

Q2 - 2004 Management Discussion and Analysis

Overview

Gamehost Income Fund (the "Fund") is an unincorporated open ended trust governed by the laws of the province of Alberta and was formed on April 9, 2003. The Fund operates two casinos and a hotel all located in Alberta. These operations include Boomtown Casino in Ft. McMurray, Great Northern Casino and Service Plus Inns & Suites Hotel both located in Grande Prairie. As complement to the Hotel the Fund owns a retail block that leases space to a liquor store, pub and full service restaurant operation. The Fund is also a joint venture partner (40%) in a hotel/convention/entertainment/casino development proposal for Calgary, Alberta (the "Joint Venture").

The Fund distributes cash generated by owned and operated assets to unitholders on a monthly basis. Management believes in a total entertainment/hospitality model. The model targets the entertainment seeker and social occasional gamer by offering modern, clean, inviting venues that deliver live entertainment, lounging and dining, rest and relaxation together with gaming.

Discussion of Operations and Financial Condition

This discussion should be read in conjunction with the reported financial results for the period ended June 30, 2004.

The Fund began operations on June 1, 2003. For reporting purposes, the Fund is treated as a new entity. As a result, there is no reasonably comparable prior year financial information for the fiscal year to date, January 1, 2004 thru June 30, 2004 (the "Period") or April 1, 2004 thru June 30, 2004 (the "Quarter"). Management discussion and analysis is therefore limited to a more general discussion of activities and comparison to previous quarters in the current fiscal year.

Facilities and General Operations

Ongoing funding requirements for the Joint Venture were the only significant capital expenditures during the Quarter. During the Quarter the Fund contributed \$1.139 million representing balances owing as determined by the Joint Ventures cash requirements forecast and the Fund's 47.75% contributing responsibility.

In the final week of May the Joint Venture received a permit to begin construction to grade level. Construction began on June 1st. As of this writing, major contracts have been let for excavation and site-work, deep services, concrete foundations & tower and structural steel. Contracts for mechanical and electrical should be tendered before the end of July. Construction is progressing favourably with rough grading of the site complete and deep service storm water and sewer nearing completion. Perimeter and basement foundations are 95% complete and basement slabs are 60% complete. The project is on track to be completed during the fourth quarter of 2005.

The Fund's casinos generate revenue via commissions paid by Alberta Liquor and Gaming Commission ("AGLC") for operating AGLC owned slot machines and from winnings on table games owned and operated by the Fund as well as automated banking machines located on the premises. Existing operations are running smoothly.

During the Quarter, management completed a five year lease renewal with an increase for one of three tenants in the Fund's retail complex in Grande Prairie.

Revenues

Second quarter combined revenues totaled \$6.09 million up 1.6% overall from the first quarter and continued an unbroken trend of record quarterly revenues since inception of the Fund June 1, 2003. Monthly results, however, tapered off moderately over the course of the second quarter. Early results for the first half of July show an upswing once again.

Accommodation and rental revenue –A lengthy spring breakup slowed construction and energy sector work for an extended period. Cool wet weather followed affecting both sectors further as well as limiting early holiday travelers. As temporary and cyclical in nature and this phenomenon is when coupled with added competition from new hotels occupancy rates at the hotel dipped to 64.5% during June, their lowest level since the Fund began operating the facility. That being said, results from the first half of July indicate a sharp increase in occupancy rates as travelers begin summer vacationing and energy and construction work resume a fevered pace. In addition, management is witnessing a return of former clients following an initial period of introductory pricing from the new hotel properties.

Table games revenue - increased from the first quarter by 4.9% to \$1.11 million for the Quarter and the highest quarterly figure to date. Management has focused special attention in the dealer pits to ensure that control procedures are being followed closely. Specific attention has been given to both player enjoyment and staff moral to improve the overall entertainment experience the games provide. Initiatives to improve the utilization of the poker rooms are also showing positive results.

Electronic Gaming Device - revenues were at record levels during the Quarter. Total revenue increased 7.2% from the first quarter to \$3.22 million. Both casinos contributed record revenues in this area for the Quarter.

Food, Beverage and Entertainment – revenues for the Quarter totaled \$941 thousand. Results are consistent with previous quarters.

Expenses

Direct and general administrative expenses for the Quarter totaled \$3.0 million including amortization of \$256 thousand. Expressed as a percentage of revenue, total expenses represent 49% of total Fund revenues for the Quarter and 49% of total Fund revenue for the six months ended June 30, 2004. This compares to the previous quarter where total expenses were \$3.06 million or 50% of revenues and the year ended December 31, 2003 where total expenses represented 53% of total Fund revenues.

Salaries and wages – for the Quarter totaled \$1.3 million, an increase of \$40 thousand from the previous quarter. Higher activity in the casino slot and table areas account for the increased staffing costs.

Marketing and promotion – activities during the Quarter totaled \$308 thousand up from \$258 thousand spend during the first quarter. Entertainment, food and beverage promotions at the Great Northern Casino account for \$37 thousand or 75% of the \$49 thousand dollar increase. The hotel spent an additional \$10 thousand to boost occupancy rates during the summer. Boomtown casino accounts for the remaining \$2 thousand increase.

Operating – expenses increased marginally from \$676 thousand during the first quarter to \$684 thousand for the second quarter. Property tax accruals for the first six months were adjusted to actual assessed values resulting in an additional expense of \$27 thousand. This expense was partially offset by numerous smaller expense reductions.

General and administrative – expense for the Quarter totaled \$62 thousand. These expenses during the first quarter totaled \$218 thousand. The large fluctuation is due in part to a one time \$60 thousand standby fee accrued during the first quarter for the purposes of negotiating a term loan to be used to finance a portion of the Funds contributing responsibility in the Joint Venture. The subsequent payment of the fee during the Quarter was reduced to \$40 thousand.

Amortization – of \$256 thousand dollars was expensed for the Quarter. Amortization based on existing working assets at scheduled depreciation rates is expensed evenly over the fiscal year for accounting purposes and adjusted for additions/deletions at year end.

Net Earnings

Net earnings for the Quarter before amortization and income allocated to Class B Unitholders (EDITDA) totaled a record \$3.4 million or 55% (EBITDA margin) on all revenues. For comparative purposes EBITDA and EBITDA margins for the previous quarter were \$3.3 million and 53% respectively and for the seven months ended December 31, 2003 were \$6.4 million 51%.respectively.

Quarterly Summary

An expansion of the Great Northern Casino was opened during the Q3 2003 reporting period at which time additional table games and slot machines were added. Additional slot machines were added in increments as AGLC permitted over all of the periods reported.

In thousands of dollars except per unit amts	Q2 2004 Jun 30	Q1 2004 Mar 31	Q4 2003 Dec 31	Q3 2003 Sep 30 ¹
Total revenue	\$ 6,175	\$ 6,076	\$ 5,554	\$ 6,976
Net income	\$ 1,467	\$ 1,392	\$ 1,106	\$ 1,588
Net income per unit	\$ 0.452	\$ 0.428	\$ 0.341	\$ 0.489

¹ Reporting period includes 4 months from June 1, 2003 thru September 30, 2003

Liquidity and Capital Resources

Gamehost Income Fund carries \$71.2 million in total assets and ends the reporting Period with \$4.1 million in cash and cash equivalents.

At the end of the Period the Fund has no debt. However, the Fund as part of its contributing responsibility in the Joint Venture has secured a term loan in the amount of \$7,000,000 from the Canadian Western Bank (“CWB”). The loan will be advanced based on a loan distribution schedule set in accordance with the Joint Venture’s cash requirements. Interest will float at a rate of 1.5% above the CWB prime lending rate. The loan will mature 30 months from the date of the initial advance. The Fund also has a \$250 thousand dollar credit facility with the Royal Bank of Canada. This line of credit is available to Gamehost Limited Partnership at the banks prime lending rate, but to date has not been accessed.

The Fund is required by the AGLC to maintain a Minimum Continuing Net Working Capital Position (“MCNWCP”) to support its gaming operations. It is anticipated that the Fund can maintain its required MCNWCP and it’s program for consistent cash distributions as well as meet the Joint Venture cash requirements into the fall before accessing the available term loan.

Capital Expenditures

Capital Expenditures for the Period totaled \$1,139 million. The significant portion of this total was made to honour the Fund's financial obligation to the Joint Venture.

Distributable Cash

The Fund's mandate is to make consistent monthly cash payments to our unitholders based on management's projections of the year's distributable cash. Distributable cash is defined as net income determined in accordance with Canadian Generally Accepted Accounting Principles, subject to certain adjustments as set out in the Declaration of Trust, including:

- a) adding the following items: amortization on property, plant & equipment, future income tax expense and losses on dispositions of assets; and
- b) deducting the following items: future income tax credits, gains on dispositions of assets and capital maintenance expenditures.

Other adjustments may be made to distributable cash as determined by a majority of the Trustees in their discretion. It is the intention of the Fund trustees to distribute sufficient income from the Fund so that the Fund will not have any liability for tax under Part I of the Income Tax Act.

Gamehost Income Fund announced monthly distributions of \$0.12 per unit for each month during the Period. A further distribution of the same amount was declared for the month of July 2004. Declared monthly distributions are paid on or about the 15th of the month following declaration. Management believes the current monthly distribution is sustainable for the foreseeable future.

During the Period the Fund generated \$5.57 million (\$0.791/unit) in distributable cash and declared distributions of \$5.07 million (\$0.720/unit). The excess in distributable cash for the period totaled \$501 thousand (\$0.071/unit). The Fund now carries excess distributable cash of \$1.18 million (\$0.167/unit) which is expected to be used in ongoing funding requirements of the Joint Venture.

**GAMEHOST INCOME FUND
SUMMARY OF DISTRIBUTABLE CASH
FOR THE SIX MONTHS ENDED
JUNE 30, 2004**

	Class B Limited Partners	Unitholders	Total
DISTRIBUTABLE CASH SURPLUS- OPENING	\$ 346,481	\$ 329,265	\$ 675,746
Add:			
Adjustment – 2003 Capital Expenditures	<u>17,245</u>	<u>(17,245)</u>	<u>-</u>
ADJUSTED DISTRIBUTABLE CASH SURPLUS - OPENING	\$ 363,726	\$ 312,020	\$ 675,746
NET EARNINGS FOR THE PERIOD	3,334,691	2,859,508	6,194,199
Add:			
Amortization of property, plant & equipment	275,901	236,586	512,487
Capital expenditures	<u>(613,285)</u>	<u>(525,894)</u>	<u>(1,139,179)</u>
DISTRIBUTABLE CASH GENERATED	<u>\$ 2,997,307</u>	<u>\$ 2,570,200</u>	<u>\$ 5,567,507</u>
DISTRIBUTABLE CASH GENERATED/UNIT	<u>\$ 0.791</u>	<u>\$ 0.791</u>	<u>\$ 0.791</u>
DISTRIBUTIONS DECLARED	<u>\$ 2,727,216</u>	<u>\$ 2,338,597</u>	<u>\$ 5,065,813</u>
DISTRIBUTIONS DECLARED/UNIT	<u>\$ 0.720</u>	<u>\$ 0.720</u>	<u>\$ 0.720</u>
DISTRIBUTABLE CASH SURPLUS	<u>\$ 270,091</u>	<u>\$ 231,603</u>	<u>\$ 501,694</u>
DISTRIBUTABLE CASH SURPLUS/UNIT	<u>\$ 0.071</u>	<u>\$ 0.071</u>	<u>\$ 0.071</u>
DISTRIBUTABLE CASH SURPLUS - CLOSING	<u>\$ 633,817</u>	<u>\$ 543,623</u>	<u>\$ 1,177,440</u>
DISTRIBUTABLE CASH SURPLUS - CLOSING/UNIT	<u>\$ 0.167</u>	<u>\$ 0.167</u>	<u>\$ 0.167</u>

Unitholders should be aware that the reduction to distributable cash from capital expenditures does not equate to a reduction to taxable income. Only the extent that those capital assets can be amortized reduces the Funds taxable position. Management is currently evaluating options for dealing with this situation with the intent to minimize taxes to the Fund.

Business Risks and Outlook

Management remains confident in the future performance of the Fund. Near term results based on indications at the middle of July are promising for the balance of the month as well as the remainder of the year.

A significant amount of managements efforts are being allocated to the Joint Venture to ensure a successful construction outcome. The longer term operational success of the Joint Venture project will be improved with the hands on role being taken in the planning and construction stage of the project.

There has been no further advancement of a new casino application for Grande which is currently at Step 3. The application is being followed closely by management. The application will follow the same 8 Step Traditional Casino Facility Application Process set out by the AGLC that all applicants must adhere to. Step by step details of the process can be found on the AGLC website at http://www.aglc.gov.ab.ca/gaming/charitable_gaming/casino/8_step_process.asp.

Summary of Ownership Interest

**GAMEHOST INCOME FUND
SUMMARY OF OWNERSHIP INTEREST
FOR THE SIX MONTHS ENDED
JUNE 30, 2004**

	Class B Limited Partners	Unitholders	Total
BALANCE, BEGINNING OF PERIOD	\$ 37,970,276	\$ 30,200,980	\$ 68,171,256
REORGANIZATION COSTS	-	27,682	27,682
NET INCOME	3,334,691	2,859,508	6,194,199
DISTRIBUTIONS TO UNITHOLDERS	<u>(2,727,216)</u>	<u>(2,338,597)</u>	<u>(5,065,813)</u>
BALANCE, END OF PERIOD	<u>\$ 38,577,751</u>	<u>\$ 30,749,573</u>	<u>\$ 69,327,324</u>

Forward-looking Statements

This management's discussion and analysis contains forward looking statements. Forward-looking statements may contain words such as "anticipates", "believes", "could", "expects", "indicates", "plans" or other similar expressions that suggest future outcomes or events. Use of these statements reflect reasonable assumptions made on the basis of managements current beliefs with information known by management at the time of writing. Many factors could cause actual results to differ from the results discussed in forward-looking statements. The reader is cautioned that the Fund can not assure that actual results will be consistent with these forward-looking statements.