other member of the MEC Group without your prior consent. Upon completion of such assignment, the Corporation shall be automatically released from any obligation, liability or responsibility under this agreement.

If the terms of employment as set out in this agreement are acceptable to you, please sign and date three copies of this agreement in the places indicated and return two fully signed copies to the attention of Keith Stein by February 21, 2005, after which time, if not so signed and returned, this agreement shall become null and void and of no effect. Upon execution by you, this agreement i) will continue to apply to your employment in a similar or other capacity with the Corporation or any member of the MEC Group and ii) replaces any prior written or oral employment contract or other agreement concerning remuneration between you and the Corporation, or any member of the MEC Group.

Yours very truly,

Frank Stronach
Chairman

/elw

I hereby accept the terms and conditions set out above and acknowledge that this agreement contains all of the terms and conditions of my employment with Magna Entertainment Corp. and that no other terms, conditions or representations other than those within this letter form part of this agreement and confirm that I am not subject to any restrictions (contractual or otherwise) arising from my former employment which would prevent or impair me in carrying out my duties and functions with the Corporation. Furthermore, I confirm that during the term of my employment I will not offer to the Corporation any confidential or proprietary information that I have knowledge of with respect to my former employers, nor will I provide such information to the Corporation should I be requested to do so, until such time as such information is no longer confidential or proprietary, or comes into the public domain.

| ______________________________ | ______________________________ |
| --- | --- |
| Date | Paul Cellucci |

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**Exhibit 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
REGARDING MAGNA ENTERTAINMENT CORP.'S
QUARTERLY REPORT ON FORM 10-Q
FOR THE FISCAL PERIOD ENDED MARCH 31, 2005**

I, W. Thomas Hodgson, certify that:

*1.* I have reviewed this Report on Form 10-Q of Magna Entertainment Corp.;

*2.* Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

*3.* Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

*4.* The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

*(a)* designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

*(b)* designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

*(c)* evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

*(d)* disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to material affect, the registrant's internal control over financial reporting;

*5.*

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

*(a)*

all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

*(b)*

any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2005.

By: /s/ W. THOMAS HODGSON

W. Thomas Hodgson
President and Chief Executive Officer

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CERTIFICATION OF CHIEF EXECUTIVE OFFICER REGARDING MAGNA ENTERTAINMENT CORP.'S QUARTERLY REPORT ON FORM 10−Q FOR THE FISCAL PERIOD ENDED MARCH 31, 2005

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**Exhibit 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
REGARDING MAGNA ENTERTAINMENT CORP.'S
QUARTERLY REPORT ON FORM 10-Q
FOR THE FISCAL PERIOD ENDED MARCH 31, 2005**

I, Blake Tohana, certify that:

*1.* I have reviewed this Report on Form 10-Q of Magna Entertainment Corp.;

*2.* Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

*3.* Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

*4.* The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

*(a)* designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

*(b)* designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

*(c)* evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

*(d)* disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to material affect, the registrant's internal control over financial reporting;

*5.* The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

*(a)* all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

*(b)* any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2005.

By: /s/ BLAKE S. TOHANA

Blake S. Tohana
Executive Vice–President and
Chief Financial Officer

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CERTIFICATION OF CHIEF FINANCIAL OFFICER REGARDING MAGNA ENTERTAINMENT CORP.'S QUARTERLY REPORT ON FORM 10–Q FOR THE FISCAL PERIOD ENDED MARCH 31, 2005

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**Exhibit 32.1**

**Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, W. Thomas Hodgson, the Chief Executive Officer of Magna Entertainment Corp. ("MEC"), certify that (i) the Quarterly Report on Form 10-Q of MEC for the quarterly period ended March 31, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in such Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of MEC.

By: /s/ W. THOMAS HODGSON

W. Thomas Hodgson,
Chief Executive Officer

Date: May 10, 2005

A signed original of this written statement required by Section 906 has been provided to Magna Entertainment Corp. and will be retained by Magna Entertainment Corp. and furnished to the Securities and Exchange Commission or its staff upon request.

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Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002

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**Exhibit 32.2**

**Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002**

I, Blake Tohana, the Chief Financial Officer of Magna Entertainment Corp. ("MEC"), certify that (i) the Quarterly Report on Form 10-Q of MEC for the quarterly period ended March 31, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in such Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of MEC.

By: /s/ BLAKE TOHANA

Blake Tohana,
Chief Financial Officer

Date: May 10, 2004

A signed original of this written statement required by Section 906 has been provided to Magna Entertainment Corp. and will be retained by Magna Entertainment Corp. and furnished to the Securities and Exchange Commission or its staff upon request.

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Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as added by Section 906 of the Sarbanes–Oxley Act of 2002

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