



**MI DEVELOPMENTS ANNOUNCES 2008 SECOND QUARTER RESULTS AND DEPARTURE OF CEO**

August 8, 2008, Aurora, Ontario, Canada — MI Developments Inc. (TSX: MIM.A, MIM.B; NYSE: MIM) (“MID” or the “Company”) today announced its results for the three and six months ended June 30, 2008. All figures are in U.S. dollars.

(in thousands, except per share figures)	REAL ESTATE BUSINESS <sup>(1)</sup>			
	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Revenues	\$ 55,299	\$ 46,082	\$ 109,334	\$ 90,840
Net income	\$ 26,268	\$ 21,492	\$ 57,252	\$ 45,163
Funds from operations (“FFO”) <sup>(2)</sup>	\$ 38,960	\$ 31,282	\$ 82,857	\$ 65,485
Diluted FFO per share <sup>(2)</sup>	\$ 0.83	\$ 0.64	\$ 1.77	\$ 1.35

  

(in thousands, except per share figures)	MID CONSOLIDATED <sup>(1)</sup>			
	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Revenues				
Real Estate Business	\$ 55,299	\$ 46,082	\$ 109,334	\$ 90,840
Magna Entertainment Corp. (“MEC”) <sup>(3)</sup>	167,390	168,031	398,218	422,248
Eliminations	(8,643)	(5,082)	(16,751)	(9,944)
	<u>\$ 214,046</u>	<u>\$ 209,031</u>	<u>\$ 490,801</u>	<u>\$ 503,144</u>
Net income (loss)				
Real Estate Business	\$ 26,268	\$ 21,492	\$ 57,252	\$ 45,163
MEC – continuing operations	39	5,476	(7,334)	40,972
Eliminations	54	(18,431)	320	(53,275)
Income from continuing operations	26,361	8,537	50,238	32,860
MEC – discontinued operations <sup>(4)</sup>	1,680	(982)	(15,600)	(2,022)
	<u>\$ 28,041</u>	<u>\$ 7,555</u>	<u>\$ 34,638</u>	<u>\$ 30,838</u>
Diluted earnings per share from continuing operations	\$ 0.56	\$ 0.18	\$ 1.07	\$ 0.68
Diluted earnings per share	\$ 0.60	\$ 0.16	\$ 0.74	\$ 0.64

  

(1) Transactions between the Real Estate Business and MEC have not been eliminated in the presentation of each segment’s results of operations. However, the effects of transactions between these two segments are eliminated in the consolidated results of operations of the Company.

(2) FFO and diluted FFO per share are measures widely used by analysts and investors in evaluating the operating performance of real estate companies. However, FFO does not have a standardized meaning under Canadian generally accepted accounting principles (“GAAP”) and therefore may not be comparable to similar measures presented by other companies. Please refer to “Reconciliation of Non-GAAP to GAAP Financial Measures” below.

(3) Excludes revenues from MEC’s discontinued operations.

(4) Discontinued operations represent MEC’s discontinued operations, net of certain related consolidation adjustments. MEC’s discontinued operations for the three-month and six-month periods ended June 30, 2008 and 2007 include the operations of Remington Park, Thistledown, Portland Meadows, Great Lakes Downs and Magna Racino™.

## **DEPARTURE OF CHIEF EXECUTIVE OFFICER**

MID also announced today that, following a transition period, John Simonetti will depart as MID's Chief Executive Officer and as a member of the Board of Directors. The Board will commence a search for a replacement to fill the CEO role.

Mr. Simonetti stated, "I have been with MID since the time of its spin-off from Magna International in 2003. My experience has been rewarding, but also extremely challenging. Over the past three years, I have spent an enormous amount of time and energy dealing with issues relating to how our company is structured and operated and our investment in MEC. It's been frustrating that, despite these efforts, we haven't been able to broker a compromise solution among our shareholders. Accordingly, I thought it best that I leave MID and return to Magna. I wish my management and Board colleagues all the best, and will be working to transition my responsibilities in the near term."

MID's Chairman, Frank Stronach, stated, "On behalf of the Board, I would like to thank John for his tremendous efforts at MID since its inception as a public company. I am confident that he will make a very positive contribution in his new role at Magna."

## **REORGANIZATION PROPOSAL**

On March 31, 2008, MID received a reorganization proposal on behalf of various shareholders of MID, including entities affiliated with the Stronach Trust (the "Stronach Group"), MID's controlling shareholder. The principal components of the reorganization proposal are set out in MID's press release dated March 31, 2008, which can be found on the Company's website at [www.midevelopments.com](http://www.midevelopments.com) and on SEDAR at [www.sedar.com](http://www.sedar.com). MID's Board of Directors mandated a special committee of independent directors (the "MID Special Committee") to review the proposal and make recommendations to the Board.

The proposal contemplated MID calling by May 30, 2008 a special meeting of shareholders to consider the reorganization and closing the transaction no later than July 30, 2008. On May 30, 2008, MID called a special meeting of shareholders to be held on July 24, 2008.

In early June 2008, at the direction of the MID Special Committee, MID management commenced discussions with a number of MID Class A shareholders, including those shareholders (owning in aggregate more than 50% of the outstanding Class A Subordinate Voting Shares) that supported the original reorganization proposal announced on March 31, 2008. The discussions are intended to develop a consensus on how to best amend and structure the proposed reorganization. As a result of these discussions, on June 27, 2008, MID announced that the special meeting discussed above was being postponed.

As of the date of this press release, no consensus has been reached with respect to amending the reorganization proposal. As a result, MID intends to continue to explore a range of alternatives in respect of its MEC investment. These alternatives include, without limitation, examining an amended reorganization proposal and evaluating whether or to what extent MID might participate in a recapitalization or restructuring of MEC. MID is not subject to any restrictions regarding future investments in MEC.

Any potential transactions with MEC would be subject to review by the MID Special Committee and the approval of the MID Board. Neither the MID Special Committee nor the MID Board has made any decisions or recommendations with respect to the reorganization proposal or any other transaction relating to MEC. There can be no assurance that the transaction contemplated by the reorganization proposal, or any other transaction relating to MEC, will be completed.

At June 30, 2008, \$4.3 million of advisory and other costs had been incurred in connection with the reorganization proposal, which costs are included in the Real Estate Business' "general and administrative expenses" on the Company's unaudited interim consolidated statements of income (loss) for the three and six months ended June 30, 2008.

## **MEC LIQUIDITY AND GOING CONCERN**

In September 2007, following a strategic review, MEC announced a debt elimination plan (the "MEC Debt Elimination Plan") designed to eliminate MEC's net debt by December 31, 2008 and provide funding for MEC's operations. The MEC Debt Elimination Plan contemplated generating aggregate proceeds of approximately \$600 to \$700 million through: (i) the sale of certain real estate, racetracks and other assets; (ii) the sale of, or entering into strategic transactions involving, MEC's other racing, gaming and technology operations; and (iii) a possible future equity issuance by MEC, likely in 2008.

To address MEC's short-term liquidity concerns and provide it with sufficient time to implement the MEC Debt Elimination Plan, MID made available a bridge loan of up to \$80.0 million (subsequently increased to \$110.0 million as discussed below) to MEC (the "MEC Bridge Loan"). The MEC Debt Elimination Plan also contemplated a \$20.0 million private placement to Fair Enterprise Limited, a company that forms part of an estate planning vehicle for the family of Mr. Frank Stronach (the Company's Chairman and the Chairman and Chief Executive Officer of MEC), of MEC Class A Stock, which closed in October 2007.

Given that the sale of MEC assets under the MEC Debt Elimination Plan continues to take longer than originally contemplated, on May 23, 2008, the maturity date of the MEC Bridge Loan and the deadline for repayment of at least \$100.0 million under the Gulfstream Park project financing facility were extended from May 31, 2008 to August 31, 2008. At the same time, the maximum commitment under the MEC Bridge Loan was increased from \$80.0 million to \$110.0 million, and MEC was given the ability to re-borrow the \$21.5 million previously repaid from proceeds of asset sales.

Whether the MEC Debt Elimination Plan will be successful is not determinable at this time. To date, MEC has generated aggregate asset sale proceeds under the MEC Debt Elimination Plan of \$37.7 million, of which \$26.0 million has been used to make repayments under the MEC Bridge Loan. Although MEC continues to take steps to implement its plan, MEC does not expect to execute the MEC Debt Elimination Plan on the originally contemplated time schedule, if at all. Furthermore, MEC has advised MID that, given the potential impact on MEC's financial position of the MID reorganization proposal, and pending determination of whether it will proceed and an evaluation of any amended terms, MEC is in the process of reconsidering whether to sell certain of the assets originally identified for disposition under the MEC Debt Elimination Plan.

MID management expects that MEC will be unable at August 31, 2008 to repay the MEC Bridge Loan or make the required \$100.0 million repayment under the Gulfstream Park project financing facility. Furthermore, MID management expects that MEC will again need to seek extensions from existing lenders, including MID, and additional funds in the short-term from one or more possible sources, which may include MID. If MEC is unable to repay its obligations when due or satisfy required covenants in its debt agreements, substantially all of its current and long-term debt will also become due on demand as a result of cross-default provisions within loan agreements, unless MEC is able to obtain waivers, modifications or extensions. The availability of any required waivers, modifications, extensions or additional funds is not assured and, if available, the terms thereof are not yet determinable. If MEC is unsuccessful in its efforts, it could be required to liquidate assets in the fastest manner possible to raise funds, seek protection from its creditors in one or more ways, or be unable to continue as a going concern. Accordingly, MEC's ability to continue as a going concern is in substantial doubt.

## **GREENLIGHT LITIGATION**

On July 10, 2008, the Ontario Divisional Court dismissed the appeal by Greenlight Capital, Inc. and certain of its affiliates ("Greenlight") of the October 2006 decision of the Ontario Superior Court of Justice dismissing Greenlight's oppression application against the Company and certain of its current and former directors and officers (the "Greenlight Litigation"). The appeal hearing took place in April 2008.

## **REAL ESTATE BUSINESS FINANCIAL RESULTS**

### **Operating Highlights**

In respect of our core rental portfolio of Magna International Inc. ("Magna") facilities, during the second quarter of 2008 we brought on-stream one expansion project in Austria, representing approximately one thousand square feet of leaseable area, at a cost of \$0.1 million.

At June 30, 2008, the Real Estate Business had four minor projects under development: two in Canada and one in each of Mexico and Germany. These projects commenced in the first six months of 2008 and will add an aggregate of 67 thousand square feet of leaseable area to the Real Estate Business' income-producing portfolio. The total anticipated cost of these projects is approximately \$12.4 million, of which \$6.2 million had been incurred at June 30, 2008.

At June 30, 2008, the Real Estate Business had 27.2 million square feet of leaseable area, with annualized lease payments of \$185.2 million, representing a return of 10.8% on the gross carrying value of our income-producing portfolio.

### **Three Months Ended June 30, 2008**

Revenues were \$55.3 million in the second quarter of 2008, a 20% increase from revenues of \$46.1 million in the second quarter of 2007. The higher revenues are due to a \$5.7 million increase in rental revenues and a \$3.5 million increase in interest and other income earned from increased borrowings under the financing arrangements with MEC. The higher rental revenues are primarily due to foreign exchange, which had a \$3.8 million positive impact as the U.S. dollar continued to weaken against the foreign currencies in which the Real Estate Business operates. Contractual rent increases and Magna projects coming on-stream also had a higher than normal impact, increasing revenues by \$1.7 million and \$0.7 million, respectively. These positive contributions to rental revenues were partially offset by a negative contribution of \$0.7 million from disposals, vacancies and re-leasing of income-producing properties, resulting primarily from activities related to Magna's plant rationalization strategy.

FFO for the second quarter of 2008 was \$39.0 million (\$0.83 per share) compared to \$31.3 million (\$0.64 per share) in the prior year period, representing an increase of 25% (30% on a per share basis). This increase in FFO is due to a \$9.2 million increase in revenues, partially offset by increases of \$0.7 million in each of general and administrative expenses and net interest expense and \$0.1 million in current income tax expense (excluding current income taxes associated with disposal gains in 2007).

General and administrative expenses in the second quarter of 2008 increased by \$0.7 million to \$9.8 million from \$9.1 million in the second quarter of 2007. General and administrative expenses for the second quarter of 2008 include \$4.3 million of advisory and other costs incurred in connection with the reorganization proposal. General and administrative expenses for the second quarter of 2007 include (i) \$2.1 million of advisory and other costs incurred in connection with the Company's evaluation of certain transactions relating to its continuing assessment of its relationship with MEC that, ultimately, were not undertaken and (ii) \$2.0 million of costs associated with the Company's contribution of land to a not-for-profit organization to assist Hurricane Katrina redevelopment efforts (the "Hurricane Katrina donation"). Excluding these items, general and administrative expenses for the second quarter of 2008 were \$5.5 million compared to \$5.0 million in the second quarter of 2007. This increase from the prior period is primarily due to the impact of foreign exchange and increased salaries and benefits.

Net interest expense was \$2.6 million in the second quarter of 2008 (\$3.9 million of interest expense less \$1.3 million of interest income) compared to \$1.9 million in the second quarter of 2007 (\$3.7 million of interest expense less \$1.8 million of interest income). The \$0.5 million reduction in interest income is due primarily to a decline in interest rates the Real Estate Business earns on its excess cash balances and there being less cash available for short-term investment. Interest expense increased by \$0.3 million, primarily due to foreign exchange as the Company's senior unsecured debentures are denominated in Canadian dollars.

The Real Estate Business' income tax expense for the second quarter of 2008 was \$4.7 million, representing an effective tax rate of 15.3% compared to an effective tax rate for the second quarter of 2007 of 18.2%. The income tax expense for the second quarter of 2007 includes \$0.4 million related to a \$1.4 million gain on disposal of real estate. Excluding this item, the Real Estate Business' effective tax rate for the second quarter of 2007 was 17.7%. This 2.4% decrease in the adjusted effective tax rate is primarily due to (i) reductions in the statutory tax rates from 2007 to 2008 in Canada and Germany and (ii) changes in the mix of taxable income earned in the various countries in which the Real Estate Business operates.

Net income of \$26.3 million for the second quarter of 2008 increased by 22% compared to net income of \$21.5 million for the second quarter of 2007. The \$4.8 million increase in net income is due primarily to a \$9.2 million increase in revenues, partially offset by a negative contribution of \$2.5 million from increases of \$0.7 million in each of general and administrative expenses and net interest expense and \$1.1 million in depreciation and amortization (due primarily to the impact of foreign exchange). Net income was also negatively impacted by a \$0.5 million write-down of long-lived assets and a currency translation loss of \$0.1 million recognized in the second quarter of 2008 as well as a \$1.4 million gain on disposal of real estate recognized in the second quarter of 2007.

### **Six Months Ended June 30, 2008**

Revenues were \$109.3 million in the first six months of 2008, a 20% increase from revenues of \$90.8 million in the first six months of 2007. The higher revenues are due to a \$11.7 million increase in rental revenues and a \$6.8 million increase in interest and other income earned from increased borrowings under the financing arrangements with MEC. The higher rental revenues are primarily due to foreign exchange, which had an \$8.2 million positive impact as the U.S. dollar continued to weaken against the foreign currencies in which the Real Estate Business operates. Contractual rent

increases and Magna projects coming on-stream also had a higher than normal impact, increasing revenues by \$3.2 million and \$1.3 million, respectively. These positive contributions to rental revenues were partially offset by a negative contribution of \$1.2 million from disposals, vacancies and re-leasing of income-producing properties, resulting primarily from activities related to Magna's plant rationalization strategy.

FFO for the first six months of 2008 was \$82.9 million (\$1.77 per share) compared to \$65.5 million (\$1.35 per share) in the prior year period. Excluding a \$3.9 million lease termination fee paid by Magna in conjunction with a lease termination at the end of the first quarter of 2008 and its related income tax effect, FFO for the first six months of 2008 was \$80.3 million (\$1.71 per share), representing a 23% increase from FFO (27% on a per share basis) for the first six months of 2007. This increase in FFO is due to an \$18.5 million increase in revenue, partially offset by increases of \$0.7 million in general and administrative expenses, \$1.9 million in net interest expense and \$1.1 million in current income tax expense (excluding current income taxes associated with disposal gains in 2007).

General and administrative expenses increased to \$14.4 million for the six months ended June 30, 2008 from \$13.6 million in the prior year period. General and administrative expenses for the first six months of 2008 include (i) \$4.3 million of advisory and other costs incurred in connection with the reorganization proposal and (ii) a net \$0.4 million recovery (primarily under the Company's insurance policy) of costs incurred in connection with the Greenlight Litigation. General and administrative expenses for the first six months of 2007 include (i) \$2.1 million of advisory and other costs incurred in connection with the Company's evaluation of certain transactions relating to its continuing assessment of its relationship with MEC that, ultimately were not undertaken, (ii) \$2.0 million of costs associated with the Company's Hurricane Katrina donation and (iii) \$0.2 million of costs incurred in connection with the Greenlight Litigation. Excluding these items, general and administrative expenses for the first six months of 2008 were \$10.5 million compared to \$9.3 million for the first six months of 2007. The increase from the prior period was primarily due to the impact of foreign exchange and increased salaries and benefits.

Net interest expense was \$5.4 million in the six months ended June 30, 2008 (\$8.1 million of interest expense less \$2.7 million of interest income) compared to \$3.5 million for the six months ended June 30, 2007 (\$7.2 million of interest expense less \$3.7 million of interest income). The \$1.0 million reduction in interest income is due primarily to a decline in interest rates the Real Estate Business earns on its excess cash balances and there being less cash available for short-term investment. Interest expense increased by \$1.0 million, primarily due to foreign exchange as the Company's senior unsecured debentures are denominated in Canadian dollars.

In the six months ended June 30, 2008, the Real Estate Business' income tax expense was \$13.2 million, representing an effective tax rate of 18.7%, which is consistent with the effective tax rate for the six months ended June 30, 2007. The income tax expense for the first six months of 2008 includes \$1.3 million of income tax expense in relation to the \$3.9 million lease termination fee discussed previously. The income tax expense for the first six months of 2007 includes \$0.4 million related to the \$1.4 million gain on disposal of real estate. Excluding these items, the Real Estate Business' effective tax rate was 17.9% for the first six months of 2008 compared to 18.5% for the first six months of 2007. This 0.6% decrease in the adjusted effective tax rate is primarily due to (i) reductions in the statutory tax rates from 2007 to 2008 in Canada and Germany and (ii) changes in the mix of taxable income earned in the various countries in which the Real Estate Business operates.

Net income of \$57.3 million for the first six months of 2008 increased by 27% compared to net income of \$45.2 million for the first six months of 2007. A positive contribution of \$21.6 million arose from an \$18.5 million increase in revenues and a \$3.1 million increase in other net gains. These amounts were partially offset by a negative contribution of \$7.6 million from increases of \$0.7 million in general and administrative expenses, \$2.2 million in depreciation and amortization (due primarily to the impact of foreign exchange), \$1.9 million in net interest expense and \$2.8 million in income tax expense. Net income was also negatively impacted by the \$0.5 million write-down of long-lived assets discussed previously, as well as the \$1.4 million gain on disposal of real estate recognized in the first six months of 2007.

## **MAGNA ENTERTAINMENT CORP. FINANCIAL RESULTS**

MEC's racetracks operate for prescribed periods each year. As a result, racing revenues and operating results for any quarter will not be indicative of MEC's revenues and operating results for the year. MEC's results have been restated to distinguish between results from continuing and discontinued operations. MEC's discontinued operations for the three-month and six-month periods ended June 30, 2008 and 2007 include the operations of Remington Park, Thistledown, Portland Meadows, Great Lakes Downs and Magna Racino™.

MEC's revenues from continuing operations for the second quarter of 2008 decreased marginally to \$167.4 million from \$168.0 million in the prior year period, primarily due to (i) lower handle and wagering on the 2008 Preakness® and lower average daily attendance and handle at both Laurel Park and Pimlico (collectively "MJC") and (ii) five fewer live race days at Golden Gate Fields with a change in the racing calendar, which shifted live race days to the third and fourth quarters of 2008. These negative factors were partially offset by (i) increased revenues in MEC's Florida operations, primarily due to the offering of simulcasting after the live race meet ended, which was not available in the prior year period, (ii) higher revenues at Santa Anita Park from increased special events and facility rentals and (iii) increased housing unit sales at MEC's European residential housing development. MEC's revenues from continuing operations for the six months ended June 30, 2008 decreased 6% to \$398.2 million from \$422.2 million in the prior year period, primarily due to (i) the net loss of eight live race days at Santa Anita Park due to heavy rain and track drainage issues with the new synthetic racing surface that was installed in the fall of 2007 and (ii) the same factors impacting revenues for the second quarter of 2008.

Earnings before interest, taxes, depreciation and amortization from MEC's continuing operations excluding real estate disposal gains, other gains and losses and the minority interest impact ("EBITDA") for the three-month and six-month periods ended June 30, 2008 were \$5.2 million and \$19.1 million, respectively, compared to \$3.9 million and \$28.5 million, respectively, in the comparable prior year periods. EBITDA for the second quarter of 2008 increased by \$1.3 million compared to the second quarter of 2007, due to reductions of \$2.2 million in general and administrative expenses and \$0.5 million in operating costs, partially offset by a \$0.6 million reduction in revenues and a \$0.9 million increase in purses, awards and other costs. The reduction in general and administrative expenses is primarily attributable to several of MEC's racetracks incurring lower general and administrative expenses as a result of cost reduction initiatives. EBITDA loss for first six months of 2008 decreased by \$9.4 million compared to the first six months of 2007, due to a \$24.0 million reduction in revenues and a \$5.0 million write-down of long-lived assets in the first quarter of 2008 related to real estate held for sale in Dixon, California, partially offset by reductions of \$13.7 million in purses, awards and other costs, \$3.3 million in operating costs and \$2.6 million in general and administrative expenses for reasons discussed above. The reduction in purses, awards and other costs is due primarily to decreased wagering at Santa Anita Park, MJC, Golden Gate Fields and The Meadows for reasons discussed previously. The reduction in operating costs is due primarily to fewer live race days at both Santa Anita Park and Golden Gate Fields, cost reduction initiatives in MEC's corporate and other operations and a decrease in the proportion of PariMax operating costs included in MEC's results of operations, primarily due to the formation of the HRTV LLC joint venture in April 2007.

MEC recorded net income of \$1.0 million for the second quarter of 2008 compared to \$3.7 million in the second quarter of 2007. For the six months ended June 30, 2008, MEC recorded a net loss of \$24.4 million compared to net income of \$37.3 million in the prior year period. MEC's results of operations for the second quarter of 2008 include a \$24.3 million gain on the disposal of 225 acres of excess real estate located in Ebreichsdorf, Austria to a subsidiary of Magna for a purchase price of 20.0 million euros (\$31.5 million), net of transaction costs. MEC's results of operations in the second quarter of 2007 include a gain of \$17.6 million on the sale of its interests and rights in a 205-acre parcel of land to MID, in return for cash consideration of approximately \$24.0 million (which has no related minority interest impact and is eliminated from MID's consolidated results). Excluding these items, the \$9.4 million reduction in net income is due primarily to increases of \$2.2 million in depreciation and amortization and \$5.3 million in net interest expense and a \$9.0 million reduction in the minority interest recovery, partially offset by the \$1.3 million increase in EBITDA discussed above, a \$3.5 million reduction in income tax expense and a \$2.7 million increase in income from discontinued operations. The increase in depreciation and amortization is due primarily to increased depreciation (i) on phase two of the slots facility at Gulfstream Park, (ii) on fixed assets as a result of new totalisator equipment at MEC's wholly-owned subsidiary AmTote International, Inc. being placed into service under new contract arrangements and (iii) on new synthetic racing surfaces installed in the fall of 2007 at Santa Anita Park and Golden Gate Fields. The increase in net interest expense is primarily attributable to increased amounts outstanding under the MEC Bridge Loan and the Gulfstream Park project financing facility. MEC's results of operations in the first six months of 2007 include \$48.7 million of gains on the disposal of real estate (which have no related minority interest impact and are eliminated from MID's consolidated results) related to the sale of MEC's interests and rights in three real estate properties to MID in return for cash consideration of approximately \$79.0 million. Excluding these items and the \$24.3 million disposal gain in 2008 discussed above, the \$37.4 million increase in net loss is due primarily to the \$9.4 million reduction in EBITDA discussed above, increases of \$4.6 million in depreciation and amortization and \$10.1 million in net interest expense for the reasons discussed previously and a \$13.4 million increase in the loss from discontinued operations. The increase in the loss from discontinued operations is due primarily to \$32.3 million (\$17.4 million net of minority interest) pertaining to long-lived assets of Magna Racino™ (\$29.2 million) and instant racing machines at Portland Meadows (\$3.1 million).

## **DIVIDENDS**

MID's Board of Directors declared a dividend of \$0.15 per share on MID's Class A Subordinate Voting Shares and Class B Shares for the second quarter ended June 30, 2008. The dividend is payable on or about September 15, 2008 to shareholders of record at the close of business on August 29, 2008.

Unless indicated otherwise, MID has designated the entire amount of all past and future taxable dividends paid in 2006, 2007 and 2008 to be an "eligible dividend" for purposes of the Income Tax Act (Canada), as amended from time to time. Please contact your tax advisor if you have any questions with regard to the designation of eligible dividends.

## **CONFERENCE CALL**

A conference call will be held for interested analysts and shareholders to discuss the second quarter's results on August 8, 2008 at 10:30 am EST. The number to use for this call is 1-800-814-3911. The number for overseas callers is 416-915-5763. Please call 10 minutes prior to the start of the conference call. MID will also webcast the conference call at [www.midevelopments.com](http://www.midevelopments.com). The conference call will be chaired by John D. Simonetti, Chief Executive Officer.

For anyone unable to listen to the scheduled call, the rebroadcast numbers will be: North America – 1-877-289-8525 and Overseas – 416-640-1917 (reservation number is 21278696 followed by the number sign) and the rebroadcast will be available until August 15, 2008.

## **ABOUT MID**

MID is a real estate operating company focusing primarily on the ownership, leasing, management, acquisition and development of a predominantly industrial rental portfolio for Magna and its subsidiaries in North America and Europe. MID also acquires land that it intends to develop for mixed-use and residential projects. MID holds a controlling interest in MEC, North America's number one owner and operator of horse racetracks, based on revenue, and one of the world's leading suppliers, via simulcasting, of live horse racing content to the growing inter-track, off-track and account wagering markets.

For further information, please contact Richard J. Smith, Executive Vice-President and Chief Financial Officer, at 905-726-7507. For teleconferencing questions, please contact Andrea Sanelli at 905-726-7504.

## **RECONCILIATION OF NON-GAAP TO GAAP FINANCIAL MEASURES**

### **REAL ESTATE BUSINESS**

### **RECONCILIATION OF NET INCOME TO FUNDS FROM OPERATIONS**

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

*(Unaudited)*

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net income	<b>\$ 26,268</b>	\$ 21,492	<b>\$ 57,252</b>	\$ 45,163
Add back (deduct):				
Depreciation and amortization	<b>11,356</b>	10,216	<b>22,403</b>	20,147
Future income tax expense	<b>781</b>	587	<b>2,647</b>	1,855
Write-down of long-lived assets	<b>450</b>	—	<b>450</b>	—
Gain on disposal of real estate, net of income tax	—	(1,013)	—	(1,028)
Currency translation loss (gains)	<b>105</b>	—	<b>105</b>	(652)
<b>Funds from operations</b>	<b>\$ 38,960</b>	\$ 31,282	<b>\$ 82,857</b>	\$ 65,485
Basic and diluted funds from operations per share	<b>\$ 0.83</b>	\$ 0.64	<b>\$ 1.77</b>	\$ 1.35
Average number of shares outstanding (thousands)				
Basic	<b>46,708</b>	48,369	<b>46,708</b>	48,360
Diluted	<b>46,708</b>	48,419	<b>46,708</b>	48,416

## **FORWARD-LOOKING STATEMENTS**

The contents of this press release contain statements that, to the extent they are not recitations of historical fact, constitute “forward-looking statements” within the meaning of applicable securities legislation, including the United States Securities Act of 1933 and the United States Securities Exchange Act of 1934. Forward-looking statements may include, among others, statements regarding the Company’s future plans, goals, strategies, intentions, beliefs, estimates, costs, objectives, economic performance or expectations, or the assumptions underlying any of the foregoing. Words such as “may”, “would”, “could”, “will”, “likely”, “expect”, “anticipate”, “believe”, “intend”, “plan”, “forecast”, “project”, “estimate” and similar expressions are used to identify forward-looking statements. 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 future performance will be achieved. Undue reliance should not be placed on such statements. Forward-looking statements are based on information available at the time and/or management’s good faith assumptions and analyses made in light of our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances, and are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond the Company’s control, that could cause actual events or results to differ materially from such forward-looking statements. Important factors that could cause such differences include, but are not limited to, the risks set forth in the “Risk Factors” section in MID’s Annual Information Form for 2007, filed on SEDAR at [www.sedar.com](http://www.sedar.com) and attached as Exhibit 1 to MID’s Annual Report on Form 40-F for the year ended December 31, 2007, which investors are strongly advised to review. The “Risk Factors” section also contains information about the material factors or assumptions underlying such forward-looking statements. Forward-looking statements speak only as of the date the statement was made and unless otherwise required by applicable securities laws, MID expressly disclaims any intention and undertakes no obligation to update or revise any forward-looking statements contained in this press release to reflect subsequent information, events or circumstances or otherwise.

# Consolidated Statements of Income

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

(Unaudited)

Three Months Ended June 30,	Consolidated (notes 1, 18)		Real Estate Business		Magna Entertainment Corp.	
	2008	(restated – note 4) 2007	2008	2007	2008	(restated – note 4) 2007
<b>Revenues</b>						
Rental revenue	\$ 46,656	\$ 41,000	\$ 46,656	\$ 41,000	\$ —	\$ —
Racing and other revenue	167,390	168,031	—	—	167,390	168,031
Interest and other income from MEC (note 18)	—	—	8,643	5,082	—	—
	<b>214,046</b>	209,031	<b>55,299</b>	46,082	<b>167,390</b>	168,031
<b>Operating costs and expenses</b>						
Purses, awards and other	73,195	72,319	—	—	73,195	72,319
Operating costs	73,440	73,976	—	—	73,440	73,976
General and administrative (notes 3, 18)	25,368	27,075	9,787	9,069	15,540	17,786
Depreciation and amortization	22,411	19,124	11,356	10,216	11,099	8,938
Interest expense, net	11,073	9,270	2,606	1,895	17,161	11,803
Write-down of long-lived assets (note 8)	450	—	450	—	—	—
Operating income (loss)	8,109	7,267	31,100	24,902	(23,045)	(16,791)
Gain on disposal of real estate (note 18)	24,340	1,357	—	1,357	24,340	17,587
Other losses (notes 12, 13)	(548)	—	(105)	—	(443)	—
Income before income taxes and minority interest	31,901	8,624	30,995	26,259	852	796
Income tax expense	5,178	8,741	4,727	4,767	451	3,974
Minority interest	362	(8,654)	—	—	362	(8,654)
Income from continuing operations	26,361	8,537	26,268	21,492	39	5,476
Income (loss) from discontinued operations (note 4)	1,680	(982)	—	—	934	(1,813)
<b>Net income</b>	<b>\$ 28,041</b>	\$ 7,555	<b>\$ 26,268</b>	\$ 21,492	<b>\$ 973</b>	\$ 3,663
Basic and diluted earnings (loss) per						
Class A Subordinate Voting or						
Class B Share (note 7)						
– Continuing operations	\$ 0.56	\$ 0.18				
– Discontinued operations (note 4)	0.04	(0.02)				
Total	\$ 0.60	\$ 0.16				
Average number of Class A						
Subordinate Voting and Class B						
Shares outstanding during the						
period (in thousands) (note 7)						
– Basic	46,708	48,369				
– Diluted	46,708	48,419				

See accompanying notes

# Consolidated Statements of Income (Loss)

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

(Unaudited)

Six Months Ended June 30,	Consolidated (notes 1, 15)		Real Estate Business		Magna Entertainment Corp.	
	2008	(restated – note 4) 2007	2008	2007	2008	(restated – note 4) 2007
<b>Revenues</b>						
Rental revenue	\$ 92,583	\$ 80,896	\$ 92,583	\$ 80,896	\$ —	\$ —
Racing and other revenue	398,218	422,248	—	—	398,218	422,248
Interest and other income from MEC (note 18)	—	—	16,751	9,944	—	—
	<b>490,801</b>	<b>503,144</b>	<b>109,334</b>	<b>90,840</b>	<b>398,218</b>	<b>422,248</b>
<b>Operating costs and expenses</b>						
Purses, awards and other	195,333	209,006	—	—	195,333	209,006
Operating costs	148,775	152,105	—	—	148,775	152,105
General and administrative (notes 3, 18)	44,508	48,374	14,414	13,655	30,060	32,634
Depreciation and amortization	44,355	37,550	22,403	20,147	22,039	17,464
Interest expense, net	22,289	18,690	5,407	3,548	33,900	23,820
Write-down of long-lived assets (notes 6, 8)	5,450	—	450	—	5,000	—
Operating income (loss)	30,091	37,419	66,660	53,490	(36,889)	(12,781)
Gain on disposal of real estate (note 18)	24,340	1,382	—	1,382	24,340	48,654
Other gains, net (notes 12, 13, 18, 19)	5,357	656	3,787	652	1,570	4
Income (loss) before income taxes and minority interest	59,788	39,457	70,447	55,524	(10,979)	35,877
Income tax expense	15,500	13,049	13,195	10,361	2,305	1,357
Minority interest	(5,950)	(6,452)	—	—	(5,950)	(6,452)
Income (loss) from continuing operations	50,238	32,860	57,252	45,163	(7,334)	40,972
Loss from discontinued operations (note 4)	(15,600)	(2,022)	—	—	(17,109)	(3,705)
<b>Net income (loss)</b>	<b>\$ 34,638</b>	<b>\$ 30,838</b>	<b>\$ 57,252</b>	<b>\$ 45,163</b>	<b>\$ (24,443)</b>	<b>\$ 37,267</b>
Basic and diluted earnings (loss) per						
Class A Subordinate Voting or						
Class B Share (note 7)						
– Continuing operations	\$ 1.07	\$ 0.68				
– Discontinued operations (note 4)	(0.33)	(0.04)				
Total	\$ 0.74	\$ 0.64				
Average number of Class A						
Subordinate Voting and Class B						
Shares outstanding during the						
period (in thousands) (note 7)						
– Basic	46,708	48,360				
– Diluted	46,708	48,416				

See accompanying notes

## Consolidated Statements of Comprehensive Income

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	\$ 28,041	\$ 7,555	\$ 34,638	\$ 30,838
Other comprehensive income (loss):				
Change in fair value of interest rate swaps, net of taxes and minority interest (note 12)	361	3	29	(56)
Foreign currency translation adjustment, net of minority interest (note 12)	552	24,485	35,723	38,848
Recognition of foreign currency translation loss (gain) in net income (note 12)	105	—	105	(652)
<b>Comprehensive income</b>	<b>\$ 29,059</b>	<b>\$ 32,043</b>	<b>\$ 70,495</b>	<b>\$ 68,978</b>

See accompanying notes

## Consolidated Statements of Changes in Deficit

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Deficit, beginning of period	\$ (58,845)	\$ (53,084)	\$ (58,436)	\$ (69,112)
Net income	28,041	7,555	34,638	30,838
Dividends	(7,006)	(7,256)	(14,012)	(14,511)
<b>Deficit, end of period</b>	<b>\$ (37,810)</b>	<b>\$ (52,785)</b>	<b>\$ (37,810)</b>	<b>\$ (52,785)</b>

See accompanying notes

# Consolidated Statements of Cash Flows

(U.S. dollars in thousands)

(Unaudited)

Three Months Ended June 30,	Consolidated (notes 1, 18)		Real Estate Business		Magna Entertainment Corp.	
	2008	(restated — note 4) 2007	2008	2007	2008	(restated — note 4) 2007
<b>OPERATING ACTIVITIES</b>						
Income from continuing operations	\$ 26,361	\$ 8,537	\$ 26,268	\$ 21,492	\$ 39	\$ 5,476
Items not involving current cash flows (note 15)	2,189	9,910	11,368	9,804	(8,212)	(17,294)
Changes in non-cash balances (note 15)	(8,685)	15,018	3,638	390	(12,394)	14,606
<b>Cash provided by (used in) operating activities</b>	<b>19,865</b>	<b>33,465</b>	<b>41,274</b>	<b>31,686</b>	<b>(20,567)</b>	<b>2,788</b>
<b>INVESTMENT ACTIVITIES</b>						
Real estate and fixed asset additions	(19,623)	(29,055)	(8,541)	(30,350)	(11,082)	(22,587)
Proceeds on disposal of real estate and fixed assets, net	31,460	5,556	—	4,556	31,460	24,664
Decrease (increase) in other assets	(580)	(40)	(192)	60	(388)	(100)
Loan advances to MEC, net	—	—	(31,966)	(6,405)	—	—
Loan repayments from MEC	—	—	21,785	1,854	—	—
<b>Cash provided by (used in) investment activities</b>	<b>11,257</b>	<b>(23,539)</b>	<b>(18,914)</b>	<b>(30,285)</b>	<b>19,990</b>	<b>1,977</b>
<b>FINANCING ACTIVITIES</b>						
Proceeds from bank indebtedness	15,341	741	—	—	15,341	741
Repayment of bank indebtedness	(17,875)	(15,000)	—	—	(17,875)	(15,000)
Issuance of long-term debt, net	3,013	3,865	—	—	3,013	3,865
Repayment of long-term debt	(5,809)	(15,953)	(117)	(98)	(5,692)	(15,855)
Loan advances from MID, net	—	—	—	—	31,827	6,402
Loan repayments to MID	—	—	—	—	(20,219)	(361)
Dividends paid	(14,012)	(14,511)	(14,012)	(14,511)	—	—
<b>Cash provided by (used in) financing activities</b>	<b>(19,342)</b>	<b>(40,858)</b>	<b>(14,129)</b>	<b>(14,609)</b>	<b>6,395</b>	<b>(20,208)</b>
Effect of exchange rate changes on cash and cash equivalents	(866)	2,177	(887)	2,163	21	14
<b>Net cash flows provided by (used in) continuing operations</b>	<b>10,914</b>	<b>(28,755)</b>	<b>7,344</b>	<b>(11,045)</b>	<b>5,839</b>	<b>(15,429)</b>
<b>DISCONTINUED OPERATIONS</b>						
Cash provided by (used in) operating activities	3,465	(105)	—	—	2,762	(893)
Cash used in investing activities	(4,075)	(2,552)	—	—	(4,075)	(2,552)
Cash used in financing activities	(11,765)	(3)	—	—	(13,331)	(1,496)
<b>Net cash flows used in discontinued operations</b>	<b>(12,375)</b>	<b>(2,660)</b>	<b>—</b>	<b>—</b>	<b>(14,644)</b>	<b>(4,941)</b>
Net increase (decrease) in cash and cash equivalents during the period	(1,461)	(31,415)	7,344	(11,045)	(8,805)	(20,370)
Cash and cash equivalents, beginning of period	187,213	234,822	139,900	159,028	47,313	75,794
Cash and cash equivalents, end of period	185,752	203,407	147,244	147,983	38,508	55,424
Less: cash and cash equivalents of discontinued operations, end of period	(8,171)	(10,814)	—	—	(8,171)	(10,814)
<b>Cash and cash equivalents, of continuing operations end of period</b>	<b>\$ 177,581</b>	<b>\$ 192,593</b>	<b>\$ 147,244</b>	<b>\$ 147,983</b>	<b>\$ 30,337</b>	<b>\$ 44,610</b>

See accompanying notes

# Consolidated Statements of Cash Flows

(U.S. dollars in thousands)

(Unaudited)

Six Months Ended June 30,	Consolidated (notes 1, 18)		Real Estate Business		Magna Entertainment Corp.	
	2008	(restated – note 4) 2007	2008	2007	2008	(restated – note 4) 2007
<b>OPERATING ACTIVITIES</b>						
Income (loss) from						
continuing operations	\$ 50,238	\$ 32,860	\$ 57,252	\$ 45,163	\$ (7,334)	\$ 40,972
Items not involving current						
cash flows (note 15)	25,820	31,460	23,504	20,755	4,480	(39,003)
Changes in non-cash						
balances (note 15)	(11,724)	(8,530)	8,310	8,087	(20,316)	(16,446)
<b>Cash provided by (used in)</b>						
<b>  operating activities</b>	<b>64,334</b>	<b>55,790</b>	<b>89,066</b>	<b>74,005</b>	<b>(23,170)</b>	<b>(14,477)</b>
<b>INVESTMENT ACTIVITIES</b>						
Property and fixed asset additions	(37,152)	(45,679)	(13,058)	(98,874)	(24,094)	(36,206)
Proceeds on disposal of real estate						
properties and fixed assets, net	32,952	8,330	—	5,394	32,952	90,550
Decrease (increase) in other assets	(1,280)	(1,035)	(149)	58	(1,131)	(1,093)
Loan advances to MEC, net	—	—	(52,000)	(16,683)	—	—
Loan repayments from MEC	—	—	24,263	2,360	—	—
<b>Cash provided by (used in)</b>						
<b>  investment activities</b>	<b>(5,480)</b>	<b>(38,384)</b>	<b>(40,944)</b>	<b>(107,745)</b>	<b>7,727</b>	<b>53,251</b>
<b>FINANCING ACTIVITIES</b>						
Proceeds from bank indebtedness	38,468	15,741	—	—	38,468	15,741
Repayment of bank indebtedness	(40,469)	(21,515)	—	—	(40,469)	(21,515)
Issuance of long-term debt	8,416	4,140	—	—	8,416	4,140
Repayment of long-term debt	(9,110)	(29,649)	(232)	(189)	(8,878)	(29,460)
Loan advances from MID, net	—	—	—	—	50,901	16,329
Loan repayments to MID	—	—	—	—	(22,434)	(716)
Issuance of shares	—	1,058	—	1,058	—	—
Dividends paid	(14,012)	(14,511)	(14,012)	(14,511)	—	—
<b>Cash provided by (used in)</b>						
<b>  financing activities</b>	<b>(16,707)</b>	<b>(44,736)</b>	<b>(14,244)</b>	<b>(13,642)</b>	<b>26,004</b>	<b>(15,481)</b>
Effect of exchange rate changes on						
cash and cash equivalents	2,499	3,406	2,421	3,499	78	(93)
<b>Net cash flows provided by (used in)</b>						
<b>  continuing operations</b>	<b>44,646</b>	<b>(23,924)</b>	<b>36,299</b>	<b>(43,883)</b>	<b>10,639</b>	<b>23,200</b>
<b>DISCONTINUED OPERATIONS</b>						
Cash provided by (used in)						
operating activities	3,023	(15)	—	—	1,600	(1,612)
Cash used in investing activities	(4,983)	(3,227)	—	—	(4,983)	(3,227)
Cash used in financing activities	(11,794)	(19,682)	—	—	(12,663)	(21,326)
<b>Net cash flows used in</b>						
<b>  discontinued operations</b>	<b>(13,754)</b>	<b>(22,924)</b>	<b>—</b>	<b>—</b>	<b>(16,046)</b>	<b>(26,165)</b>
Net increase (decrease) in cash and						
cash equivalents during the period	30,892	(46,848)	36,299	(43,883)	(5,407)	(2,965)
Cash and cash equivalents,						
beginning of period	154,860	250,255	110,945	191,866	43,915	58,389
Cash and cash equivalents,						
end of period	185,752	203,407	147,244	147,983	38,508	55,424
Less: cash and cash equivalents						
of discontinued operations,						
end of period	(8,171)	(10,814)	—	—	(8,171)	(10,814)
<b>Cash and cash equivalents,</b>						
<b>  of continuing operations</b>						
<b>  end of period</b>	<b>\$ 177,581</b>	<b>\$ 192,593</b>	<b>\$ 147,244</b>	<b>\$ 147,983</b>	<b>\$ 30,337</b>	<b>\$ 44,610</b>

See accompanying notes

# Consolidated Balance Sheets

(Refer to note 1 – Basis of Presentation)

(U.S. dollars in thousands)

(Unaudited)

As at	Consolidated (notes 1, 18)		Real Estate Business		Magna Entertainment Corp.	
	June 30, 2008	(restated - notes 4, 5) December 31, 2007	June 30, 2008	December 31, 2007	June 30, 2008	(restated - notes 4, 5) December 31, 2007
<b>ASSETS</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ 177,581	\$ 145,619	\$ 147,244	\$ 110,945	\$ 30,337	\$ 34,674
Restricted cash (note 18)	12,673	32,722	940	4,458	11,733	28,264
Accounts receivable	44,333	39,958	7,064	7,425	37,269	32,533
Loans receivable from MEC, net (note 18)	—	—	170,630	139,168	—	—
Due from MID (note 18)	—	—	—	—	941	4,464
Income taxes receivable	473	1,631	473	402	—	1,229
Prepaid expenses and other	24,654	17,173	1,055	1,206	23,676	16,335
Assets held for sale (note 5)	—	1,493	—	—	—	1,493
Discontinued operations (note 4)	33,131	24,724	—	—	33,131	24,724
	<b>292,845</b>	<b>263,320</b>	<b>327,406</b>	<b>263,604</b>	<b>137,087</b>	<b>143,716</b>
Real estate properties, net (note 8)	2,239,495	2,225,154	1,573,113	1,561,921	721,683	718,620
Fixed assets, net	79,606	86,196	360	445	79,246	85,751
Racing licences	109,868	109,868	—	—	109,868	109,868
Other assets	7,627	6,213	1,248	879	6,379	5,334
Loans receivable from MEC (note 18)	—	—	96,725	97,589	—	—
Deferred rent receivable	14,622	14,898	14,622	14,898	—	—
Future tax assets	44,682	45,118	5,406	5,497	39,276	39,621
Assets held for sale (note 5)	27,343	38,647	—	—	27,343	38,647
Discontinued operations (note 4)	82,547	110,927	—	—	82,607	110,999
	<b>\$ 2,898,635</b>	<b>\$ 2,900,341</b>	<b>\$ 2,018,880</b>	<b>\$ 1,944,833</b>	<b>\$ 1,203,489</b>	<b>\$ 1,252,556</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>Current liabilities:</b>						
Bank indebtedness (note 9)	\$ 37,213	\$ 39,214	\$ —	\$ —	\$ 37,213	\$ 39,214
Accounts payable and accrued liabilities	111,330	140,473	19,294	16,678	92,036	124,140
Income taxes payable	15,696	13,040	15,062	13,040	634	—
Loan payable to MID, net (note 18)	—	—	—	—	170,215	137,002
Due to MEC (note 18)	—	—	941	4,464	—	—
Long-term debt due within one year (note 9)	15,037	11,142	3,949	488	11,088	10,654
Deferred revenue	6,004	6,189	3,232	2,078	2,772	4,339
Liabilities related to assets held for sale (note 5)	—	171	—	—	—	171
Discontinued operations (note 4)	43,593	47,981	—	—	44,002	48,378
	<b>228,873</b>	<b>258,210</b>	<b>42,478</b>	<b>36,748</b>	<b>357,960</b>	<b>363,898</b>
Long-term debt (note 9)	86,017	96,326	2,716	6,646	83,301	89,680
Senior unsecured debentures, net	258,818	267,578	258,818	267,578	—	—
Note obligations, net	218,006	216,050	—	—	218,006	216,050
Loan payable to MID, net (note 18)	—	—	—	—	67,299	67,107
Other long-term liabilities	27,096	24,105	—	—	27,096	24,105
Future tax liabilities	134,821	130,885	51,057	48,257	82,433	81,297
Minority interest	137,422	156,359	—	—	137,422	156,359
Liabilities related to assets held for sale (note 5)	876	876	—	—	876	876
Discontinued operations (note 4)	14,501	14,492	—	—	39,838	40,635
	<b>1,106,430</b>	<b>1,164,881</b>	<b>355,069</b>	<b>359,229</b>	<b>1,014,231</b>	<b>1,040,007</b>
<b>Shareholders' equity:</b>						
Share capital (note 10)	1,524,440	1,524,440	—	—	—	—
Contributed surplus (note 11)	27,779	27,517	—	—	—	—
Deficit	(37,810)	(58,436)	—	—	—	—
Accumulated other comprehensive income (note 12)	277,796	241,939	—	—	—	—
	<b>1,792,205</b>	<b>1,735,460</b>	<b>1,663,811</b>	<b>1,585,604</b>	<b>189,258</b>	<b>212,549</b>
	<b>\$ 2,898,635</b>	<b>\$ 2,900,341</b>	<b>\$ 2,018,880</b>	<b>\$ 1,944,833</b>	<b>\$ 1,203,489</b>	<b>\$ 1,252,556</b>

Commitments and contingencies (note 19)

See accompanying notes

# Notes to Interim Consolidated Financial Statements

*(All amounts in U.S. dollars and all tabular amounts in thousands unless otherwise noted)*

*(All amounts as at June 30, 2008 and December 31, 2007 and for the three-month and six-month periods ended June 30, 2008 and 2007 are unaudited)*

## 1. BASIS OF PRESENTATION

The unaudited interim consolidated financial statements include the accounts of MI Developments Inc. and its subsidiaries (collectively, "MID" or the "Company"). MID is a real estate operating company that currently owns, leases, manages and develops a predominantly industrial rental portfolio leased primarily to Magna International Inc. and its automotive operating units ("Magna"). MID also acquires land that it intends to develop for mixed-use and residential projects. The Company also holds a controlling interest in Magna Entertainment Corp. ("MEC"), an owner and operator of horse racetracks and a supplier of live racing content to the inter-track, off-track and account wagering markets. At June 30, 2008, the Company owned approximately 54% of MEC's total equity, representing approximately 96% of the total voting power of its outstanding stock. MEC's results are consolidated with the Company's results, with outside ownership accounted for as a minority interest.

### (a) Magna Entertainment Corp.

The results of operations and the financial position of MEC have been included in the unaudited interim consolidated financial statements on a going concern basis, which contemplates the realization of MEC's assets and the discharge of MEC's liabilities in the normal course of business for the foreseeable future. MEC has incurred a net loss before minority interest recovery of \$45.0 million for the six months ended June 30, 2008, and net losses before minority interest recovery of \$68.8 million, \$65.4 million and \$107.4 million for the years ended December 31, 2007, 2006 and 2005, respectively. At June 30, 2008, MEC had a working capital deficiency of \$220.9 million and \$230.6 million of debt scheduled to mature in the 12-month period ending June 30, 2009, including (i) amounts owing under MEC's \$40.0 million senior secured revolving credit facility with a Canadian financial institution (the "MEC Credit Facility"), which is scheduled to mature on August 15, 2008 (note 9), (ii) amounts owing under a bridge loan (the "MEC Bridge Loan") of up to \$110.0 million (initially up to \$80.0 million) from a wholly-owned subsidiary of MID (the "MID Lender"), which is scheduled to mature on August 31, 2008 (note 18) and (iii) MEC's obligation to repay \$100.0 million of indebtedness under the Gulfstream Park project financing facility with the MID Lender by August 31, 2008 (note 18). Accordingly, MEC's ability to continue as a going concern is in substantial doubt and is dependent on MEC generating cash flows that are adequate to sustain the operations of the business, renewing or extending current financing arrangements and meeting its obligations with respect to secured and unsecured creditors, none of which is assured. If MEC is unable to repay its obligations when due or satisfy required covenants in its debt agreements, substantially all of its current and long-term debt will also become due on demand as a result of cross-default provisions within loan agreements, unless MEC is able to obtain waivers, modifications or extensions. The availability of such waivers, modifications or extensions is not assured and, if available, the terms thereof are not yet determinable. On September 12, 2007, MEC's Board of Directors approved a debt elimination plan (the "MEC Debt Elimination Plan") designed to eliminate MEC's net debt by December 31, 2008 by generating funds from the sale of assets (notes 4 and 5), entering into strategic transactions involving certain of MEC's racing, gaming and technology operations, and a possible future equity issuance. The success of the MEC Debt Elimination Plan is not assured. To address short-term liquidity concerns and provide sufficient time to implement the MEC Debt Elimination Plan, MEC arranged \$100.0 million of funding in September 2007, comprised of (i) a \$20.0 million private placement of MEC's Class A Subordinate Voting Stock ("MEC Class A Stock") to Fair Enterprise Limited ("FEL"), a company that forms part of an estate planning vehicle for the family of Mr. Frank Stronach, the Company's Chairman and the Chairman and Chief Executive Officer of MEC, completed in October 2007; and (ii) the MEC Bridge Loan. Although MEC continues to take steps to implement the MEC Debt Elimination Plan, MEC does not expect to execute its plan on the originally contemplated time schedule, if at all. Furthermore, MEC has advised MID that, given the potential impact on MEC's financial position of the MID reorganization proposal (note 3), and pending determination of whether it will proceed and an evaluation of any amended terms, MEC is in the process of reconsidering whether to sell certain of the assets originally identified for disposition under the MEC Debt Elimination Plan. As a result, MEC has needed and will again need to seek extensions from existing lenders and additional funds in the short-term from one or more possible sources, which may include the Company. The availability of such extensions and additional funds is not assured and, if available, the terms thereof are not yet determinable. These unaudited interim consolidated financial statements do not give effect to any adjustments to recorded amounts and their classification which would be necessary should MEC be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the unaudited interim consolidated financial statements.

The uncertainty regarding MEC's ability to continue as a going concern does not impact the realization of the Company's assets and discharge of its liabilities in the normal course of its real estate business. MID's real estate business has not guaranteed any of MEC's indebtedness.

MEC's racing business is seasonal in nature and racing revenues and operating results for any quarter will not be indicative of the racing revenues and operating results for the year. MEC's racing operations have historically operated at a loss in the second half of the year, with the third quarter typically generating the largest operating loss. This seasonality has resulted in large quarterly fluctuations in MEC's revenues and operating results.

## **(b) Consolidated Financial Statements**

The unaudited interim consolidated financial statements have been prepared in U.S. dollars following Canadian generally accepted accounting principles ("GAAP") and the accounting policies as set out in the annual consolidated financial statements for the year ended December 31, 2007, except as disclosed in note 2.

The unaudited interim consolidated financial statements do not conform in all respects to the requirements of generally accepted accounting principles for annual financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2007.

In the opinion of management, the unaudited interim consolidated financial statements reflect all adjustments necessary to present fairly the financial position at June 30, 2008 and 2007, and the results of operations and cash flows for the three-month and six-month periods ended June 30, 2008 and 2007.

Financial data and related measurements are presented on the consolidated statements of income (loss), consolidated statements of cash flows, and consolidated balance sheets in two categories, "Real Estate Business" and "Magna Entertainment Corp.", which correspond to the Company's reporting segments as described in note 17 to the unaudited interim consolidated financial statements. Transactions and balances between the "Real Estate Business" and "Magna Entertainment Corp." segments have not been eliminated in the presentation of each segment's financial data and related measurements. However, the effects of transactions between these two segments, which are further described in note 18, are eliminated in the consolidated results of operations and financial position of the Company.

The Company has reclassified certain prior period amounts to reflect the restatement for MEC's discontinued operations (note 4), assets held for sale (note 5) and reverse stock split (notes 13 and 19).

## **2. ACCOUNTING CHANGES**

### **(a) Financial Instruments – Disclosure and Presentation**

In December 2006, the Canadian Institute of Chartered Accountants (the "CICA") issued additional disclosure and presentation standards for financial instruments in Handbook Sections 3862, "Financial Instruments – Disclosures", and 3863, "Financial Instruments – Presentation", which replace Handbook Section 3861, "Financial Instruments – Disclosure and Presentation". The Company has adopted these new standards effective January 1, 2008. Handbook Section 3862 requires increased disclosure relating to the risks associated with financial instruments and the Company's approach to managing those risks. Handbook Section 3863 maintains the presentation requirements of Handbook Section 3861.

Certain disclosures regarding the Company's consolidated financial instruments were previously made in notes 1, 2, 9, 10, 11, 18 and 23 to the annual consolidated financial statements for the year ended December 31, 2007 and do not differ materially at June 30, 2008, except as disclosed in notes 9, 14, 16 and 19 to the unaudited interim consolidated financial statements. The additional disclosures required by Handbook Section 3862 have been made in notes 14 and 16 to the unaudited interim consolidated financial statements. The adoption of Handbook Section 3863 did not have any impact on the Company's unaudited interim consolidated financial statements.

### **(b) Capital Disclosures**

The CICA issued Handbook Section 1535, "Capital Disclosures", in December 2006, which requires that the Company disclose its objectives, policies and processes for managing capital (which it must define), as well as certain quantitative data. Handbook Section 1535 also requires the disclosure of any externally-imposed capital

requirements, whether the entity has complied with them and, if not, the consequences of such non-compliance. The Company adopted the requirements of Handbook Section 1535 on January 1, 2008 and the required disclosures are contained in note 14 to the unaudited interim consolidated financial statements.

### **(c) Going Concern**

In June 2007, the CICA amended Handbook Section 1400, "General Standards of Financial Statement Presentation", to include going concern requirements. The amendments require management to make an assessment of an entity's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern. In doing so, management must take into account information about the future, which is at least, but not limited to, 12 months from the balance sheet date. The Company's adoption on January 1, 2008 of the amendments to Handbook Section 1400 did not have any impact on the Company's unaudited interim consolidated financial statements or the disclosure contained in note 1 to the unaudited interim consolidated financial statements.

### **3. SHAREHOLDER PROPOSAL**

On March 31, 2008, MID received a reorganization proposal on behalf of various shareholders of MID, including entities affiliated with the Stronach Trust (the "Stronach Group"), MID's controlling shareholder (note 18). The principal components of the reorganization proposal are set out in MID's press release dated March 31, 2008, which can be found on the Company's website at [www.midevelopments.com](http://www.midevelopments.com) and on SEDAR at [www.sedar.com](http://www.sedar.com). MID's Board of Directors (the "Board") mandated a special committee of independent directors (the "MID Special Committee") to review the proposal and make recommendations to the Board.

The proposal contemplated MID calling by May 30, 2008 a special meeting of shareholders to consider the reorganization and closing the transaction no later than July 30, 2008. On May 30, 2008, MID called a special meeting of shareholders to be held on July 24, 2008.

In early June 2008, at the direction of the MID Special Committee, MID management commenced discussions with a number of MID Class A shareholders, including those shareholders (owning in aggregate more than 50% of the outstanding Class A Subordinate Voting Shares) that supported the original reorganization proposal announced on March 31, 2008. The discussions are intended to develop a consensus on how to best amend and structure the proposed reorganization. As a result of these discussions, on June 27, 2008, MID announced that the special meeting discussed above was being postponed.

Given that no consensus has yet been reached with respect to amending the reorganization proposal, MID intends to continue to explore a range of alternatives in respect of its MEC investment. These alternatives include, without limitation, examining an amended reorganization proposal and evaluating whether or to what extent MID might participate in a recapitalization or restructuring of MEC. MID is not subject to any restrictions regarding future investments in MEC.

Any potential transactions with MEC would be subject to review by the MID Special Committee and the approval of the MID Board. Neither the MID Special Committee nor the MID Board has made any decisions or recommendations with respect to the reorganization proposal or any other transaction relating to MEC. There can be no assurance that the transaction contemplated by the reorganization proposal, or any other transaction relating to MEC, will be completed.

The unaudited interim consolidated financial statements do not reflect any adjustments that may be required should the reorganization proposal, or any other transaction relating to MEC, be completed.

At June 30, 2008, \$4.3 million of advisory and other costs had been incurred in connection with the reorganization proposal, which costs are included in the Real Estate Business' "general and administrative expenses" on the Company's unaudited interim consolidated statements of income (loss) for the three and six months ended June 30, 2008.

#### 4. DISCONTINUED OPERATIONS

In connection with the MEC Debt Elimination Plan, MEC announced its intention to sell Great Lakes Downs in Michigan, Thistledown in Ohio and its interest in Portland Meadows in Oregon. MEC also announced its intention to explore the sale of Remington Park, a horseracing and gaming facility in Oklahoma City.

In September 2007, MEC engaged a U.S. investment bank to assist in soliciting potential purchasers and managing the sale process for certain assets covered by the MEC Debt Elimination Plan. In October 2007, the U.S. investment bank began marketing Thistledown and Remington Park for sale and initiated a program to locate potential buyers. However, MEC has since taken over the sales process from the U.S. investment bank and is currently in discussions with potential buyers of these assets.

In October 2007, the Great Lakes Downs property was listed for sale with a real estate broker. The race meet at that facility concluded on November 4, 2007 and the facility was then closed. In order to facilitate the sale of this property, MEC re-acquired Great Lakes Downs from Richmond Racing Co., LLC in December 2007 pursuant to a prior existing option right. In July 2008, MEC completed the sale of Great Lakes Downs to The Little River Band of Ottawa Indians for \$5.0 million in cash less customary closing adjustments. The net sale proceeds of \$4.5 million were used subsequent to quarter-end to partially repay the MEC Bridge Loan (note 18).

In November 2007, MEC began marketing its interest in Portland Meadows for sale and is currently in discussions with potential buyers for this asset.

In March 2008, MEC committed to a plan to sell Magna Racino™. MEC has initiated a program to locate potential buyers and has begun marketing the assets for sale through a real estate agent.

MEC's results of operations related to discontinued operations for the three-month and six-month periods ended June 30, 2008 and 2007, and MEC's assets and liabilities related to discontinued operations as at June 30, 2008 and December 31, 2007, are shown in the following tables:

	<b>Three Months</b>		<b>Six Months</b>	
	<b>Ended June 30,</b>		<b>Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Revenues	\$ 35,835	\$ 35,657	\$ 65,590	\$ 65,629
Costs and expenses	<b>34,014</b>	36,167	<b>63,283</b>	66,477
	<b>1,821</b>	(510)	<b>2,307</b>	(848)
Depreciation and amortization	—	1,738	<b>605</b>	3,502
Interest expense, net	<b>470</b>	1,022	<b>1,550</b>	2,161
Write-down of long-lived assets (note 6)	—	—	<b>32,294</b>	—
Income (loss) before income taxes and minority interest	<b>1,351</b>	(3,270)	<b>(32,142)</b>	(6,511)
Income tax recovery	<b>(385)</b>	(162)	<b>(385)</b>	(162)
Minority interest	<b>802</b>	(1,295)	<b>(14,648)</b>	(2,644)
MEC's income (loss) from discontinued operations	<b>934</b>	(1,813)	<b>(17,109)</b>	(3,705)
Eliminations (note 18)	<b>746</b>	831	<b>1,509</b>	1,683
Consolidated income (loss) from discontinued operations	<b>\$ 1,680</b>	\$ (982)	<b>\$ (15,600)</b>	\$ (2,022)

<b>As at</b>	<b>June 30, 2008</b>	December 31, 2007
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 8,171	\$ 9,241
Restricted cash	13,175	7,069
Accounts receivable	4,505	6,602
Prepaid expenses and other	3,283	1,812
Real estate properties, net	3,997	—
	<b>33,131</b>	24,724
Real estate properties, net	57,040	81,035
Fixed assets, net	11,935	16,295
Other assets	85	122
Future tax assets	13,547	13,547
	<b>82,607</b>	110,999
MEC's assets related to discontinued operations	115,738	135,723
Eliminations (note 18)	(60)	(72)
Consolidated assets related to discontinued operations	<b>\$ 115,678</b>	\$ 135,651
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 27,302	\$ 21,446
Income taxes payable	3,515	3,182
Long-term debt due within one year	11,632	22,096
Long-term debt	91	—
Loan payable to MID	409	397
Deferred revenue	1,053	1,257
	<b>44,002</b>	48,378
Long-term debt	—	115
Loan payable to MID, net	25,337	26,143
Other long-term liabilities	954	830
Future tax liabilities	13,547	13,547
	<b>39,838</b>	40,635
MEC's liabilities related to discontinued operations	83,840	89,013
Eliminations (note 18)	(25,746)	(26,540)
Consolidated liabilities related to discontinued operations	<b>\$ 58,094</b>	\$ 62,473

## 5. ASSETS HELD FOR SALE

- (a) In November and December 2007, MEC entered into sale agreements for three parcels of excess real estate comprising approximately 825 acres in Porter, New York, subject to the completion of due diligence by the purchasers and customary closing conditions. The sale of one parcel was completed in December 2007 for cash consideration of \$0.3 million, net of transaction costs, and the sales of the two remaining parcels were completed in January 2008 for total cash consideration of \$1.5 million, net of transaction costs. At December 31, 2007, the two parcels of excess real estate for which the sale had not been completed were included in MEC's "assets held for sale" on the Company's consolidated balance sheet. The net proceeds received on closing were used to repay a portion of the MEC Bridge Loan (note 18).
- (b) On December 21, 2007, MEC entered into an agreement to sell 225 acres of excess real estate located in Ebreichsdorf, Austria to a subsidiary of Magna, a related party, for a purchase price of 20.0 million euros (\$31.5 million), net of transaction costs. The closing of the transaction occurred in April 2008 and MEC used 7.5 million euros of the net proceeds to repay a portion of a 15.0 million euro term loan facility with a European financial institution and the remaining portion of the net proceeds to repay \$19.8 million of the MEC Bridge Loan (note 18).
- (c) On August 9, 2007, MEC announced its intention to sell a real estate property located in Dixon, California. In addition, in March 2008, MEC committed to a plan to sell excess real estate in Oberwaltersdorf, Austria. MEC is marketing these properties for sale and has listed them with real estate brokers. On August 9, 2007, MEC also announced its intention to sell a real estate property located in Ocala, Florida. MEC is marketing this property for sale and is in negotiations with a potential buyer. Under the terms of the MEC Bridge Loan, MEC is required to use the net proceeds from the sale of these properties, after repayment of certain prior ranking indebtedness of MEC, to pay down principal amounts outstanding under the MEC Bridge Loan and the amount of such net proceeds will permanently reduce the committed amount of the MEC Bridge Loan.
- (d) The MEC Debt Elimination Plan also contemplates the sale of real estate properties located in Aventura and Hallandale, Florida, both adjacent to Gulfstream Park, and Anne Arundel County, Maryland, adjacent to Laurel Park. MEC has also announced that it intends to explore selling its membership interests in the mixed-use developments at Gulfstream Park racetrack in Florida and Santa Anita Park racetrack in California that it is pursuing under joint venture arrangements with Forest City Enterprises, Inc. ("Forest City") and Caruso Affiliated ("Caruso"), respectively. MEC has also announced that it intends to explore other strategic transactions involving other racing, gaming and technology operations. These potential transactions may include: partnerships or joint ventures in respect of the existing gaming facility at Gulfstream Park; partnerships or joint ventures in respect of potential alternative gaming operations at other MEC racetracks that currently do not have gaming operations; and transactions involving MEC's technology operations, which may include one or more of the assets that comprise MEC's PariMax business.

At June 30, 2008, all of the criteria required to classify an asset as held for sale, or operations as discontinued operations (note 4), in accordance with GAAP were not met in relation to the assets and operations described in the preceding paragraph and, accordingly, these assets and operations continue to be classified as held and in use.

MEC's assets classified as held for sale and corresponding liabilities, related to the transactions described in sections (a), (b) and (c) above, at June 30, 2008 and December 31, 2007, are shown in the table below.

<b>As at</b>	<b>June 30, 2008</b>	<b>(restated – note 5(c)) December 31, 2007</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Real estate properties, net Porter, New York	\$ —	\$ 1,493
Real estate properties, net Dixon, California (note 6)	14,139	19,139
Ocala, Florida	8,407	8,407
Oberwaltersdorf, Austria	4,797	4,482
Ebreichsdorf, Austria	—	6,619
	<b>27,343</b>	<b>38,647</b>
	<b>\$ 27,343</b>	<b>\$ 40,140</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Future tax liabilities	\$ —	\$ 171
Future tax liabilities	876	876
	<b>\$ 876</b>	<b>\$ 1,047</b>

## 6. WRITE-DOWN OF MEC'S LONG-LIVED ASSETS

When long-lived assets are identified as held for sale, the carrying value is reduced, if necessary, to the estimated net realizable value. Net realizable value is evaluated at each interim reporting period based on discounted net future cash flows of the assets and, if appropriate, appraisals and/or estimated net sales proceeds from pending offers.

Write-downs relating to long-lived assets have been recognized as follows:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Assets Held For Sale (note 5)</b>				
Dixon, California <sup>(i)</sup>	\$ —	\$ —	\$ 5,000	\$ —
<b>Discontinued Operations (note 4)</b>				
Magna Racino <sup>TM(ii)</sup>	\$ —	\$ —	\$ 29,195	\$ —
Portland Meadows <sup>(iii)</sup>	—	—	3,099	—
	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 32,294</b>	<b>\$ —</b>

(i) As a result of significant weakness in the Northern California real estate market and the U.S. financial market, MEC recorded an impairment charge of \$5.0 million related to the Dixon, California real estate property in the six months ended June 30, 2008, which represents the excess of the carrying value of the asset over the estimated net realizable value.

(ii) As a result of the classification of Magna Racino<sup>TM</sup> as discontinued operations, MEC recorded an impairment charge, included in discontinued operations, of \$29.2 million in six months ended June 30, 2008, which represents the excess of the carrying value of the assets over the estimated net realizable value.

(iii) In June 2003, the Oregon Racing Commission (“ORC”) adopted regulations that permitted wagering through instant racing terminals as a form of pari-mutuel wagering at Portland Meadows (the “Instant Racing Rules”). In September 2006, the ORC granted a request by Portland Meadows to offer instant racing under its 2006-2007 race meet licence. In June 2007, the ORC, acting under the advice of the Oregon Attorney General, temporarily suspended and began proceedings to repeal the Instant Racing Rules. In September 2007, the ORC denied a request by Portland Meadows to offer instant racing under its 2007-2008 race meet licence. In response to this denial, MEC requested the holding of a contested case hearing, which took place in January 2008. On February 27, 2008, the Office of Administrative Hearings released a proposed order in MEC’s favour, approving instant racing as a legal form of wager at Portland Meadows. However, on April 25, 2008, the ORC issued an order rejecting that recommendation. Based primarily on the ORC’s order to reject the Office of Administrative Hearings’ recommendation, MEC recorded an impairment charge of \$3.1 million, included in discontinued operations, in the six months ended June 30, 2008 related to the instant racing terminals and build-out of the instant racing facility.

## 7. EARNINGS (LOSS) PER SHARE

Diluted earnings (loss) per share for the three-month and six-month periods ended June 30, 2008 and 2007 are computed as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	(restated – note 4) 2007	2008	(restated – note 4) 2007
Income from continuing operations	\$ 26,361	\$ 8,537	\$ 50,238	\$ 32,860
Income (loss) from discontinued operations	1,680	(982)	(15,600)	(2,022)
Net income	<b>\$ 28,041</b>	\$ 7,555	<b>\$ 34,638</b>	\$ 30,838
Weighted average number of Class A Subordinate Voting and Class B Shares outstanding during the period (thousands)	<b>46,708</b>	48,369	<b>46,708</b>	48,360
Stock options (thousands)	—	50	—	56
	<b>46,708</b>	48,419	<b>46,708</b>	48,416
Diluted earnings (loss) per Class A Subordinate Voting or Class B Share				
– from continuing operations	\$ 0.56	\$ 0.18	\$ 1.07	\$ 0.68
– from discontinued operations	<b>0.04</b>	(0.02)	<b>(0.33)</b>	(0.04)
	<b>\$ 0.60</b>	\$ 0.16	<b>\$ 0.74</b>	\$ 0.64

The computation of diluted earnings (loss) per share for the three-month and six-month periods ended June 30, 2008 excludes the effect of the potential exercise of 516,544 (2007 – nil) options to acquire Class A Subordinate Voting Shares of the Company because the effect would be anti-dilutive.

## 8. REAL ESTATE PROPERTIES

(a) Real estate properties consist of:

As at	June 30, 2008	(restated – notes 4, 5) December 31, 2007
<b>Real Estate Business</b>		
<b>Revenue-producing properties</b>		
Land	\$ 234,116	\$ 226,269
Buildings, parking lots and roadways – cost	1,482,107	1,444,241
Buildings, parking lots and roadways – accumulated depreciation	(375,895)	(345,825)
	<b>1,340,328</b>	1,324,685
<b>Development properties</b>		
Land and improvements	226,119	226,248
Properties under development	6,139	9,541
	<b>232,258</b>	235,789
<b>Properties held for sale</b>		
	<b>527</b>	1,447
	<b>1,573,113</b>	1,561,921
<b>MEC</b>		
<b>Revenue-producing racetrack properties</b>		
Land and improvements	164,865	164,856
Buildings – cost	550,790	544,543
Buildings – accumulated depreciation	(125,041)	(113,620)
Construction in progress	51,419	42,666
	<b>642,033</b>	638,445
<b>Under-utilized racetrack real estate</b>		
	<b>76,128</b>	76,130
<b>Revenue-producing non-racetrack properties</b>		
Land and improvements	183	2,015
Buildings – cost	3,446	2,123
Buildings – accumulated depreciation	(107)	(93)
	<b>3,522</b>	4,045
	<b>721,683</b>	718,620
Eliminations (note 18)	<b>(55,301)</b>	(55,387)
Consolidated	<b>\$ 2,239,495</b>	\$ 2,225,154

(b) During the three months ended June 30, 2008, the Real Estate Business determined that the plan of sale criteria under generally accepted accounting principles was no longer met for one property included in “properties held for sale” at December 31, 2007, as the Company intends to lease the property to a third party tenant. Accordingly, the property, consisting of land and a vacant building with an aggregate carrying value of \$1.3 million, has been reclassified into “revenue-producing properties” at June 30, 2008.

(c) During the three months ended June 30, 2008, the Real Estate Business determined that one property included in “revenue-producing properties” at December 31, 2007 is expected to be sold after the existing lease expires in September 2008. Accordingly, the property, consisting of land and a vacant building with an aggregate carrying value of \$0.5 million (net of a \$0.5 million write-down to the property’s estimated net realizable value in the three months ended June 30, 2008), has been reclassified into “properties held for sale” at June 30, 2008.

## 9. BANK INDEBTEDNESS AND LONG-TERM DEBT

- (a) During the six months ended June 30, 2008, the maturity date of the \$40.0 million MEC Credit Facility was extended from March 31, 2008 to July 30, 2008 (subject to certain acceleration provisions that are no longer applicable). Subsequent to quarter-end, the maturity date was further extended to August 15, 2008. Borrowings under the MEC Credit Facility are available by way of U.S. dollar loans and letters of credit, each bearing interest at the U.S. base rate plus 5.0% or the London Interbank Offered Rate ("LIBOR") plus 6.0%. Loans under the MEC Credit Facility are collateralized 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 MEC's subsidiaries. At June 30, 2008, MEC had borrowed \$36.5 million (December 31, 2007 – \$34.9 million) under the MEC Credit Facility and had issued letters of credit totalling \$3.4 million (December 31, 2007 – \$4.3 million), such that \$0.1 million was unused and available. The weighted average interest rate on the borrowings outstanding under the MEC Credit Facility at June 30, 2008 was 8.5% (December 31, 2007 – 11.0%).
- (b) At December 31, 2007, MEC's wholly-owned subsidiary AmTote International, Inc. ("AmTote") had three financing arrangements with a U.S. financial institution: (i) a \$3.0 million revolving credit facility to finance working capital requirements (the "AmTote Credit Facility"), (ii) a \$4.2 million term loan (the "AmTote Term Loan") and (iii) a term loan of up to \$10.0 million to finance up to 80% of eligible capital costs related to tote service contracts (the "AmTote Equipment Term Loan"). The AmTote Credit Facility, AmTote Term Loan and AmTote Equipment Term Loan were scheduled to mature on May 1, 2008, May 11, 2011 and May 11, 2012, respectively, but on April 30, 2008, the maturity dates were amended to May 30, 2008 for the AmTote Credit Facility and May 30, 2009 for both term loan facilities. On May 30, 2008, the AmTote Credit Facility was fully repaid and terminated. Borrowings under the AmTote Term Loan and the AmTote Equipment Term Loan bear interest at LIBOR plus 3.0%. Both term loan facilities are collateralized by a first charge on AmTote's assets and a pledge of the stock of AmTote. At June 30, 2008, \$2.8 million and \$2.6 million (December 31, 2008 – \$3.3 million and \$2.0 million) were outstanding under the AmTote Term Loan and the AmTote Equipment Term Loan, respectively. As a result of the amendments to the maturity dates, amounts outstanding under the AmTote Term Loan and the AmTote Equipment Term Loan are reflected in MEC's "long-term debt due within one year" on the Company's unaudited interim consolidated balance sheet at June 30, 2008.
- (c) Two of MEC's wholly-owned subsidiaries that own and operate Pimlico Race Course and Laurel Park had borrowings of \$9.0 million outstanding at June 30, 2008 under term loan credit facilities with a U.S. financial institution. At June 30, 2008, MEC was not in compliance with one of the financial covenants contained in those credit agreements. MEC obtained a waiver from the lender on August 5, 2008 for this financial covenant breach at June 30, 2008 and the loan facilities were amended to temporarily modify this financial covenant as at September 30, 2008. One of these MEC subsidiaries, Pimlico Racing Association, Inc., has a revolving term loan facility with the same U.S. financial institution that permits the prepayment of outstanding principal without penalty. This facility matures on December 1, 2013, bears interest at either the U.S. prime rate or LIBOR plus 2.6% per annum and is collateralized 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 ("MJC"). At June 30, 2008, there were no drawings on this facility. On August 5, 2008, the revolving term loan facility was amended to reduce the maximum undrawn availability from \$7.7 million to \$4.5 million.
- (d) One of MEC's European wholly-owned subsidiaries had a bank term loan with a European financial institution of up to 3.5 million euros bearing interest at the Euro Overnight Index Average Rate plus 3.8% per annum (7.8% at June 30, 2008). At June 30, 2008, there was a nominal amount outstanding under this bank term loan facility, which was fully repaid when the facility expired on July 31, 2008.

## 10. SHARE CAPITAL

Changes in the Company's Class A Subordinate Voting Shares and Class B Shares are shown in the following table:

	Class A Subordinate Voting Shares		Class B Shares		Total	
	Number	Stated Value	Number	Stated Value	Number	Stated Value
Shares issued and outstanding, December 31, 2006	47,782,908	\$ 1,559,476	547,413	\$ 17,866	48,330,321	\$ 1,577,342
Issued on exercise of stock options	38,456	1,303	—	—	38,456	1,303
Shares issued and outstanding, March 31, 2007 and June 30, 2007	47,821,364	1,560,779	547,413	17,866	48,368,777	1,578,645
Shares purchased for cancellation	(485,700)	(15,853)	—	—	(485,700)	(15,853)
Shares issued and outstanding, September 30, 2007	47,335,664	1,544,926	547,413	17,866	47,883,077	1,562,792
Shares purchased for cancellation	(1,175,100)	(38,352)	—	—	(1,175,100)	(38,352)
<b>Shares issued and outstanding, December 31, 2007, March 31, 2008 and June 30, 2008</b>	<b>46,160,564</b>	<b>\$ 1,506,574</b>	<b>547,413</b>	<b>\$ 17,866</b>	<b>46,707,977</b>	<b>\$ 1,524,440</b>

Pursuant to the terms of a normal course issuer bid program for which the Company received approval from the Toronto Stock Exchange ("TSX") on September 29, 2006, the Company was authorized, from October 4, 2006 to October 3, 2007, to purchase for cancellation, through the facilities of the TSX and the New York Stock Exchange ("NYSE"), up to 3,257,895 Class A Subordinate Voting Shares, being 10% of the Public Float, as such term is defined by the TSX.

Pursuant to the terms of a normal course issuer bid program for which the Company received approval from the TSX on October 2, 2007, the Company is authorized, during the 12-month period commencing October 8, 2007 and ending October 7, 2008, to purchase for cancellation, through the facilities of the TSX and the NYSE, up to 2,531,354 Class A Subordinate Voting Shares, being 10% of the Public Float.

During 2007, the Company purchased an aggregate of 1,660,800 Class A Subordinate Voting Shares for cancellation under these programs. The price that MID pays for shares purchased pursuant to the bids is the market price at the time of acquisition. No shares have been purchased thus far for cancellation in 2008 and the Company remains authorized to purchase for cancellation up to 1,696,654 Class A Subordinate Voting Shares under the normal course issuer bid program ending October 7, 2008.

## 11. CONTRIBUTED SURPLUS

Changes in the Company's contributed surplus are shown in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Contributed surplus, beginning of period	\$ 27,648	\$ 2,547	\$ 27,517	\$ 2,667
Stock-based compensation	131	127	262	252
Transfer to share capital on exercise of stock options	—	—	—	(245)
<b>Contributed surplus, end of period</b>	<b>\$ 27,779</b>	<b>\$ 2,674</b>	<b>\$ 27,779</b>	<b>\$ 2,674</b>

## 12. ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in the Company's accumulated other comprehensive income are shown in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Accumulated other comprehensive income, beginning of period	\$ 276,778	\$ 176,205	\$ 241,939	\$ 166,553
Change in fair value of interest rate swaps, net of taxes and minority interest	361	3	29	(56)
Foreign currency translation adjustment, net of minority interest (i)	552	24,485	35,723	34,848
Recognition of foreign currency translation translation loss (gain) in net income (loss) (ii)	105	—	105	(652)
<b>Accumulated other comprehensive income, end of period (iii)</b>	<b>\$ 277,796</b>	<b>\$ 200,693</b>	<b>\$ 277,796</b>	<b>\$ 200,693</b>

- (i) During the three-month and six-month periods ended June 30, 2008 and 2007, the Company reported unrealized foreign currency translation net gains related to its self-sustaining operations having functional currencies other than the U.S. dollar. The gain in the three months ended June 30, 2008 is primarily due to the strengthening against the U.S. dollar of the Canadian dollar. The gain from the appreciation of the euro against the U.S. dollar in the six months ended June 30, 2008 was partially offset by unrealized foreign currency translation losses related to the reporting of the Company's Canadian operations due to the weakening of the Canadian dollar against the U.S. dollar during this period. The gain in the three and six months ended June 30, 2007 is primarily due to the strengthening against the U.S. dollar of the euro and the Canadian dollar.
- (ii) Included in the Real Estate Business' "other losses" and "other gains, net" for the three and six months ended June 30, 2008, respectively, is a \$0.1 million currency translation loss (six months ended June 30, 2007 – \$0.7 million gain) realized from capital transactions that gave rise to a reduction in the net investment in certain foreign operations.
- (iii) Accumulated other comprehensive income consists of:

<b>As at</b>	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Foreign currency translation adjustment, net of minority interest	\$ 278,189	\$ 242,369
Fair value of interest rate swaps, net of taxes and minority interest	(393)	(430)
	<b>\$ 277,796</b>	<b>\$ 241,939</b>

## 13. STOCK-BASED COMPENSATION

- (a) On August 29, 2003, MID's Board of Directors approved the Incentive Stock Option Plan (the "MID Plan"), which allows for the grant of stock options or stock appreciation rights to directors, officers, employees and consultants. Amendments to the MID Plan were approved by the Company's shareholders at the May 11, 2007 Annual and Special Meeting, and became effective on June 6, 2007. At December 31, 2007, a maximum of 2.61 million MID Class A Subordinate Voting Shares are available to be issued under the MID Plan.

MID has granted stock options to certain directors and officers to purchase MID's Class A Subordinate Voting Shares. Such options have generally been granted with 1/5th of the options vesting on the date of grant and the remaining options vesting over a period of four years at a rate of 1/5th on each anniversary of the date of grant. Options expire on the tenth anniversary of the date of grant, subject to earlier cancellation in the events specified in the stock option agreement entered into by MID with each recipient of options.

A reconciliation of the changes in stock options outstanding is presented below:

	2008		2007	
	Number	Weighted Average Exercise Price (Cdn. \$)	Number	Weighted Average Exercise Price (Cdn. \$)
Stock options outstanding, January 1	516,544	35.09	465,000	36.08
Exercised	—	—	(38,456)	32.19
Stock options outstanding, March 31	516,544	35.09	426,544	36.43
Expired	(10,000)	41.17	—	—
Stock options outstanding, June 30	506,544	34.97	426,544	36.43
Stock options exercisable, June 30	316,544	34.45	216,544	34.92

The Company estimates the fair value of stock options granted at the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of freely traded options, which are fully transferable and have no vesting restrictions. In addition, this model requires the input of subjective assumptions, including expected dividend yields, future stock price volatility and expected time until exercise. Although the assumptions used reflect management's best estimates, they involve inherent uncertainties based on market conditions outside of the Company's control. Because the Company's outstanding stock options have characteristics that are significantly different from those of traded options, and because changes in any of the assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide the only measure of the fair value of the Company's stock options.

Effective November 3, 2003, MID established a Non-Employee Director Share-Based Compensation Plan (the "DSP"), which provides for a deferral of up to 100% of each outside director's total annual remuneration from the Company, at specified levels elected by each director, until such director ceases to be a director of the Company. The amounts deferred are reflected by notional deferred share units ("DSUs") whose value reflects the market price of the Company's Class A Subordinate Voting Shares at the time that the particular payment(s) to the director is determined. The value of a DSU will appreciate or depreciate with changes in the market price of the Class A Subordinate Voting Shares. The DSP also takes into account any dividends paid on the Class A Subordinate Voting Shares. Effective January 1, 2005, all directors were required to receive at least 50% of their Board and Committee compensation fees (excluding Special Committee fees, effective January 1, 2006) in DSUs. On January 1, 2008, the DSP was amended such that this 50% minimum requirement is only applicable to Board retainer fees. Under the DSP, when a director leaves the Board, the director receives a cash payment at an elected date equal to the value of the accrued DSUs at such date. There is no option under the DSP for directors to receive Class A Subordinate Voting Shares in exchange for DSUs.

A reconciliation of the changes in DSUs outstanding is presented below:

	2008	2007
DSUs outstanding, January 1	41,452	27,319
Granted	6,012	4,241
DSUs outstanding, March 31	47,464	31,560
Granted	5,579	3,025
DSUs outstanding, June 30	53,043	34,585

During the three and six months ended June 30, 2008, the Real Estate Business recognized stock-based compensation expense of \$0.1 million (2007 – \$0.2 million) and \$0.3 million (2007 – \$0.5 million), respectively, which includes a \$9 thousand net recovery (2007 – \$0.1 million expense) and a \$24 thousand net expense (2007 – \$0.3 million expense), respectively, pertaining to DSUs.

- (b) Subsequent to quarter-end, MEC completed a reverse stock split whereby every twenty shares of MEC Class A Stock and MEC Class B Stock have been consolidated into one share of MEC Class A Stock and MEC Class B Stock, respectively (note 19(n)). In addition, the number of, and exercise price for, all MEC stock options were adjusted to reflect the 1:20 consolidation. Accordingly, all of the disclosures below pertaining to MEC's long-term incentive plan, performance share awards and options to purchase shares have been restated as of June 30, 2008 and for all retroactive periods to reflect the effect of the reverse stock split.

MEC has a long-term incentive plan (the "MEC Plan"), adopted in 2000 and amended in 2007, which allows for the grant of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, bonus stock and performance shares to MEC's directors, officers, employees, consultants, independent contractors and agents. A maximum of 440 thousand shares of MEC Class A Stock are available to be issued under the MEC Plan, of which 390 thousand are available for issuance pursuant to stock options and tandem stock appreciation rights and 50 thousand are available for issuance pursuant to any other type of award under the MEC Plan.

Under a 2005 incentive compensation program (the "MEC Program"), MEC awarded performance shares of MEC Class A Stock to certain of MEC's officers and key employees. The number of shares of MEC Class A Stock underlying the 2005 Performance Share Awards was based either on a percentage of a guaranteed bonus or a percentage of total 2005 compensation divided by the market value of the stock on the date the MEC Program was approved by the Compensation Committee of MEC's Board of Directors. The 2005 Performance Share Awards vested over a six or eight month period to December 31, 2005 and were distributed, subject to certain conditions, in two equal instalments. The first distribution date occurred in March 2006 and the second distribution date occurred in March 2007.

For 2006, MEC continued the MEC Program as described in the preceding paragraph. The program was similar in all respects except that the performance shares granted in 2006 vested over a 12-month period to December 31, 2006 and were distributed, subject to certain conditions, prior to March 31, 2007.

Accordingly, for the six months ended June 30, 2007, MEC issued 8,737 of these vested performance share awards with a stated value of \$0.6 million and 324 performance share awards were forfeited. No performance share awards remain to be issued under the 2005 and 2006 incentive compensation arrangements subsequent to March 31, 2007. MEC did not continue its performance share award program subsequent to 2006.

During the three and six months ended June 30, 2008, MEC issued 21,687 shares (six months ended June 30, 2007 – 1,547) of MEC Class A Stock with a stated value of \$0.2 million (six months ended June 30, 2007 – \$0.1 million) to MEC's directors in payment of services rendered. As a result, the Company recognized a dilution loss of \$0.4 million in the three-month period (included in "other losses") and six-month period (included in "other gains, net") ended June 30, 2008 (six months ended June 30, 2007 – \$4 thousand dilution gain included in "other gains, net").

MEC grants stock options ("MEC Stock Options") to certain directors, officers, key employees and consultants to purchase shares of MEC Class A Stock. All MEC Stock Options give the grantee the right to purchase MEC Class A Stock at a price no less than the fair market value of such stock at the date of grant. Generally, MEC Stock Options under the MEC Plan vest over a period of two to six years from the date of grant at rates of 1/7th to 1/3rd 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 MEC with each recipient of MEC Stock Options.

A reconciliation of the changes in MEC Stock Options outstanding is presented below:

	2008		2007	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
MEC Stock Options outstanding, January 1	247,500	116.40	245,250	121.60
Forfeited or expired	(10,000)	111.20	(8,300)	134.80
MEC Stock Options outstanding, March 31	237,500	116.60	236,950	121.20
Forfeited or expired	(550)	133.20	(1,250)	114.20
MEC Stock Options outstanding, June 30	236,950	116.55	235,700	121.40
MEC Stock Options exercisable, June 30	217,902	119.80	217,583	121.40

The fair value of MEC Stock Options granted is estimated at the date of grant using the Black-Scholes option valuation model, which requires the use of subjective assumptions and may not necessarily provide the only measure of the fair value of MEC Stock Options (as described further in note 13(a)).

During the three and six months ended June 30, 2008, MEC recognized total stock-based compensation expense of \$0.2 million (2007 – \$0.1 million) and \$0.2 (2007 – \$0.3 million), respectively, relating to performance share awards, director compensation and stock options under the MEC Plan.

## 14. CAPITAL MANAGEMENT AND LIQUIDITY

The capital resources managed by the Company include:

- cash and cash equivalents;
- credit facilities;
- long-term debt;
- additional borrowing capacity; and
- shareholders' equity.

Each of the Company's reportable segments (note 17) has different capital management objectives.

### **Real Estate Business**

The Real Estate Business' objectives when managing capital include ensuring that there are adequate capital resources to sustain operations and maintaining a capital structure that allows the Real Estate Business to take advantage of suitable investment opportunities as they arise. The Real Estate Business monitors its capital based on its ratio of debt to total capitalization, which it regards as a measure of its ability to access additional capital as required.

The Real Estate Business must also comply with the terms of its debt agreements, including its \$50.0 million unsecured revolving credit facility (the "MID Credit Facility") and the trust indenture for its Cdn. \$265.0 million senior unsecured debentures (the "Debentures"), which include the following limitations:

- secured indebtedness not to exceed 15% of net tangible assets;
- funded debt not to exceed 40% of total capitalization; and
- total interest coverage of no less than 3:1.

At June 30, 2008 and December 31, 2007, the Company had no borrowings under the MID Credit Facility, which expires on December 21, 2008, but had issued letters of credit totalling \$0.3 million.

As at June 30, 2008, the Real Estate Business' debt to total capitalization was 14% (December 31, 2007 – 15%) and the Real Estate Business was in compliance with all of its covenants. The outstanding total debt at June 30, 2008 was \$265.5 million (December 31, 2007 – \$274.7 million), which is comprised of \$258.8 million (December 31, 2007 – \$267.6 million) of the Debentures and \$6.7 million (December 31, 2007 – \$7.1 million) of mortgages payable on two properties. The Real Estate Business' total capitalization at June 30, 2008 was \$1.93 billion (December 31, 2007 – \$1.86 billion).

The Real Estate Business generated cash flows from operating activities of \$89.1 million in the six months ended June 30, 2008 and had cash and cash equivalents of \$147.2 million at June 30, 2008.

The Real Estate Business' strategy for managing its liquidity needs includes (i) using its cash resources and cash flows from operating activities, (ii) drawing on the MID Credit Facility if and as needed and (iii) accessing additional capital by issuing debt, equity or a combination of securities as required to finance its operations and capital expenditures. The capital requirements to finance additional acquisition and development activity will depend on the availability of suitable investment opportunities and related funding sources.

As disclosed in note 3, MID is reviewing the reorganization proposal and is also continuing to explore a range of alternatives in respect of its MEC investment, including evaluating whether or to what extent MID might participate in a recapitalization or restructuring of MEC. The participation by MID in any such transaction could result in a significant increase in the Company's financial leverage, change the risk profile of the Real Estate Business and/or limit its financial flexibility to take advantage of certain investment opportunities. In addition, if the Real Estate Business' funded debt were to exceed 40% of its total capitalization as a result of these changes, the Company might be required to repay the Debentures and potentially pay a prepayment premium determined in accordance with the terms of the applicable trust indenture, as described in note 11 to the annual consolidated financial statements for the year ended December 31, 2007.

### **MEC**

MEC's capital is monitored by its separate Board of Directors and management team based on its level of net debt. MEC must also comply with the terms of its debt agreements. Many of these debt arrangements are obligations of individual MEC business units and require compliance with numerous financial and other covenants. As at June 30, 2008, MEC's net debt was \$586.1 million (December 31, 2007 – \$564.5 million) and MEC was in compliance with all of its covenants except as disclosed in note 9. MID's Real Estate Business has not guaranteed any of MEC's indebtedness.

Under the MEC Debt Elimination Plan (note 1), MEC's capital management objective is to significantly reduce or eliminate its net debt by generating funds from the sale of assets (notes 4 and 5), entering into strategic transactions involving certain of MEC's racing, gaming and technology operations, and a possible future equity issuance. These proceeds are to be used to fund MEC's operations and applied to eliminate MEC's net debt, including amounts owed to the MID Lender (note 18). Although MEC continues to take steps to implement its plan, MEC does not expect to execute the MEC Debt Elimination Plan on the originally contemplated time schedule, if at all. In order for MEC to fund its ongoing operations and provide sufficient time to implement the MEC Debt Elimination Plan, MEC will again need to seek extensions from existing lenders, including the Company, the availability of which is not yet determinable.

As discussed in note 1, MEC's ability to continue as a going concern is in substantial doubt and is dependent on MEC generating cash flows that are adequate to sustain the operations of the business, renewing or extending current financing arrangements and meeting its obligations with respect to secured and unsecured creditors, none of which is assured. If MEC is unable to repay its obligations when due or satisfy required covenants in its debt agreements, substantially all of its current and long-term debt will also become due on demand as a result of cross-default provisions within its loan agreements, unless MEC is able to obtain waivers, modifications or extensions. The availability of such waivers, modifications or extensions is not assured and, if available, the terms thereof are not yet determinable.

## 15. DETAILS OF CASH FROM OPERATING ACTIVITIES

(a) Items not involving current cash flows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	(restated – note 4) 2007	2008	(restated – note 4) 2007
<b>Real Estate Business</b>				
Straight-line rent adjustment	\$ (91)	\$ 145	\$ (34)	\$ 237
Interest and other income from MEC	(1,442)	(75)	(2,528)	(143)
Stock-based compensation expense	122	207	286	537
Depreciation and amortization	11,356	10,216	22,403	20,147
Write-down of long-lived assets	450	—	450	—
Gain on disposal of real estate	—	(1,357)	—	(1,382)
Future income taxes	781	587	2,647	1,855
Other losses (gains)	105	—	105	(652)
Other	87	81	175	156
	<b>11,368</b>	<b>9,804</b>	<b>23,504</b>	<b>20,755</b>
<b>MEC</b>				
Stock-based compensation expense	187	70	231	272
Interest expense with MID	—	75	—	75
Depreciation and amortization	11,099	8,938	22,039	17,464
Amortization of debt issuance costs	2,638	434	5,150	852
Write-down of MEC's long-lived assets	—	—	5,000	—
Gain on disposal of real estate	(24,340)	(17,587)	(24,340)	(48,654)
Other losses (gains)	443	—	(1,570)	(4)
Future income taxes	(79)	(190)	1,562	(1,568)
Minority interest	362	(8,654)	(5,950)	(6,452)
Other	1,478	(380)	2,358	(988)
	<b>(8,212)</b>	<b>(17,294)</b>	<b>4,480</b>	<b>(39,003)</b>
Eliminations (note 18)	(967)	17,400	(2,164)	49,708
Consolidated	\$ 2,189	\$ 9,910	\$ 25,820	\$ 31,460

(b) Changes in non-cash balances:

	Three Months Ended June 30,		Six Months Ended June 30,	
		(restated – note 4)		(restated – note 4)
	2008	2007	2008	2007
<b>Real Estate Business</b>				
Accounts receivable	\$ 2,564	\$ 1,136	\$ 741	\$ 694
Loans receivable from MEC, net	(274)	—	(333)	—
Prepaid expenses and other	(398)	123	129	45
Accounts payable and accrued liabilities	1,143	(2,408)	4,980	2,060
Income taxes	(1,293)	2,468	1,619	5,015
Deferred revenue	1,896	(929)	1,174	273
	<b>3,638</b>	<b>390</b>	<b>8,310</b>	<b>8,087</b>
<b>MEC</b>				
Restricted cash	13,924	20,558	16,531	18,630
Accounts receivable	20,096	24,581	(1,242)	(6,174)
Prepaid expenses and other	(3,008)	(23)	(7,217)	(3,984)
Accounts payable and accrued liabilities	(39,861)	(31,303)	(28,695)	(26,746)
Income taxes	92	3,708	1,541	1,516
Loans Payable to MID, net	274	—	333	—
Deferred revenue	(3,911)	(2,915)	(1,567)	312
	<b>(12,394)</b>	<b>14,606</b>	<b>(20,316)</b>	<b>(16,446)</b>
Eliminations (note 18)	71	22	282	(171)
Consolidated	\$ (8,685)	\$ 15,018	\$ (11,724)	\$ (8,530)

## 16. FINANCIAL INSTRUMENTS

### (a) Interest Rate Risk

The Company's consolidated results of operations are primarily exposed to interest rate risk on its credit facilities and MEC's variable-rate long-term debt. Based on the balances of these financial liabilities outstanding as at June 30, 2008, a 50 basis point change in annual interest rates, with all other variables held constant, would have impacted consolidated "interest expense, net" for the six months ended June 30, 2008 by approximately \$2.4 million.

The Company is also exposed to interest rate risk on short-term investments with maturities of up to three months from the date of acquisition that are included in "cash and cash equivalents" and "restricted cash" on the Company's consolidated balance sheets. The balance of the Company's short-term investments fluctuates depending on the timing of the Company's operating cash flows, capital expenditures and other liquidity requirements. Assuming the balance of short-term investments at June 30, 2008 were outstanding throughout the entire six months then ended, a 50 basis point change in annual interest rates, with all other variables held constant, would have impacted consolidated "interest expense, net" by approximately \$0.3 million for the six months ended June 30, 2008.

MEC occasionally utilizes interest rate swap contracts to hedge exposure to interest rate fluctuations on variable rate debt. At March 31, 2008, MEC had four interest rate swap contracts outstanding in connection with a LIBOR-based term loan facility described in note 18(c) to the annual consolidated financial statements for the year ended December 31, 2007. Based on the interest rate swap contracts in place at June 30, 2008, a 50 basis point change in interest rates would have impacted other comprehensive income (excluding related minority interest and tax effects) by approximately \$0.6 million for the six months ended June 30, 2008.

### (b) Currency Risk

The Company is structured such that its foreign operations are self-sustaining. As a result, the Company's currency risk associated with financial instruments is limited as its financial assets and liabilities are generally denominated in the functional currency of the subsidiary that holds the financial instrument. However, the Real Estate Business' corporate operations, which utilize the Canadian dollar as the functional currency, have exposure to U.S. dollar and

euro denominated financial assets and liabilities. Similarly, MEC's operations, which utilize the U.S. dollar as the functional currency, have exposure to Canadian dollar denominated financial liabilities. Based on the balance of these financial instruments at June 30, 2008, a 5% change in exchange rates between the Canadian dollar and the relevant currencies at June 30, 2008 would not have had a material impact on the Company's consolidated net income for the six months ended June 30, 2008.

### **(c) Credit Risk**

MEC, in the normal course of business, settles wagers for racetracks that it does not operate or manage and is thereby exposed to credit risk. However, these receivables are generally not a significant portion of the Company's total assets and are comprised of a large number of accounts. At June 30, 2008, MEC's "accounts receivable" included on the Company's consolidated balance sheet are net of an allowance for doubtful accounts of \$1.8 million (December 31, 2007 – \$1.8 million), which is estimated based on a review of specific customer balances and related historical collection experience. For the three and six months ended June 30, 2008, MEC incurred a bad debt expense of \$0.2 million (2007 – \$31 thousand) and \$0.3 million (2007 – \$0.3 million), respectively.

## **17. SEGMENTED INFORMATION**

The Company's reportable segments reflect how the Company is organized and managed by senior management. The Company's operations are segmented in the Company's internal financial reports between wholly-owned operations (Real Estate Business) and publicly-traded operations (MEC). The segregation of operations between wholly-owned and publicly-traded operations recognizes the fact that, in the case of the Real Estate Business, the Company's Board of Directors and executive management have direct responsibility for the key operating, financing and resource allocation decisions, whereas, in the case of MEC, such responsibility resides with MEC's separate Board of Directors and executive management.

The Company's reporting segments are as follows:

### ***Real Estate Business***

At June 30, 2008, the Real Estate Business owns real estate assets in Canada, Austria, the United States, Germany, Mexico, the Czech Republic, the United Kingdom, Spain and Poland. Substantially all of these real estate assets are leased to, or are under development for subsequent lease to, Magna's automotive operating units. The Real Estate Business also owns certain properties that are being held for future development or sale.

### ***MEC***

MEC operates or manages seven thoroughbred racetracks, one standardbred racetrack and two racetracks that run both thoroughbred and quarter horse meets, as well as the simulcast wagering venues at these tracks. Also, MEC used to manage the thoroughbred and standardbred racing at Magna Racino™, but a local operator is now managing meets at that facility. Three of the racetracks owned or operated by MEC (two in the United States and one in Austria) include casino operations with alternative gaming machines. In addition, MEC operates off-track betting ("OTB") facilities, a United States based national account wagering business known as XpressBet® and a European account wagering service known as MagnaBet™. Under a series of March 2007 agreements with Churchill Downs Incorporated ("CDI"), MEC owns a 50% interest in a joint venture, TrackNet Media Group, LLC ("TrackNet Media"), a content management company formed for distribution of the full breadth of MEC's and CDI's horseracing content (note 19). A separate joint venture with CDI, "HRTV, LLC", also involves the ownership by each of MEC and CDI of 50% shares in HorseRacing TV® ("HRTV®"), a television network focused on horseracing that MEC initially launched on the Racetrack Television Network. MEC also owns AmTote, a provider of totalisator services to the pari-mutuel industry. To support certain of MEC's thoroughbred racetracks, MEC owns and operates thoroughbred training centres in Palm Beach County, Florida and in the Baltimore, Maryland area and, under a triple-net lease agreement with MID, operates an additional thoroughbred training centre situated near San Diego, California. MEC also owns and operates production facilities in Austria and in North Carolina for StreuFex™, a straw-based horse bedding product. In addition to racetracks, MEC's real estate portfolio includes a residential development in Austria.

As described in note 1, the Company's consolidated statements of income (loss), consolidated statements of cash flows and consolidated balance sheets have been arranged to provide detailed, discrete financial information on the Real Estate Business and MEC reporting segments.

## 18. TRANSACTIONS WITH RELATED PARTIES

Mr. Frank Stronach, the Company's Chairman, the Chairman of Magna, and the Chairman and Chief Executive Officer of MEC, and three other members of his family are trustees of the Stronach Trust. The Stronach Trust controls the Company through the right to direct the votes attaching to 66% of the Company's Class B Shares. Magna is controlled by M Unicar Inc. ("M Unicar"), a Canadian holding company whose shareholders consist of the Stronach Trust, OJSC Russian Machines ("Russian Machines") and certain members of Magna's management. M Unicar indirectly owns Magna Class A Subordinate Voting Shares and Class B Shares representing in aggregate approximately 71% of the total voting power attaching to all Magna's shares. The Stronach Trust indirectly owns the shares carrying the majority of the votes of M Unicar. Magna is governed by a board of directors on which each of the Stronach Trust and Russian Machines (indirectly through M Unicar) has the right to designate an equal number of nominees, in addition to Magna's current co-chief executive officers. As the Company and Magna may be considered to be under the common control of the Stronach Trust, they are considered to be related parties for accounting purposes.

### (a) Bridge Loans and Project Financings

On September 13, 2007, MID announced that the MID Lender had agreed to provide MEC with the MEC Bridge Loan of up to \$80.0 million (subsequently increased to \$110.0 million as discussed below). The MEC Bridge Loan, together with a \$20.0 million private placement of MEC Class A Stock to FEL (the "FEL Equity Investment") completed in October 2007, is intended to provide short-term funding to MEC as it implements the MEC Debt Elimination Plan (note 1). At that time, the MID Lender also agreed to amend the MEC Project Financing Facilities (as defined below) by, among other things, requiring repayment of at least \$100.0 million under the Gulfstream Park project financing facility on or prior to May 31, 2008 (subsequently extended to August 31, 2008 as discussed below) and waiving the make-whole payment, if applicable, for any repayments made under either of the MEC Project Financing Facilities prior to that date. Pursuant to a consulting agreement between MID and MEC, which requires MEC to reimburse MID for its expenses, MID management has provided assistance to MEC in implementing the MEC Debt Elimination Plan.

#### (i) MEC Bridge Loan

The MEC Bridge Loan, initially of up to \$80.0 million, has been made available through a non-revolving facility provided by the MID Lender. The MEC Bridge Loan proceeds may only be used by MEC in accordance with the MEC Debt Elimination Plan and are available solely to fund: (i) operations; (ii) payments of principal, interest and costs, fees and expenses due under the MEC Bridge Loan and the MEC Project Financing Facilities; (iii) mandatory payments of interest in connection with permitted debt under the MEC Bridge Loan; (iv) mandatory capital expenditures; and (v) capital expenditures required pursuant to the terms of the joint venture arrangements between MEC and Forest City and Caruso (note 19).

The MEC Bridge Loan initially had a maturity date of May 31, 2008 and bore interest at a rate per annum equal to LIBOR plus 10.0% prior to December 31, 2007, at which time the interest rate on outstanding and subsequent advances was increased to LIBOR plus 11.0% (set at 16.2% at December 31, 2007). On February 29, 2008, the interest rate on outstanding and subsequent advances under the MEC Bridge Loan was increased by a further 1.0% (set at 14.5% at June 30, 2008).

On May 23, 2008, the maturity date of the MEC Bridge Loan was extended from May 31, 2008 to August 31, 2008. At the same time, the maximum commitment under the MEC Bridge Loan was increased from \$80.0 million to \$110.0 million, and MEC was given the ability to re-borrow the \$21.5 million previously repaid from proceeds of asset sales (note 5).

The MEC Bridge Loan is secured by certain assets of MEC, including first ranking security over the Dixon, Ocala and Thistledown lands, second ranking security over Golden Gate Fields and third ranking security over Santa Anita Park. In addition, the MEC Bridge Loan is guaranteed by certain MEC subsidiaries and MEC has pledged the shares and all other interests MEC has in each of the guarantor subsidiaries (or provided negative pledges where a pledge was not possible due to regulatory constraints or due to a pledge to an existing third party lender). The MEC Bridge Loan is cross-defaulted to all other obligations of MEC and its subsidiaries to the MID Lender, including the MEC Project Financing Facilities.

The MEC Bridge Loan must be repaid with, and the commitment is reduced by, amounts equal to all net proceeds realized by MEC from asset sales and issuances of equity (other than the FEL Equity Investment) or debt, subject to amounts required to be paid to MEC's existing lenders. Amounts repaid subsequent to the May 2008 amendments cannot be re-borrowed. During the three and six months ended June 30, 2008, \$19.8 million and

\$21.5 million, respectively, of the MEC Bridge Loan was repaid from proceeds of MEC asset sales (note 5) and subsequent to June 30, 2008, MEC repaid a further \$4.5 million from its sale of Great Lakes Downs (note 5).

The MID Lender received an arrangement fee of \$2.4 million (3% of the commitment) at closing and received an additional arrangement fee of \$0.8 million on February 29, 2008 (1% of the then current commitment). In connection with the May 2008 amendments, the MID Lender received a fee of \$1.1 million (1% of the increased maximum commitment) and an additional \$1.1 million on August 1, 2008 (1% of the then current commitment) given that the reorganization proposal (note 3) had not been approved by that date. The MID Lender also receives an annual commitment fee equal to 1% of the undrawn facility. All fees, expenses and closing costs incurred by the MID Lender in connection with the MEC Bridge Loan and the May 2008 amendments thereto were paid by MEC.

At June 30, 2008, \$68.6 million (December 31, 2007 – \$36.9 million) due under the MEC Bridge Loan was included in the Real Estate Business' current portion of "loans receivable from MEC, net" on the Company's consolidated balance sheet, net of \$0.8 million (December 31, 2007 – \$1.4 million) of unamortized deferred arrangement fees. MEC's current portion of "loans payable to MID, net" on the Company's consolidated balance sheet includes borrowings of \$68.6 million (December 31, 2007 – \$35.9 million), net of \$0.8 million (December 31, 2007 – \$2.4 million) unamortized deferred financing costs. This net balance will be accreted to its face value over the remaining term to maturity of the MEC Bridge Loan.

#### (ii) MEC Project Financings

The MID Lender has made available separate project financing facilities to Gulfstream Park Racing Association, Inc. ("GPRA") and Remington Park, Inc., the wholly-owned subsidiaries of MEC that own and/or operate Gulfstream Park and Remington Park, respectively, in the amounts of \$162.3 million and \$34.2 million, respectively, plus costs and capitalized interest in each case as discussed below (together, the "MEC Project Financing Facilities"). The MEC Project Financing Facilities have a term of 10 years (except as described below for the two slot machine tranches of the Gulfstream Park project financing facility) from the relevant completion dates for the construction projects at Gulfstream Park and Remington Park, which occurred in February 2006 and November 2005, respectively.

The Remington Park project financing and the Gulfstream Park project financing contain cross-guarantee, cross-default and cross-collateralization provisions. The Remington Park project financing is secured by all assets of the borrower (including first ranking security over the Remington Park leasehold interest), excluding licences and permits, and is guaranteed by the MEC subsidiaries that own Gulfstream Park and the Palm Meadows Training Center. The security package also includes second ranking security over the lands owned by Gulfstream Park and second ranking security over the Palm Meadows Training Center and the shares of the owner of the Palm Meadows Training Center (in each case, behind security granted for the Gulfstream Park project financing). In addition, the borrower has agreed not to pledge any licences or permits held by it and MEC has agreed not to pledge the shares of the borrower or the owner of Gulfstream Park. The Gulfstream Park project financing is guaranteed by MEC's subsidiaries that own and operate the Palm Meadows Training Center and Remington Park and is secured principally by security over the lands (or, in the case of Remington Park, over the leasehold interest) forming part of the operations at Gulfstream Park, the Palm Meadows Training Center and Remington Park and over all other assets of Gulfstream Park, the Palm Meadows Training Center and Remington Park, excluding licences and permits (which cannot be subject to security under applicable legislation).

In July 2006 and December 2006, the Gulfstream Park project financing facility was amended to increase the amount available from \$115.0 million (plus costs and capitalized interest) by adding new tranches of up to \$25.8 million (plus costs and capitalized interest) and \$21.5 million (plus costs and capitalized interest), respectively. Both tranches were established to fund MEC's design and construction of slot machine facilities located in the existing Gulfstream Park clubhouse building, as well as related capital expenditures and start-up costs, including the acquisition and installation of slot machines. The new tranches of the Gulfstream Park project financing facility both mature on December 31, 2011. Interest under the December 2006 tranche was capitalized until May 1, 2007, at which time monthly blended payments of principal and interest became payable to the MID Lender based on a 25-year amortization period commencing on such date. Advances relating to the slot machine tranches are made available by way of progress draws and there is no make-whole payment associated with the new tranches. Also in July 2006, the Gulfstream Park project financing facility was further amended to introduce a mandatory annual cash flow sweep of not less than 75% of Gulfstream Park's total excess cash flow, after permitted capital expenditures and debt service, which will be used to repay the additional principal amounts being made available under the new tranches. The July 2006 and December 2006 amendments did not affect the

fact that the Gulfstream Park project financing facility continues to be cross-guaranteed, cross-defaulted and cross-collateralized with the Remington Park project financing facility. The consideration for the July 2006 and December 2006 amendments was an arrangement fee of 1% of the amount of each new tranche, which amounts are capitalized under the Gulfstream Park project financing facility.

In September 2007, the terms of the Gulfstream Park project financing facility were amended such that: (i) MEC was added as a guarantor under that facility; (ii) the borrower and all of the guarantors agreed to use commercially reasonable efforts to implement the MEC Debt Elimination Plan (including the sale of specific assets by the time periods listed in the MEC Debt Elimination Plan); and (iii) the borrower became obligated to repay at least \$100.0 million under the Gulfstream Park project financing facility on or prior to May 31, 2008. In consideration of these amendments and subject to certain conditions, the MID Lender agreed to waive the make-whole payment for any repayments made under the MEC Project Financing Facilities on or prior to May 31, 2008 and adjust the amortization schedule for the Gulfstream Park project financing facility following receipt of the \$100.0 million repayment, provided that (i) repayments under the Gulfstream Park project financing facility are first applied to the July 2006 slots tranche, then to the December 2006 slots tranche (for each of which there is no make-whole payment), and then to the original tranche and (ii) no event of default exists under the MEC Project Financing Facilities.

In connection with the May 2008 amendments to the MEC Bridge Loan, the MID Lender also agreed to amend the Gulfstream Park project financing facility by extending the deadline for repayment of at least \$100.0 million from May 31, 2008 to August 31, 2008 (during which time any repayments made under either of the MEC Project Financing Facilities will not be subject to a make-whole payment).

Since the relevant completion date (or since inception for the July 2006 and December 2006 tranches of the Gulfstream Park project financing facility), amounts outstanding under each of the MEC Project Financing Facilities bear interest at a fixed rate of 10.5% per annum, compounded semi-annually. Prior to January 1, 2007, payment of interest was capitalized (except in relation to the December 2006 tranche of the Gulfstream Park project financing facility, for which the interest capitalization period was extended to May 1, 2007). Commencing January 1, 2007 (May 1, 2007 for the December 2006 tranche of the Gulfstream Park project financing facility), the MID Lender receives monthly blended payments of principal and interest based on a 25-year amortization period under each of the MEC Project Financing Facilities. Since the completion date for Remington Park, there has also been in place a mandatory annual cash flow sweep of not less than 75% of Remington Park's total excess cash flow, after permitted capital expenditures and debt service, which is used to pay capitalized interest on the Remington Park project financing facility plus a portion of the principal under the facility equal to the capitalized interest on the Gulfstream Park project financing facility. During the three and six months ended June 30, 2008, \$1.5 million (2007 – \$1.2 million) and \$1.7 million (2007 – \$1.7 million), respectively, of such payments were made. During the three months ended March 31, 2008, Remington Park agreed to purchase 80 Class III slot machines from GPRA with funding from the Remington Park project financing facility. Accordingly, \$1.0 million was advanced under the existing Remington Park project financing facility during the three months ended March 31, 2008.

At June 30, 2008, there were balances of \$171.9 million (December 31, 2007 – \$172.1 million), and \$26.8 million (December 31, 2007 – \$27.7 million) due under the Gulfstream Park project financing facility and the Remington Park project financing facility, respectively. The current portion of the MEC Project Financing Facilities included in the Real Estate Business' "loans receivable from MEC, net" at June 30, 2008 was \$102.0 million, including the required \$100.0 million repayment discussed above. The current and non-current portions of the MEC Project Financing Facilities, as reflected in MEC's "loans payable to MID, net" on the Company's consolidated balance sheet, are \$102.0 million (including \$0.4 million in MEC's "discontinued operations" (note 4)) and \$92.6 million (including \$25.3 million in MEC's "discontinued operations" (note 4)), respectively, with the non-current portion being net of \$4.1 million of unamortized deferred financing costs. This net balance will be accreted to its face value over the remaining terms to maturity of the MEC Project Financing Facilities.

In connection with the Gulfstream Park project financing facility, MEC has placed into escrow (the "Gulfstream Escrow") with the MID Lender proceeds from an asset sale which occurred in fiscal 2005 and certain additional amounts necessary to ensure that any remaining Gulfstream Park construction costs (including the settlement of liens on the property) can be funded, which escrowed amount has been and will be applied against any such construction costs. At June 30, 2008, the amount held under the Gulfstream Escrow was \$0.9 million (December 31, 2007 – \$4.5 million). All funds in the Gulfstream Escrow are reflected as the Real Estate Business' "restricted cash" and "due to MEC" on the Company's consolidated balance sheet.

Approximately \$8.6 million of external third party costs have been incurred in association with the MEC Bridge Loan and the MEC Project Financing Facilities. At the MEC segment level, these costs are recognized as deferred financing costs and are being amortized into interest expense (of which a portion has been capitalized in the case of the MEC Project Financing Facilities) over the respective term of the MEC Bridge Loan and each of the MEC Project Financing Facilities. At a consolidated level, such costs are charged to “general and administrative” expenses in the periods in which they are incurred.

All interest and fees charged by the Real Estate Business relating to the MEC Bridge Loan and the MEC Project Financing Facilities, including any capitalization and subsequent amortization thereof by MEC, and any adjustments to MEC’s related deferred financing costs, are eliminated from the Company’s consolidated results of operations and financial position.

**(b) MEC’s Real Estate Sales to Magna**

In April 2008, MEC completed the sale to a subsidiary of Magna of 225 acres of excess real estate located in Ebreichsdorf, Austria for proceeds of 20.0 million euros (\$31.5 million), net of transaction costs (note 5(b)). MEC recognized a gain in the three and six months ended June 30, 2008 of 15.5 million euros (\$24.3 million), which is included in MEC’s “gain on disposal of real estate”.

**(c) Magna Lease Terminations**

During the three months ended March 31, 2008, the Real Estate Business and Magna completed a lease termination agreement (retroactive to May 31, 2007) on a property in the United Kingdom that the Real Estate Business is seeking to redevelop for residential purposes. In April 2008, the Real Estate Business paid Magna \$2.0 million to terminate the lease, and the termination payment is included in the Real Estate Business’ “real estate properties, net” at June 30, 2008 on the Company’s unaudited interim consolidated balance sheet. The Real Estate Business had not recognized any revenue under the lease of this property since May 31, 2007.

During the three months ended March 31, 2008, the Real Estate Business and Magna also agreed to terminate the lease on a property in Canada. In conjunction with the lease termination, Magna agreed to pay the Company a fee of \$3.9 million, which amount was collected in April 2008 and has been recognized by the Real Estate Business in “other gains, net” in the Company’s unaudited interim consolidated financial statements for the six months ended June 30, 2008.

**(d) Sale of MEC Real Estate to Joint Venture**

On April 2, 2008, one of MEC’s European wholly-owned subsidiaries, Fontana Beteiligungs GmbH (“Fontana”), entered into an agreement to sell real estate with a carrying value of 0.2 million euros (\$0.3 million) located in Oberwaltersdorf, Austria to Fontana Immobilien GmbH, an entity in which Fontana has a 50% joint venture equity interest, for 0.8 million euros (\$1.2 million). The purchase price was originally payable in instalments according to the sale of apartment units by the joint venture and, in any event, was due no later than April 2, 2009. On August 1, 2008, Fontana completed the sale of its 50% joint venture equity interest in Fontana Immobilien GmbH to a related party. The sale price included nominal cash consideration equal to Fontana’s initial capital contribution and a future profit participation in Fontana Immobilien GmbH. Fontana and Fontana Immobilien GmbH also agreed to amend the real estate sale agreement such that payment of the purchase price to Fontana is accelerated to August 7, 2008. This consideration will be recognized when received.

**(e) MEC Real Estate Acquired by MID**

During the first quarter of 2007, MID acquired all of MEC’s interests and rights in three real estate properties to be held for future development: a 34 acre parcel in Aurora, Ontario; a 64 acre parcel of excess land adjacent to MEC’s racetrack at Laurel Park in Howard County, Maryland; and a 157 acre parcel (together with certain development rights) in Palm Beach County, Florida adjacent to MEC’s Palm Meadows Training Center. MID paid cash consideration of approximately Cdn. \$12.0 million (\$10.1 million), \$20.0 million and \$35.0 million, respectively, for these interests and rights. In addition, MID granted MEC a profit participation right in respect of each property, which entitles MEC to receive additional cash proceeds equal to 15% of the net proceeds from any sale or development of the applicable property after MID achieves a 15% internal rate of return.

During the second quarter of 2007, MID acquired all of MEC's interest and rights in a 205 acre parcel of land located in Bonsall, California for cash consideration of approximately \$24.0 million. The property currently houses the San Luis Rey Downs Thoroughbred Training Facility operated by MEC. MID is holding the property for future development and has agreed to lease the property to MEC on a triple-net basis for nominal rent while MID pursues the necessary entitlements and other approvals to permit the development of the property. The term of the lease is three years, subject to early termination by either party on four months written notice.

At the Real Estate Business and MEC segment levels, these transactions have been recognized at the exchange amount, resulting in MEC recognizing a gain in the three and six months ended June 30, 2007 of \$17.6 million and \$48.7 million, respectively, included in MEC's "gain on disposal of real estate". The effects of these transactions are eliminated from the Company's unaudited interim consolidated results of operations and financial position, except that \$0.2 million and \$1.8 million of costs incurred by the Real Estate Business and MEC in conjunction with these transactions have been included in the consolidated "general and administrative" expenses in the three and six months ended June 30, 2007, respectively.

**(f) Hurricane Katrina Relief Effort**

In October 2005, the Real Estate Business purchased 791 acres of land in Simmesport, Louisiana for \$2.4 million. In the fourth quarter of 2005, the Real Estate Business committed to donating approximately 50 acres of this land to a not-for-profit organization established to assist Hurricane Katrina redevelopment efforts with charitable funding from Magna and other Canadian sources. In the second quarter of 2007, the Real Estate Business committed to donating the remaining 741 acres of land to the same not-for-profit organization. As a result, \$2.0 million of costs associated with this further donation is included in the Real Estate Business' "general and administrative" expenses in the three and six months ended June 30, 2007. The founding members and officers of the not-for-profit organization are officers and employees of MID and Magna.

**19. COMMITMENTS AND CONTINGENCIES**

- (a) 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.
- (b) On July 10, 2008, the Ontario Divisional Court dismissed the appeal by Greenlight Capital, Inc. and certain of its affiliates of the October 2006 decision of the Ontario Superior Court of Justice dismissing Greenlight's oppression application against the Company and certain of its current and former directors and officers. The appeal hearing took place in April 2008.
- (c) MEC generates a substantial amount of its revenues from wagering activities and is subject to the risks inherent in the ownership and operation of its racetracks. 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 laws and gaming laws.
- (d) On May 18, 2007, ODS Technologies, L.P., operating as TVG Network, filed a summons against MEC, HRTV, LLC and XpressBet, Inc. seeking an order that the defendants be enjoined from infringing certain patents relating to interactive wagering systems and an award of damages to compensate for the infringement. An Answer to Complaint, Affirmative Defences and Counterclaims have been filed on behalf of the defendants. The discovery and disposition process is ongoing and the final outcome related to this summons is uncertain.
- (e) In addition to the letters of credit issued under the Company's credit facilities (notes 9 and 14), the Company had \$4.5 million (Real Estate Business – \$3.4 million; MEC – \$1.1 million) of letters of credit issued with various financial institutions at June 30, 2008 to guarantee various construction projects. These letters of credit are secured by cash deposits of the Company.
- (f) MEC has provided indemnities related to surety bonds and letters of credit issued in the process of obtaining licences and permits at certain racetracks and to guarantee various construction projects related to activities of its subsidiaries. At June 30, 2008, these indemnities amounted to \$6.8 million, with expiration dates through 2009.

- (g) At June 30, 2008, the Company's contractual commitments related to construction and development projects outstanding amounted to approximately \$2.9 million (Real Estate Business – \$1.7 million; MEC – \$1.2 million).
- (h) On March 4, 2007, MEC entered into a series of customer-focused agreements with CDI in order to enhance wagering integrity and security, to own and operate HRTV®, to buy and sell horseracing content, and to promote the availability of horseracing signals to customers worldwide. These agreements involved the formation of a joint venture, TrackNet Media, a reciprocal content swap agreement and the purchase by CDI from MEC of a 50% interest in HRTV®. TrackNet Media is the vehicle through which MEC and CDI horseracing content is made available to third parties, including racetracks, OTB facilities, casinos and advance deposit wagering (“ADW”) companies. TrackNet Media purchases horseracing content from third parties and makes it available through the respective MEC and CDI outlets. Under the reciprocal content swap agreement, MEC and CDI exchange their respective horseracing signals. On March 4, 2007, HRTV, LLC was created, with an effective date of April 27, 2007, in order to facilitate the sale of 50% of HRTV® to CDI. Both MEC and CDI are required to make quarterly capital contributions, on an equal basis, until October 2009 to fund the operations of HRTV, LLC, however, MEC may, under certain circumstances, be responsible for additional capital commitments. MEC's share of the required capital contributions to HRTV, LLC is expected to be approximately \$7.0 million, of which \$3.6 million had been contributed prior to June 30, 2008.
- (i) On December 8, 2005, legislation authorizing the operation of slot machines within existing, licensed Broward County, Florida pari-mutuel facilities that had conducted live racing or games during each of 2002 and 2003 was passed by the Florida Legislature. On January 4, 2006, the Governor of Florida signed the legislation into law and, subsequently, the Division of Pari-mutuel Wagering developed the governing rules and regulations. Prior to the opening of the slots facility at Gulfstream Park on November 15, 2006, MEC was awarded a gaming licence for slot machine operations at Gulfstream Park in October 2006 despite an August 2006 decision rendered by the Florida First District Court of Appeals that ruled that a trial is necessary to determine whether the constitutional amendment adopting the slots initiative was invalid because the petitions bringing the initiative forward did not contain the minimum number of valid signatures. Previously, a lower court decision had granted summary judgment in favour of “Floridians for a Level Playing Field” (“FLPF”), a group in which GPRA is a member. Though FLPF pursued various procedural options in response to the Florida First District Court of Appeals decision, the Florida Supreme Court ruled in late September 2007 that the matter was not procedurally proper for consideration by the court. Its order effectively remanded the matter to the trial court for a trial on the merits. MEC has disclosed that it expects that a trial on the merits will likely take an additional year or more to fully develop and that it could take as many as three years to achieve a full factual record and trial court ruling for an appellate court to review. At June 30, 2008, the carrying value of MEC's fixed assets related to the slots facility is approximately \$27.0 million. If the matter is ultimately decided in a manner adverse to MEC, a write-down of these fixed assets may be required.
- (j) In May 2005, MEC entered into a Limited Liability Company Agreement with Forest City (collectively with MEC, the “Partnership Members”) concerning the planned development of “The Village at Gulfstream Park™”. That agreement contemplates the development of a mixed-use project consisting of residential units, parking, restaurants, hotels, entertainment, retail outlets and other commercial use projects on a portion of the Gulfstream Park property. Under the Limited Liability Company Agreement, Forest City is required to contribute up to a maximum of \$15.0 million as an initial capital contribution. MEC is obligated to contribute 50% of any equity amounts in excess of \$15.0 million as and when needed and, to June 30, 2008, MEC has contributed \$4.2 million. At June 30, 2008, approximately \$55.0 million of net costs have been incurred by The Village at Gulfstream Park, LLC, which have been funded by a construction loan from a third party bank as well as equity contributions from MEC and Forest City. Included in MEC's “accounts payable and accrued liabilities” is an obligation of approximately \$3.0 million reflecting MEC's unpaid share of equity contributions in excess of \$15.0 million. If either of the Partnership Members fails to make required capital contributions when due, then the other Partnership Member may advance such funds to the Limited Liability Company, equal to the required capital contributions, as a recourse loan or as a capital contribution for which the capital accounts of the Partnership Members would be adjusted accordingly. The Limited Liability Company Agreement also contemplated additional agreements with MEC, including a ground lease, a reciprocal easement agreement, a development agreement, a leasing agreement and a management agreement, all of which have been executed. Upon the opening of The Village at Gulfstream Park™, annual cash receipts (adjusted for certain disbursements and reserves) will first be distributed to Forest City, subject to certain limitations, until the initial contribution accounts of the Partnership Members are equal. Thereafter, the cash receipts are generally expected to be distributed to the Partnership Members equally, provided they maintain their equal interest in the partnership. The annual cash payments made to Forest City to equalize the Partnership Members' initial contribution accounts will not exceed the amount of annual ground rent otherwise payable to a subsidiary of MEC.

- (k) On September 28, 2006, certain of MEC's affiliates entered into definitive operating agreements with Caruso regarding the proposed development of The Shops at Santa Anita on approximately 51 acres of excess land surrounding Santa Anita Park. Westfield Corporation ("Westfield"), a developer of a neighbouring parcel of land, has challenged the manner in which the entitlement process for such development has proceeded. On May 16, 2007, Westfield commenced civil litigation in the Los Angeles Superior Court in an attempt to overturn the Arcadia City Council's approval and granting of entitlements related to the construction of The Shops at Santa Anita. In addition, on May 21, 2007, Arcadia First! filed a petition against the City of Arcadia to overturn the entitlements and named MEC and certain of its subsidiaries as parties of interest. The first hearings on the merits of the petitioners' claims were heard in May 2008. On July 23, 2008, the court issued a tentative opinion in favour of the petitioners in part, concluding that eleven parts of the final environmental impact report were deficient. MEC and Caruso are working with the City of Arcadia to determine how to resolve the deficiencies in the final environmental impact report. Accordingly, development efforts may be delayed or suspended. Under an April 2004 Letter of Intent, MEC is also exploring the possibility of a joint venture with Caruso to develop excess lands surrounding Golden Gate Fields. To June 30, 2008, MEC has expended \$10.2 million on these development initiatives, of which \$0.3 million was paid in the six months ended June 30, 2008. These amounts have been included in MEC's "real estate properties, net" on the Company's consolidated balance sheets. Under the terms of these arrangements, MEC may be responsible to fund additional costs. However, to June 30, 2008, no such payments have been made.
- (l) In November 2006, MEC sold its wholly-owned interest in The Meadows, a standardbred racetrack in Pennsylvania, to PA Meadows, LLC, a company jointly owned by William Paulos and William Wortman, controlling shareholders of Millennium Gaming, Inc., and a fund managed by Oaktree Capital Management, LLC (together, "Millennium-Oaktree"). On closing, MEC received cash consideration of \$171.8 million, net of transaction costs of \$3.2 million, and a \$25.0 million holdback note payable to MEC over a five-year period, subject to offset for certain indemnification obligations (the "Meadows Holdback Note"). Based on the indemnification obligations and other terms pertaining to the Meadows Holdback Note, the Meadows Holdback Note will be recognized in the consolidated financial statements upon the settlement of the indemnification obligations and as payments are received.

The parties also entered into a racing services agreement whereby MEC pays \$50 thousand per annum and continues to operate, for its own account, the racing operations at The Meadows until at least July 2011. On December 12, 2007, Cannery Casino Resorts, LLC, the parent company of Millennium-Oaktree, announced it had entered into an agreement to sell Millennium-Oaktree to Crown Limited. If the deal is consummated, either party to the racing services agreement will have the option to terminate the arrangement. \$5.6 million of the gain from the sale of The Meadows was initially deferred and included in MEC's "other long-term liabilities" representing the estimated net present value of the future operating losses expected over the term of the racing services agreement. Such amount is being recognized as a reduction of "general and administrative" expenses in MEC's results of operations over the term of the racing services agreement. Effective January 1, 2008, The Meadows entered into an agreement with the Meadows Standardbred Owners Association, which expires on December 31, 2009, whereby the horsemen will make contributions to subsidize backside maintenance and marketing expenses at The Meadows. As a result, the estimated operating losses expected over the remaining term of the racing services agreement have been revised, resulting in an additional \$2.0 million of previously deferred gains being recognized in MEC's "other gains, net" for the six months ended June 30, 2008.

Until December 25, 2007, The Meadows participated in a multi-employer defined benefit pension plan for which the pension plan's total vested liabilities exceeded the plan's assets. The New Jersey Sports & Exposition Authority previously withdrew from the pension plan effective November 1, 2007. As the only remaining participant in the pension plan, The Meadows withdrew from the pension plan effective December 25, 2007, which constituted a mass withdrawal. An updated actuarial valuation is in the process of being obtained, however, based on allocation information provided by the plan, the estimated withdrawal liability of The Meadows is approximately \$6.2 million. This liability may be satisfied by annual payments of approximately \$0.3 million. As part of the indemnification obligations provided for in the Meadows Holdback Note, the mass withdrawal liability that has been triggered as a result of The Meadows' withdrawal from the plan will be set-off against the amount owing to MEC under the Meadows Holdback Note.

- (m) MJC was party to agreements with the Maryland Thoroughbred Horsemen's Association and the Maryland Breeders' Association, which expired on December 31, 2007, under which the horsemen and the breeders each contributed 4.75% of the costs of simulcasting to MJC. Without similar arrangements in effect, costs are expected to increase by approximately \$2.0 million for the year ending December 31, 2008. At this time, it is uncertain whether these agreements will be renewed on comparable terms.

- (n) On February 12, 2008, MEC received notice from the Nasdaq Stock Market ("Nasdaq") advising that, in accordance with Nasdaq Marketplace Rule 4450(e)(2), MEC had until August 11, 2008 to regain compliance with the minimum bid price required for the continued listing of the MEC Class A Stock on Nasdaq, as set forth in Nasdaq Marketplace Rule 4450(a)(5). MEC received this notice because the bid price of its publicly held MEC Class A Stock closed below the \$1.00 per share minimum for 30 consecutive business days prior to February 12, 2008.

In order to provide MEC with flexibility in addressing market-related issues affecting its capitalization and to address the Nasdaq continuous listing requirements, MEC's Board of Directors adopted a resolution, approved by MEC stockholders on May 6, 2008, to amend MEC's Certificate of Incorporation to permit a one-time reverse stock split of MEC's Class A Stock and MEC Class B Stock, prior to May 6, 2009, in any whole number consolidated ratio from 1:10 to 1:20. On July 3, 2008, MEC announced that its Board of Directors had approved a reverse stock split of MEC's Class A Stock and MEC Class B Stock utilizing a 1:20 consolidation ratio. The reverse split became effective on July 22, 2008. On August 5, 2008, MEC received notice from Nasdaq that it had regained compliance with the minimum bid continued listing requirement and the matter had been closed.

As a result of the reverse stock split, every twenty shares of MEC Class A Stock and MEC Class B Stock have been consolidated into one share of MEC Class A Stock and MEC Class B Stock, respectively. The reverse stock split affects all shares of common stock, stock options and convertible securities of MEC outstanding prior to the effective date. The 58.6 million outstanding shares of MEC Class A Stock (4.4 million of which were held by MID) and 58.4 million outstanding shares of MEC Class B Stock (all of which were held by MID) were reduced to 2.9 million shares of MEC Class A Stock (0.2 million of which are held by MID) and 2.9 million shares of MEC Class B Stock (all of which continue to be held by MID), respectively.

Because the reverse stock split applies to all issued shares of MEC Class A Stock and MEC Class B Stock, it does not alter the relative rights and preferences of MID's interest in MEC, nor does it affect MID's proportionate equity or voting interest in MEC, except to the extent the reverse stock split resulted in fractional shares being cashed out.

As a result of the reverse stock split, the conversion price for which each of MEC's \$150.0 million of 8.55% convertible subordinated notes and \$75.0 million of 7.25% convertible subordinated notes are convertible into shares of MEC Class A Stock has been adjusted from \$7.05 and \$8.50 per share, respectively, to \$141.00 and \$170.00 per share, respectively.

- (o) On May 8, 2008, one of MEC's wholly-owned subsidiaries, Los Angeles Turf Club, Incorporated, commenced civil litigation in the District Court in Los Angeles for breach of contract. It is seeking damages in excess of \$8.4 million from Cushion Track Footing USA, LLC and other defendants for failure to install a racing surface at Santa Anita Park suitable for the purpose for which it was intended.