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October 30th, 2008

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RE: Government of Quebec and
The Québec Standardbred Racing Industry

Dear Sirs:/Madam:

The present letter of putting in default is being issued in order to hold you libale for the breach of your fiduciary obligations pertaining to the protection and care of public property. You had the duty to act in a transparent licit manner with respect to the privatization of the horse racing industry in such a manner as to safeguard its long term existence and growth. Your acts and omissions have caused grave and irreparable damages to our clients as well as horse racing industry in general.

We have read the letter of putting in default dated October 20th, 2008 issued by the law firm of Grondin, Poudrier, Bernier and addressed to the Société Nationale du Cheval de Course (SONACC) to the attention of Mr. Florent Gagné, its President. We are in full agreement with the contents of that letter of putting in default. We reiterate each and every one of the complaints set forth in that letter and we are annexing copy of that letter of default to this letter.

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We act on behalf of Michael Perzow who operates a breeding farm known as “Les Écuries Okavalley Standardbreds” and Marcel Lacaille who operates a breeding farm known as “Fermes Canaco” as well as a gentleman by the name of Pierre Guillemette who operates a breeding farm known as “Fermes Georgette Guillemette Inc”, as well as Alain Veilleux of “Ferme Drummond”, André Fontaine of “Fermes André Fontaine”, Pierre Levesque of “Fermes Angus Farms”, Rejeant Lassonde of “Ferme Rejeant Lassonde”, and Monalisa Pagliericci of “Les Écuries SOS Bedford Inc”.

These farms, together with a number of other breeding farms have created their own organization known as “**ASSOCIATION HIPPIQUES DES REPRODUCTEURS DU QUEBEC**” 1170 Place Frere Andre, 4th Floor, Montreal, Quebec H3B 3C6.

We are instructed to advise that by reason of the errors, omissions, and negligent acts involving authorized representatives of the Liberal Government, there has been a grave series of omissions that have occurred ever since an agreement of August 17th 2006 was signed transferring public property under the care and control of Société Nationale du Cheval de Course (aka “SONACC”) to private interests identified as:-

Attractions Hippiques Montreal SEC
 Attractions Hippiques Quebec SEC
 Attractions Hippiques Trois Rivières SEC
 Attractions Hippiques Aylmer SEC

It is difficult to understand how, in performing your fiduciary obligations on behalf of the tax payers of the Province of Québec, you would have allowed a deal to be concluded with Senator Paul Massicotte whereby a \$5 million guarantee to perform was provided when the tendering offer was negotiated into a contract which gave a twenty five (25) year right to Senator Massicotte’s corporations to earn a sum of approximately \$1 billion.

On June 4th 2008 a letter was forwarded to the Regie des Alcools de Course et des Jeux, (RACJ) to the attention of Mtre Denis Racicot, President, seeking modification of the calendar for the race program of AIHQ.

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On June 26th 2008 the private companies that purchased the rights and obligations of SONAAC are all controlled by Senator Massicotte. They sought and obtained protection of the Court under the Companies' Creditors' Arrangement Act (L.R.C. (1985) C.36) alleging that they do not have the financial means to honour the agreement of August 17th, 2006 as appears from the records of the Superior Court of the District of Montreal (Commerical Division) 500-11-033643-087).

The demand for creditors' protection that has been filed by Senator Massicotte has had the effect of paralyzing the horse racing industry in the Province of Quebec and has since caused a progressive decline of this industry which is leading to its absolute irreparable destruction.

It is abundantly clear that important obligations which were contracted for under the terms of the Agreement of August 17th 2006 (hereinafter "The Agreement") have not been honoured both by Senator Massicotte's companies and/or by SONACC acting on behalf of the Government of Québec.

As a result of the intellectual stagnation and juridical imbroglio that has now commenced, there is no doubt the horse racing portion of the contract has not been honoured. The purses that were required under the terms of the Agreement are not available, the annual yearling auction in Québec (CESQ) has been cancelled, the annual auction of Canaco Farms resulted in grave losses due to the lack of interest on behalf of the principal buyers arising out of the failure of the government and Senator Massicotte to fulfill their obligations under the terms of the Agreement..

We are presently witnessing the destruction of the horse racing industry in the Province of Québec. All yearlings, weanlings and broodmares have no marketable value. You are causing the destruction of a \$400 million industry that has developed over the past hundred years by reason of the total collapse of operations during 2008.

It is our sincere goal to avoid the need of litigation to show the persons who have breached their fiduciary obligations as leaders of the Government and/or leaders of the various government associations that have negotiated the Agreement with Senator Paul Massicotte. It is difficult to understand how a \$5 million guarantee provided as a deposit to finalize the Agreement was appropriate under the circumstances in which the allegedly public tender for privatization of the horse

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racing industry was sufficient. We submit that a proposed revenue of \$1 billion being transferred from the Government of Quebec to Senator Masicotte's companies without sufficient guarantees to protect the horse racing industry did not effectively provide for the rights of all the parties interested in the horse racing industry.

Senator Paul Massicotte was shown by SONACC that the estimated gross annual revenue that he would receive upon privatization of the horse racing industry was approximately \$46 million. The tender provided that the winning bidder would receive the projected revenues for a period of fifteen years. None of the competing tendering parties were given the opportunity to modify their tender offer and Senator Massicotte negotiated a modified agreement having obtained exclusive rights to the revenues from horse racing and 1900 video lottery terminals (VLTS) for a term of twenty five years thereby acquiring the right to effectively collect \$1 billion in consideration of the original deposit of \$5 million under the Agreement. We respectfully submit that this form of privatization of public property constitutes a fraud on the rights of all of the citizens of the Province of Québec and especially the horse racing and horse breeding industry.

However, for reasons arising out of political interference, and lack of co-ordination of the work required and general social malaise pertaining to the need to protect this industry, there has been no effective material steps taken to properly protect the interests of:-

- i) the horse breeders;
- ii) the farmers;
- iii) the trainers, drivers and grooms and their families;
- iv) all related regional industries in the supply of food products and services for the horse racing industry;
- v) all the investors who have put forth substantial sums in order to make and keep their horses eligible to race stake programs in the Province of Québec.

You are advised that the owners of each of the Québec bred standardbred horses that have been carefully bred for racing purposes will suffer a loss minimally estimated at \$75,000 per horse and there are approximately 10,000 horses that are being directly affected by your inaction and willful neglect.

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Many horse owners and breeders are sending their horses to the slaughter house by reason of the total collapse of the industry in the province of Quebec and their financial inability to maintain their livestock.

Approximately 8,500 salaried employees are affected by this situation. Namely, 1,500 persons are in the process of losing their full time employment having worked directly with the Hippodromes, and in addition thereto, approximately 7,000 other persons are susceptible to lose their salaries due to the general destruction of the industry, namely, the breeders, the owners, the veterinarians, the blacksmiths, etc, including members of their families are all included.

The quality of horses that have been improved from year to year are now being left to pasture and will possibly be sent to the slaughter house in order to stop the losses.

It has taken approximately one hundred years to build this industry and now in less than one hundred days (the filing under the Creditors Arrangement and Protection Act L.R.C 1985 C.36), you and Senator Massicotte are causing the collapse and destruction of the industry.

OUR MANDATE

We have received a mandate from **ASSOCIATION HIPPIQUE DES REPRODUCTEURS DU QUEBEC**, to take whatever action is required in order to:-

Option I:-

Resolve all causes of dispute that exist between the various governmental departments in order to allow Senator Paul Massicotte to move forward in conformity with the terms of the original Agreement.

Or

PEARL & ASSOCIES**Option II:-**

If the results of the parliamentary investigation show that there has been gross irregularities in the signing of the Agreement (privatization of the horse racing industry), we will recommend that our clients take legal action against each and every person involved in the approval of the tender that put Senator Paul Massicotte in charge of the entire horse racing industry.

You are solidairily being held liable for all losses that the breeders, trainers, drivers, grooms, investors, blacksmiths, feed mills, hay producers, and veterinarians, etc. are suffering by reason of the unilateral decision on the part of Senator Massicotte to cease carrying on any further races as the year 2009 approaches.

The problems arising out of the refusal on the part of all interested parties to act in a concerted manner to prevent this collapse of the industry require:-

- a) identification of the causes of dispute between the Government of Quebec and Senator Massicotte;
- b) moral suasion should be used immediately by every MP of the National Assembly for a period not exceeding ten days to have everybody team up, with a view to saving the horse racing industry and the 8,500 jobs which are now in jeopardy;
- c) in the event there is lack of co-operation and co-ordination between all interested parties, each and everyone of the breeders and owners who are now in the process of losing their equity and investment will seek redress by reason of the illicit handling of a public tender leading to the signing of the Agreement between the various companies owned and controlled by Senator Massicotte which purchased the assets and rights of the Province for the privatization program. We respectfully submit that each and every person that has been involved in this transaction has breached their fiduciary duty to protect the social, economic and legal interests of the industry generally, as well as those of the breeders and owners specifically.

The only response that is required at this stage would be:-

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- i) The Government of Québec will issue the appropriate Executive Orders and obtain the appropriate Court Orders to enforce the obligations of Senator Paul Massicotte to fulfill all of the obligations that are provided for under the Agreement of August 17th, 2006; and
- ii) The Government of Québec, represented by the Minister of Finance Monique Jerome Forget, and the Prime Minister Jean Charest must order each of the departments that have a legal interest to support the horse racing industry in Québec to co-operate fully with Senator Massicotte so that all interested parties honour the terms of the Agreement.

If an amiable arrangement in this regard is effected during the course of the next fifteen days, legal action will not be required to intervene in the proceedings that have been filed before the Superior Court, Commercial Division SCM 500-11-033643-087, wherein the initial Judgment pertaining to these matters was rendered on June 26th 2008 by the Honourable Madame Justice Chantal Corriveau.

Our clients have a legal interest to intervene in these proceedings to protect their rights as Creditors and see to it that the Orders being sought are ones which will properly protect the horse racing industry. We respectfully submit that a substantial amount of work will be performed in that regard, if the Government is not prepared to act with due diligence to correct the situation as it now prevails.

In the light of the information that has been disclosed during the course of the Parliamentary Hearings held on August 27th 2008, August 28th 2008, and August 29th 2008 we submit that there has been gross irregularities which may entail nullity of the Agreement as a result of which you and the Government of Quebec represented by the Attorney General will be held solidairily liable for all losses being caused by the present situation.

We have read these proceedings and find that the manner in which the tender was negotiated and the conflicts of interest that existed with the independent committee lead me to believe that the Government is responsible for the willful destruction of an important industry that has lasted for in excess of one hundred years.

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As we are now negotiating to save the industry, certain breeders are obliged to destroy their livestock, others are giving their livestock away at prices that are totally unacceptable, and unfortunately major investors in the horse racing industry are currently making plans to move substantial capital investment to other provinces rather than remain in Quebec.

It took one hundred years to build the credibility of this horse racing business and it is taking less than one hundred days to destroy it. Hopefully, you will recognize the importance of your role in your fiduciary capacity to protect the rights and interests of all Québécois, and especially the 8,500 people in the horse racing industry who raise over \$400 million worth of operating funds for the benefit of the economy, to take the steps necessary to honour the terms and obligations of the Agreement whereby Senator Massicotte assumed all obligations pertaining to the rights formerly administered by the Government of Quebec. Senator Massicotte was duty-bound to provide an appropriate schedule for races and sufficient purses (in 2008 \$24 million). A major loss has occurred due to the inability to have horse auctions where there is a trade in the sale of yearlings that have been made eligible for the stakes program in the Province of Quebec. You have breached the Agreement by refusing and neglecting to have the prestigious annual races known as “Coupe de l’Avenir” and Coupe des Eleveurs” In each of these races the purse structure was over \$100,000 each.

In the event an amiable solution is not found within the delays as set forth herein, we have received peremptory instructions to hold each and every member of parliament who has been involved in this matter, together with the Minister of Finance, Senator Paul Massicotte, and any of the representatives of Government who have been dealing with this issue, solidarily liable for the financial prejudice of each of the businesses that have been obliged to file for Bankruptcy.

We will have no hesitation to recommend to our client that the corporate veil be removed as well as your own protections that may normally exist in the context of your work to show cause that there has been:-

- a) gross misconduct;
- b) bad faith;

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- c) unjust treatment of the bidders who were attempting to acquire the same rights as Senator Paul Massicotte for the horse racing industry;
- d) illegalities with respect to the carrying forth of the Agreement of August 17th 2006 thereby preventing the horse racing industry for 2009 to move forward and correct all of the errors and omissions that have occurred during 2008.

We reiterate for all juridical purposes the Mise en Demeure that has been issued on October 20th 2008 by Mtre Daniel Des Aulniers, who has a mandate to act for organizations identified as l'Associations du Trot & Amble du Québec (ATAQ), La Société des Propriétaires et éleveurs de chevaux Standardbred du Québec (SPECSQ) and Le Circuit regional des courses de chevaux du Québec (CRCCQ). We support the demands set forth in their letter of October 20th 2008, however, we respectfully submit that even though the facts that have been related to you in that letter are accurate, the solution has not been appropriately provided for.

THE SOLUTION

One of the most unfortunate events that has occurred since the signing of the Agreement is the fact that the video lottery terminals (VLT) that were promised to Senator Paul Massicotte have not been supplied and delivered. We recommend that all revenue that has already been collected by Loto Québec as a result of the use of these VLTs since the Agreement was signed, should be placed into a special trust fund to be disbursed for use in the horse racing industry in the manner that would be deemed most effective (proper purses for the races to be announced for 2009 and/or compensation immediately on a pro rata basis to all of the registered breeders and owners to provide working capital so that they can continue their breeding), the most important aspect of the Québec bred product.

There are probably several other commercial formulas that could be adopted to alleviate the financial hardship and the problems caused. We invite you to meet with us on a private basis with a view to setting up a mutually desired program that would avoid the need to collapse the entire horse racing industry in the Province of Québec and prevent the need for serious action in damages being taken against each and every person involved with the Government of Québec in causing the entire horse racing industry to collapse.

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We assure you, in the event that this matter cannot be resolved amiably during the course of the next fifteen days, peremptory instructions have been given to seek modification of the Judgment of the Honourable Madame Justice Corrivé to give jurisdiction to the Régie Alcools Course et Jeu du Québec (RACJ) and force the *RACJ* to move forward in performing their duties.

Reference is made to the Press Release dated June 9th 2006 issued the office of the Minister of Finance, which states"-

"Once agreement is reached with Attractions Hippiques Québec, the Minister of Finance intends to form, following consultations with the various interested parties, and after recommendations from the new Board of Directors of SONACC, a Conseil de l'industrie to assume the responsibilities relating to the horseracing industry other than those that will be taken over by Attractions Hippiques Québec."

You are by these presents put in default for having neglected to honour this promise.

We are asking that an Executive Order be issued by the Cabinet appointing this Conseil de l'industrie without further delay.

We would be available to meet on very short notice and hope positive proposals will be put forth by you in order to have the cabinet pass Executive Orders in Council to force all interested parties to honour their agreements so that the horse racing industry for the year 2009 will not be faced with the same total collapse and absolute loss that has been experienced during 2008.

Your co-operation in dealing with this matter on a socially and politically responsible basis will be most appreciated.

Yours truly,
PEARL & ASSOCIATES
Per:


Reevin Pearl

Encls.