



**2010 Interim Financial Statements  
for the six months ended June 30, 2010**

**Consolidated Balance Sheets**

	<i>(unaudited)</i>	<i>(audited)</i>
	June 30, 2010	December 31, 2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 16,418,683	\$ 9,973,895
Restricted cash (note 8)	87,206	67,700
Accounts receivable	1,424,565	827,504
Inventories (note 3)	483,060	305,488
Prepaid expenses	854,938	175,278
	19,268,452	11,349,865
Property, plant and equipment (note 9)	90,869,281	31,007,914
Licenses (note 3)	19,000,000	-
Goodwill (note 3)	48,852,216	42,579,216
	\$ 177,989,949	\$ 84,936,995
<b>Liabilities and unit holder equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,541,580	\$ 2,198,254
Revolving credit lines (note 11)	6,000,000	6,000,000
Demand loans (note 11)	24,313,111	17,250,076
Unit holder distributions payable	2,148,493	1,547,184
	37,003,184	26,995,514
Debentures payable (note 11)	47,687,395	-
Future income taxes (note 10)	1,065,038	1,523,866
	85,755,617	28,519,380
Class B limited partnership equity (note 13)	38,192,112	25,977,980
	123,947,729	54,497,360
Non-controlling interest (note 14)	8,197,324	-
Unit holders' equity (note 15)	45,844,896	30,439,635
	\$ 177,989,949	\$ 84,936,995
Commitments (note 16)		
Guarantees (note 17)		
Subsequent events (note 19)		

See accompanying notes to consolidated financial statements

**Consolidated Statements of Income and Comprehensive Income**

	<i>(unaudited)</i>		<i>(unaudited)</i>	
	six months ended June 30		three months ended June 30	
	2010	2009	2010	2009
Revenue				
Hotel - rooming	\$ 4,223,213	\$ 3,479,046	\$ 2,549,639	\$ 1,466,941
Table games	4,172,658	4,323,203	2,342,158	2,108,937
Slot machines	10,454,404	9,658,047	5,954,153	4,874,959
Food and beverage services	6,611,110	5,353,704	3,940,741	2,565,099
Lease and rental	196,792	175,094	98,191	88,654
Other	2,262,258	1,989,106	1,318,448	1,000,365
	27,920,435	24,978,200	16,203,330	12,104,955
Operating Expenses				
Cost of goods sold	2,055,665	1,663,916	1,219,019	807,411
Human resources	7,664,510	6,484,301	4,529,471	3,248,550
Marketing and promotions	1,263,245	1,001,162	795,407	515,287
Operating	3,347,423	2,956,106	1,934,069	1,499,900
Corporate and general administration	1,565,131	1,102,482	1,154,049	646,710
Amortization of property, plant & equipment	1,009,626	946,465	574,989	473,779
	16,905,600	14,154,432	10,207,004	7,191,637
Operating income	11,014,835	10,823,768	5,996,326	4,913,318
Other income and (expenses)				
Gain (loss) on sale of assets (note 4)	22,163,015	-	22,163,015	-
Interest charges	(1,442,758)	(380,420)	(1,222,392)	(172,906)
Income before taxes and minority interest	31,735,092	10,443,348	26,936,949	4,740,412
Future income tax recovery (expense) (note 10)	458,828	1,775,893	490,830	1,745,139
	32,193,920	12,219,241	27,427,779	6,485,551
Allocation to Class B limited partners	(14,155,569)	(5,403,719)	(12,047,837)	(2,868,107)
	18,038,351	6,815,522	15,379,942	3,617,444
Net and comprehensive income (loss)				
Continuing operations				
Fund unit holders'	\$ 17,853,926	\$ 6,815,522	\$ 15,195,517	\$ 3,617,444
Non-controlling interest	184,425	-	184,425	-
	18,038,351	6,815,522	15,379,942	3,617,444
Discontinued operations	-	(3,441,921)	-	(3,269,993)
	\$ 18,038,351	\$ 3,373,601	\$ 15,379,942	\$ 347,451
Net income/unit and comprehensive income/unit - Basic				
Continuing operations	\$ 1.516	\$ 0.579	\$ 1.291	\$ 0.307
Discontinued operations	-	(0.292)	-	(0.278)
	\$ 1.516	\$ 0.287	\$ 1.291	\$ 0.030
Net income/unit and comprehensive income/unit - Diluted				
Continuing operations	\$ 1.377	\$ 0.579	\$ 1.074	\$ 0.307
Discontinued operations	-	(0.292)	-	(0.278)
	\$ 1.377	\$ 0.287	\$ 1.074	\$ 0.030

See accompanying notes to financial statements

**Consolidated Statements of Fund Unit Holders' Equity**

	<i>(unaudited)</i>		<i>(unaudited)</i>	
	<b>six months ended June 30</b>		<b>three months ended June 30</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Balance at beginning of period	\$ 30,439,635	\$ 32,018,886	\$ 30,509,128	\$ 35,647,073
Unit class conversions	-	3,190,959	-	-
Debenture conversion privilege	2,729,168	-	2,729,168	-
Net earnings	17,853,926	6,815,522	15,195,517	3,617,444
Net earnings - discontinued operations	-	(3,441,921)	-	(3,269,993)
Distributions to Fund unit holders	(5,177,833)	(5,177,838)	(2,588,917)	(2,588,916)
Balance at end of period	\$ 45,844,896	\$ 33,405,608	\$ 45,844,896	\$ 33,405,608

See accompanying notes to financial statements

**Consolidated Cash Flows**

	<i>(unaudited)</i>		<i>(unaudited)</i>	
	six months ended June 30		three months ended June 30	
	2010	2009	2010	2009
Operating Activities				
Net and comprehensive income (loss)	\$ 18,038,351	\$ 6,815,522	\$ 15,379,942	\$ 3,617,444
Add (deduct) non-cash items:				
Future income tax expense (recovery)	(458,828)	(1,775,893)	(490,830)	(1,745,139)
Gain on Sale of Assets	(22,163,015)	-	(22,163,015)	-
Amortization of debentures	231,451	-	231,451	-
Amortization of property, plant, equipment	1,009,626	946,465	574,989	473,779
Allocation to Class B limited partners	14,155,569	5,403,719	12,047,837	2,868,107
	10,813,154	11,389,813	5,580,374	5,214,191
Increase (decrease) in operating working capital:				
Accounts receivable	(1,160)	620,527	(50,417)	226,800
Inventories	42,519	16,112	21,284	(8,718)
Prepaid expenses	(582,820)	(258,371)	(494,792)	(291,410)
Accounts payable and accrued liabilities	1,396,704	(223,874)	1,230,399	114,352
Cash provided by continuing operations	11,668,397	11,544,207	6,286,848	5,255,215
Cash (used for) discontinued operations	-	(176,878)	-	(83,769)
	11,668,397	11,367,329	6,286,848	5,171,446
Financing Activities				
Advances (to) from related parties	-	(95,306)	-	(125,627)
Net advanced on revolving loans	-	2,000,000	-	-
Net (repaid) on demand term debt	(1,559,390)	(1,066,742)	(1,062,272)	(541,717)
Notes payable/receivable	-	-	-	109,966
Debenture proceeds	52,348,946	-	52,348,946	-
Joint venture distributions	(1,980,000)	-	(1,980,000)	-
Distributions to Class B limited partners'	(3,503,960)	(5,667,848)	(2,052,634)	(2,052,635)
Fund unit holder distributions	(5,177,833)	(7,148,658)	(2,588,917)	(2,588,916)
Cash provided by (used for) continuing operations	40,127,763	(11,978,554)	44,665,123	(5,198,929)
Cash (used for) discontinued operations	-	(209,106)	-	(97,833)
	40,127,763	(12,187,660)	44,665,123	(5,296,762)
Investing Activities				
Deerfoot Joint Venture (note 18)	(45,286,700)	-	(45,286,700)	-
Purchase of property, plant & equipment	(64,672)	(306,050)	296,183	(172,479)
Cash (used for) continuing operations	(45,351,372)	(306,050)	(44,990,517)	(172,479)
Cash (used for) discontinued operations	-	(272)	-	(31,858)
	(45,351,372)	(306,322)	(44,990,517)	(204,337)
Increase (decrease) in cash and cash equivalents	6,444,788	(1,126,653)	5,961,454	(329,653)
Opening cash and cash equivalents				
Continuing operations	9,973,895	12,045,414	10,457,229	11,421,211
Discontinued operations	-	890,315	-	717,518
	9,973,895	12,935,729	10,457,229	12,138,729
Closing cash and cash equivalents	\$ 16,418,683	\$ 11,809,076	\$ 16,418,683	\$ 11,809,076
Cash and cash equivalents related to:				
Continuing operations	\$ 16,418,683	\$ 11,305,017	\$ 16,418,683	\$ 11,305,017
Discontinued operations	-	504,059	-	504,059
	\$ 16,418,683	\$ 11,809,076	\$ 16,418,683	\$ 11,809,076
Supplemental cash flow information:				
Interest earned	\$ 24,855	\$ 19,097	\$ 23,268	2,239

See accompanying notes to financial statements

## Notes to Consolidated Financial Statements

six months ended June 30, 2010

### 1. Organization Structure

#### The Fund

Gamehost Income Fund (the "Fund") is an unincorporated open-ended limited purpose trust established under the laws of the Province of Alberta and is governed by a trust agreement dated April 9, 2003 (the "Fund Agreement").

#### The Trust

Gamehost Trust (the "Trust") is an unincorporated open-ended limited purpose trust established under the laws of the Province of Alberta and is governed by a trust agreement dated April 10, 2003 (the "Trust Agreement"). All of the issued and outstanding units of the Trust are owned by the Fund. The Trustees of the Trust are the Trustees of the Fund.

#### The Limited Partnership

Gamehost Limited Partnership (the "Limited Partnership") is a limited partnership formed under the laws of the Province of Alberta. The Limited Partnership owns the assets and business operations of the Fund. The Limited Partnership began operations of the Fund effective June 1, 2003.

#### The Manager

The general partner of the Limited Partnership is Gamehost Management Inc. (the "Manager"). Pursuant to a management agreement (the "Management Agreement") between the Fund and the Manager, the administration and management of the Fund was delegated to the Manager.

#### Units

An unlimited number of Fund Units and Special Voting Units may be created and issued pursuant to the Fund Agreement. The Limited Partnership is authorized to issue unlimited numbers of both Class A Limited Partnership Units ("A Units") and Class B Limited Partnership Units ("B Units"). All of the issued and outstanding A Units of the Limited Partnership are owned by the Trust. The Trustees of the Trust are the Trustees of the Fund. There are 11,773,153 Fund Units which trade on the Toronto Stock Exchange ("TSX") under the symbol GH.UN. There are 9,334,400 B Units of the Limited Partnership issued and outstanding. B Units are exchangeable, on a one-for-one basis, for Fund Units. Holders of Fund Units and holders of B Units have equal voting rights. There were no changes in the number of units issued or outstanding during the Quarter.

#### Convertible Debentures

The Fund issued \$55.0 million in 6.25% Extendible Convertible Unsecured Subordinated Debentures to finance an accretive acquisition. The Debentures have a maturity date of July 31, 2015 (the "Maturity Date"). Each Debenture will be convertible into Fund Units at the option of the holder of a Debenture (a "Debentureholder") prior to the close of business on the Maturity Date or, if called for redemption, on the business day immediately preceding the date specified by the Fund for redemption of the Debentures, at a conversion price of \$10.65 per Gamehost Unit, being a conversion rate of approximately 93.8967 Gamehost Units per \$1,000 principal amount of Debentures, subject to adjustment in certain events. Conversion will result in the issue of an additional 5,164,319 Fund Units.

## Notes to Consolidated Financial Statements

six months ended June 30, 2010

### 2. Nature of Operations

The Fund's activities are currently confined to the Province of Alberta, Canada. Operations include the Boomtown Casino in Ft. McMurray, the Great Northern Casino in Grande Prairie and Service Plus Inns & Suites ("Service Plus"), a limited service hotel, also located in Grande Prairie. As a complement to the hotel, the Fund owns a retail complex (the "Strip Mall") that leases space to a pub, a full service restaurant operation and a liquor store. On April 30, 2010, the Fund increased its joint venture interest in Deerfoot Inn & Casino Inc., (the "Deerfoot Joint Venture"), in Calgary from 40% to 91%.

Gaming operations of the Fund are controlled by the Alberta Gaming and Liquor Commission. Operations include Fund owned table games and government owned slot machines, video lottery terminals and lottery ticket outlets. Hotel operations of the Fund include full and limited service hotels and banquet and convention services. Food, beverages and entertainment are offered at each of the Fund's casino locations.

It is the intent and practice of the Fund to distribute taxable income of the Fund to unit holders by way of regular monthly cash distributions.

### 3. Significant Accounting Policies

#### Basis of presentation

These consolidated financial statements ("Financial Statements") of the Fund have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Fund's reporting currency is in Canadian dollars.

These Financial Statements include the activities of the Fund, the Trust, the Limited Partnership with all its operating divisions, subsidiaries and any interests in joint ventures.

Certain prior year figures have been reclassified to conform to the current method of presentation.

#### Principles of consolidation

These Financial Statements include the accounts of wholly owned subsidiaries, partnerships, trusts and joint ventures. All significant accounts and transactions between consolidated entities are eliminated.

#### Joint venture(s)

The Fund's investment in the Deerfoot Joint Venture was accounted for using the proportionate consolidation method up to April 30, 2010. Following the acquisition of an additional 51% interest the Fund gained control with ownership of 91% of the Deerfoot Joint Venture resulting in a change in the method of consolidation. Beginning May 1, 2010 100% of the Deerfoot Joint Venture is consolidated with an offsetting 9% allocated to non-controlling interest.

#### Estimates

Preparation of these Financial Statements requires management to make estimates and assumptions that affect the reported amounts and disclosure of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amount of revenues and expenses during the reported period. Actual results may differ from estimates. Items such as long-term contracts, allowance for doubtful accounts, inventory obsolescence, amortization, employee benefits, impairment of long-lived assets, accrued liabilities, intangibles, future income taxes and contingencies may be estimated.

## Notes to Consolidated Financial Statements

six months ended June 30, 2010

### 3. Significant Accounting Policies (cont.)

#### Cash and cash equivalents

Cash and cash equivalents consist of floats, bank balances and credit card accounts. Bank balances are all in current accounts and earn interest at a rate of bank prime less 2%. US dollar balances have been converted to Canadian equivalents using exchange rates at the end of the Quarter.

#### Inventories

Inventories are recorded at the lower of cost or net realizable value, cost being determined by using the first-in first-out method. Inventories are limited to high turnover food, beverage and concession items, uniforms and playing cards. There were no reversals of write-downs or provisions recognized in prior periods.

#### Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is based on their estimated useful life using the following rates and methods:

Land improvements	- 2% straight line
Buildings	- 4% - 5% reducing balance
Leaseholds	- 5 to 10 years straight line
Furniture, fixtures and equipment	- 20% - 45% reducing balance

#### Licenses

Gaming licenses are issued by the Alberta Gaming and Liquor Commission. And allow for the operation of government owned slot machines, video lottery terminals and lottery ticket kiosks and well as private operator owned table games in private operator facilities.

Gaming licenses are renewable every three years and are deemed to have an indefinite life. Gaming licenses are tested for impairment at least annually or when circumstances indicate that their carrying value may not be fully recoverable.

#### Goodwill and intangible assets

Goodwill represents the excess of the purchase of acquired assets over the estimated fair value of the tangible and intangible net assets.

Goodwill is tested for impairment at least annually and whenever events or circumstances indicate that its carrying value may not be fully recoverable. The impairment test requires comparing the carrying values of the reporting units, including goodwill, to their fair values. The Fund determines fair value using price-to-earnings multiples or discounted cash flows, whichever is most appropriate in the circumstances. Any excess of carrying value over the fair value of goodwill is charged to operations in the period the impairment occurred.

The Fund has not developed any internal intangible assets.

## Notes to Consolidated Financial Statements

### six months ended June 30, 2010

### 3. Significant Accounting Policies (cont.)

#### Long-lived assets

Long-lived assets, such as property, plant and equipment and tangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If such assets are considered to be impaired, the impairment is charged to operations in the period the impairment occurred. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

#### Revenue recognition

Revenues from gaming operations consist of the Fund's share of the gaming wins pursuant to its operating agreement with Alberta Gaming and Liquor Commission and are recognized on a daily basis.

Revenues from hotel operations and food and beverage sales are recognized when services are rendered.

Revenues from rental operations are recognized in accordance with the lease agreements.

#### Financial instruments

Canadian GAAP requires that financial instruments be classified into one of the five categories; held for trading, held to maturity, loans and receivables, available-for-sale financial assets or other financial liabilities.

Financial assets and liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Financial instruments classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in unit holders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition. When a decline in the fair value of an available-for-sale financial asset has been recognized in comprehensive income, and there is objective evidence that the impairment is other than temporary, the cumulative loss that had been previously recognized in accumulated other comprehensive income is removed from accumulated other comprehensive income and recognized in net income.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments.

Comprehensive income or loss is the overall change in equity for a period, other than changes attributable to transactions with shareholders. It is made up of net income and other comprehensive income. Other comprehensive income includes gains and losses that GAAP requires to be recognized in a period but are excluded from net income for that period. The Company does not have any items of comprehensive income in any period presented and accordingly net income equals comprehensive income.

#### Earnings per unit

Earnings per unit are expressed as basic and the weighted average of fully diluted units. Basic units are the current outstanding number of the publically traded units of the Fund ("Fund Units") and convertible B units of the Limited Partnership ("LP B Units"). Weighted average of fully diluted units includes the Fund Units, LP B Units and the conversion privilege attached to convertible debentures.

## Notes to Consolidated Financial Statements

six months ended June 30, 2010

### 4. Adoption of New Accounting Standards

Future Accounting Changes

#### International Financial Reporting Standards (“IFRS”)

All publically accountable enterprises will be required to report under IFRS for interim and annual periods beginning on or after January 1, 2011. The Fund will fully adopt IFRS effective January 1, 2011. Comparative figures for the year ending December 31, 2010 will be restated to conform to the new provision.

#### Business combinations

In January 2009, the CICA issued Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”. These sections replace the former Section 1581, “Business Combinations”, and Section 1600, “Consolidated Financial Statements”, and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These sections were adopted by the Fund on January 1, 2010 in anticipation of a planned acquisition (the “Acquisition”) of a further interest in the Deerfoot Joint Venture. As at June 30, 2010, adoption of these sections has had the following impact on financial statements; at the time of Acquisition, the Fund’s original 40% proportionate interest, accounted for by proportionate consolidation, was disposed of at the appraised fair market value (FMV) with a resulting gain credited to the income statement. 100% of the Deerfoot Joint Venture, at FMV, with associated goodwill was added to the Fund financial statements with an offsetting non-controlling interest representing 9% of the Deerfoot Joint Venture.

### 5. Capital Disclosure

The Fund defines managed capital as term debt and unit holders’ equity. The Fund’s objectives in managing capital are primarily to (i) provide a consistent, secure and growing source of cash for distribution to unit holders, (ii) maintain the productive capacity of the Fund, (iii) meet all debt servicing obligations and (iv) fund future expansions and acquisitions. The Fund may raise additional capital from time to time to pursue these objectives by issuing units or incurring additional debt.

## Notes to Consolidated Financial Statements

six months ended June 30, 2010

### 5. Capital Disclosure (cont.)

	June 30, 2010	December 31, 2009
Managed debt		
Term debt (note 11)	20,312,111	13,249,076
Debentures (note 11)	47,687,395	-
Total managed debt	67,999,506	13,249,076
Equity		
Capital contributions	70,358,511	70,358,510
Debenture conversion privilege	4,893,002	-
Cumulative earnings and comprehensive income	129,662,241	104,652,748
Total Equity	211,913,754	175,011,258
Total managed capital	279,913,260	188,260,334

The Fund's term debt facilities include demand clauses but are not considered to be short term debt by the lender. Term debt facilities are subject to certain covenants and interest rates as described in Note 11. All covenants had been met.

During the Quarter the Fund issued \$55 million 6.25% Extendible Convertible Unsecured Subordinated Debentures. Debenture issue costs are amortized over the life of the debentures. The debenture conversion privilege was determined using discounted cash flows of the debenture payments.

There were no changes to the Fund's overall capital management strategy during the Quarter.

### 6. Financial Instruments

The Fund's activities expose it to certain financial risks. The Fund's risk management program focuses on the unpredictability of financial markets and endeavors to minimize the potential adverse effects on the Funds financial performance. The Fund does not purchase derivative financial instruments for speculative purposes. Material risks are monitored by management.

The Fund's financial instruments and the nature of the risks to which they are, or may be, subject to are set out in the following table:

Financial asset / liability	Risks				
	Credit	Liquidity	Currency	Market Risks Interest Rate	Other Price
Cash and cash equivalents	✓		✓		
Accounts receivable	✓				
Revolving credit lines	✓			✓	
Accrued and accounts payable		✓			
Loans		✓		✓	✓
Debentures		✓			

## Notes to Consolidated Financial Statements

six months ended June 30, 2010

### 6. Financial Instruments (cont.)

#### Fair value

The fair value of cash and cash equivalents, restricted cash, accounts receivable, revolving credit lines, accounts payable and accrued liabilities, demand loan, due to/from related parties and unit holders distributions payable approximate their carrying value due to the short-term maturities of these instruments.

The fair value of debentures is established using discounted cash flows less the unamortized issuing costs of the debentures.

#### Foreign Exchange Risk

The Fund has no material foreign currency risk.

#### Interest Rate Risk

The Fund's interest rate risk arises primarily from its variable rate debt in the aggregate amount of \$26.3 million. The Fund is paying interest at a stipulated floor rate of 4.0% on traditional bank term debt and revolving debt; otherwise the rate on these debt instruments is 1.0% above the bank prime lending rate. A 1% increase in interest rates would have an unfavourable impact on earnings of \$197,341 or \$0.009/unit on an annualized basis.

#### Credit Risk

Credit risk arises from cash and cash equivalents held with banks and credit exposure to customers. The Fund's day to day commercial banking is primarily with AAA rated Canadian financial institutions. Day to day commercial banking is not concentrated with a single financial institution. The Fund, in the normal course of operations, monitors the financial condition of its customers. The Fund does not have significant exposure to any individual customer or counterparty.

Carrying amounts of accounts receivable are reduced on an account specific basis when appropriate. The Fund does not currently carry an allowance for doubtful accounts. Carrying amounts of accounts receivable are reduced by direct write-off to earnings in the period of loss recognition. At the end of the Quarter, all aged receivables are current within stated credit terms and customer historical payment practices.

#### Liquidity Risk

Liquidity risk arises from excess financial obligations over available financial assets due at any point in time. The Fund's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet ongoing liquidity requirements. The Fund achieves this by maintaining a conservative distribution policy. Availability on committed credit facilities is \$2.0 million.

Accounts payable, excluding accrued liabilities, are due in 90 days or less.

The maturity date on the Fund's term debt held by the Limited Partnership is the earlier of the date the loan is paid out and February, 2017. The maturity date on the Deerfoot Joint Venture term debt is the earlier of the date the loan is paid out and January, 2021.

## Notes to Consolidated Financial Statements

### six months ended June 30, 2010

#### 6. Financial Instruments (cont.)

The maturity date on the Fund's \$55.0 million of convertible debentures is the earlier of the date of conversion or the Final Maturity Date of July 31, 2015. The conversion privilege specified by the Fund for redemption of the debentures provides for a conversion price of \$10.65 per Fund Unit; currently well above the trading range for the Fund Units.

Alberta Gaming and Liquor Commission requires all casinos to maintain a Minimum Continuing Net Working Capital Position ("MCNWCP"). The MCNWCP is a requirement for casino operations only. Additional working capital from non-casino operations and available debt facilities can be used to satisfy the requirement. The calculation of MCNWCP includes cash floats, restricted cash, one month's operating expenses and one month's interest costs on debt facilities. The Funds internal working capital requirements typically exceed that of MCNWCP.

Contractual commitments of the Fund are reported in Note 16.

#### 7. Letters of Credit

The Fund's gaming operations are subject to regulations imposed by the Alberta Gaming and Liquor Commission. The Fund has provided letters of credit in favour of Alberta Gaming and Liquor Commission in the amount of \$8,000 for the purpose of maintaining liquor licenses.

#### 8. Restricted Cash

Restricted cash consists of progressive jackpot funds. Progressive jackpots are divided into two pots. The first and larger of the two is reserved for the eventual winner of the jackpot. The second is used to seed the next pot after a jackpot is won. The progressive jackpot funds are not available for use in general operations. Included in accounts payable is \$87,206 (2009 - \$67,700) relating to progressive jackpots.

#### 9. Property, Plant and Equipment

June 30, 2010	Cost	Accumulated Amortization	Net Book Value
Land	\$ 10,859,030	\$ -	\$ 10,859,030
Land Improvements	3,423,631	356,639	3,066,992
Buildings	72,891,371	8,485,740	64,405,631
Buildings for lease or rent	863,326	256,943	606,383
Leaseholds	2,491,968	1,132,005	1,359,963
Equipment under capital lease	-	-	-
Furniture, fixtures and equipment	18,798,113	8,226,831	10,571,282
	\$ 109,327,439	\$ 18,458,158	\$ 90,869,281

## Notes to Consolidated Financial Statements

six months ended June 30, 2010

### 9. Property, Plant and Equipment (Cont.)

During the Period the Fund acquired a further 51% interest in the Deerfoot Joint Venture (note 18).

December 31, 2009	Cost	Accumulated Amortization	Net Book Value
Land	\$ 4,396,206	\$ -	\$ 4,396,206
Land Improvements	1,944,327	204,100	1,740,227
Buildings	25,891,080	5,438,578	20,452,502
Buildings for lease or rent	863,326	241,395	621,931
Leaseholds	2,491,968	999,974	1,491,994
Furniture, fixtures and equipment	6,710,514	4,467,686	2,242,828
Work in progress	62,226	-	62,226
	\$ 42,359,647	\$ 11,351,733	\$ 31,007,914

Certain equipment and machines housed on premises of the Fund are provided by and owned by Alberta Gaming and Liquor Commission and have not been included in these financial statements.

### 10. Income Taxes

#### Income taxes

Income earned by the Trust as a limited partner of the Limited Partnership is subject to income taxes. The Trust has established a policy to distribute all of its taxable income to unit holders of the Trust so that the Trust will not have any liability for tax under Part I of the Tax Act in any taxation year.

Income earned by the Fund as the sole unit holder of the Trust is subject to income taxes. The Fund has established a policy to distribute all of its taxable income to the unit holders of the Fund so that the Fund will not have any liability for tax under Part I of the Tax Act in any taxation year.

The Fund has not recorded a liability for current income taxes as the Fund does not anticipate taxable income for the year.

#### Future income taxes

Beginning January 1, 2011, distributions of income trusts will not be deductible in calculating taxable income of the trust; thereby requiring the trust to pay income taxes. Future income tax assets and liabilities are based on temporary differences between the tax treatment of assets and liabilities of the Fund and the accounting treatment of assets and liabilities reported on the Fund's financial statements to the extent that these differences will exist at 2011. Future tax is estimated based on assets and liabilities at the end of the year and the expected combined Federal and Alberta tax rate of 25.0% for 2011.

Temporary differences and carry-forwards which give rise to future income tax assets and liabilities at June 30, 2010 are as follows:

## Notes to Consolidated Financial Statements

six months ended June 30, 2010

### 10. Income Taxes (cont.)

	June 30, 2010	December 31, 2009
Future income tax asset (liability) arising from:		
Property, plant and equipment	<u>\$(1,065,038)</u>	<u>\$(1,523,866)</u>

### 11. Loans

The Fund has a \$15.0 million demand loan with the Canadian Western Bank (“CWB”) with an interest rate floor of 4.0%; otherwise, the interest on this loan remains at 1.0% above the CWB Prime Lending Rate. The Fund is making blended monthly principal and interest payments on a \$9.0 million segment of the loan amortized over 10 years. \$6.0 million of this loan is advanced on a revolving basis. There are no specific debt covenants attached to this loan. Security for the loan includes:

- General security agreement for first charge on Service Plus, Great Northern Casino and the Strip Mall. The net book value of these assets at the end of the Period is \$11.9 million
- Demand collateral mortgage first charge on the total loan amount
- Assignment of rents and leases
- Assignment of all risk casualty and liability insurance

The Fund issued an unsecured demand promissory note to a related party (note 12) in the amount of \$4.1 million. The note bears interest at a fixed rate of 3.25% with interest only payments to be made monthly.

The Fund has a 91% Participating Interest Responsibility in the debt facilities of the Deerfoot Joint Venture. The Deerfoot Joint Venture has a \$24.0 million demand loan secured by its land and buildings. The loan has an interest rate floor of 4.0%; otherwise, the interest on this loan remains at 1.0% above the CWB Prime Lending Rate. \$2.0 million of this loan is advanced on a revolving basis. The Fund’s portion of the total outstanding balance of this loan is \$12.0 million. The Deerfoot Joint Venture loan has the following financial covenants:

1. Maximum debt to equity ratio of 3.00:1
2. Minimum debt service coverage of 1.25:1

The Deerfoot Joint Venture is compliant with all covenants.

## Notes to Consolidated Financial Statements

### six months ended June 30, 2010

#### 11. Loans (cont.)

Credit Facilities	June 30, 2010	December 31, 2009
Authorized Maximum Loan amounts		
Demand loans	31,000,000	17,800,000
Revolving credit lines	8,000,000	6,800,000
Demand promissory note	4,100,000	4,100,000
Debentures	55,000,000	-
	98,100,000	28,700,000
Outstanding balance		
Demand loans	20,312,110	13,249,076
Revolving credit lines	6,000,000	6,000,000
Demand promissory note	4,001,000	4,001,000
<sup>1</sup> Debentures	47,687,395	-
	78,000,505	23,250,076
Advances (payments) during the calendar year		
Demand loans	7,063,034	(2,083,848)
Revolving credit lines	-	2,000,000
Demand promissory note	-	4,001,000
Debentures	47,687,395	-
Continuing Operations	54,750,429	3,917,152
Discontinued Operations	-	(8,250,404)
	54,750,429	(4,333,252)
Interest rate		
Demand loan	4.00% (P +1.00%)	4.00% (P +1.00%)
Revolving credit lines	4.00% (P +1.00%)	4.00% (P +1.00%)
Deerfoot Joint Venture - demand loan	4.00% (P +1.00%)	4.00% (P +1.00%)
Deerfoot Joint Venture - demand loan, revolving	4.00% (P +1.00%)	4.00% (P +1.00%)
Demand promissory note	3.25%	3.25%
Debentures	6.25%	n/a

<sup>1</sup> The face value of debentures has been reduced by an equity component representing the value attributed to the debentures conversion privilege to Fund Units. The equity component was determined by discounting the cash flows of future interest payments on the debentures and the final payout of the debentures at maturity using a cost of capital of 8%. The face value of debentures is further reduced by debenture issuing costs which are the amounts incurred to secure the debenture financing. Debenture issue costs are amortized to interest expense over the life of the debentures.

Face value of debentures	\$	55,000,000
Less: equity component		4,893,002
PV of future interest payments and debenture payout		50,106,998
Less: debenture issue costs		2,651,054
Initial carrying value of debentures		47,455,944
Amortization of debenture issue costs		231,451
Debentures payable	\$	47,687,395

<sup>2</sup> Prime rate (P) at the end of the Period was 2.75%. P+1.00% financing has a floor rate of 4.00%.

## Notes to Consolidated Financial Statements

six months ended June 30, 2010

### 12. Related Party Transactions

Related party transactions are measured at the exchange amount which is the amount agreed to by related parties. Related party balances are unsecured and non-interest bearing with no specific terms of repayment with one exception noted below.

The Fund had related party transactions with the persons of David Will and Darcy Will and/or companies owned or controlled by David Will and/or Darcy Will collectively (the “Wills”). Both David Will and Darcy Will are Trustees of the Fund. Together, the Wills control 44.1% of the outstanding units of all unit classes of the Fund. Transactions with the Wills include the following:

- The Fund recorded \$501,877 (\$422,007 - 2009) of management services expenses for the Period which are included in Human resources expenses. Management fees stipulated in management services agreements are based on a percentage of revenues and/or earnings before interest, taxes depreciation and amortization. At the end of the Quarter \$118,176 (\$26,528 - 2009) remained in Accounts payable. As Chief Executive Officer and Vice President, David Will and Darcy Will, respectively do not take any salary for their management of the Fund, but are compensated through management services agreements.
- The Fund recorded \$45,224 (\$6,606 – 2009) of charter aircraft rental expenses for the Period which is included in Operating expenses. At the end of the Quarter, \$nil (\$3,964 – 2009) remained in due to/from accounts. Travel to the Fund’s operational centers of Grande Prairie and Ft. McMurray is made more efficient via charter air services than can be accomplished through commercial carriers.
- The Fund recorded \$23,500 (\$23,000 – 2009) in Trustee fees during the Period which are included in Human resources expenses. At the end of the Quarter \$6,750 (\$5,000 – 2009) remained in accounts payable.
- The Fund recorded \$76,174 (\$nil – 2009) in interest charges during the Period which are included in Interest expense. At the end of the Quarter \$10,688 (\$nil – 2009) remained in accounts payable. Interest charges arose from \$4,001,000 (\$nil – 2009) in outstanding amounts on promissory notes during the Period. The loan is unsecured and has a fixed interest rate of 3.25%. Loan proceeds were used to honour obligations under a guarantee the Fund provided to the lender to the discontinued Stampede Joint Venture. The promissory note was repaid in July 2010.
- The Fund acquired a further 51% interest in the Deerfoot Joint Venture on April 30, 2010 for \$52.7 million following approval of an committee of independent trustees (the “Independent Trustees”) of the Funds Board. No amounts remained outstanding at the end of the Period.

The Fund recorded \$66,500 (\$51,500 – 2009) in Trustee fees during the Period paid to other Trustees or companies controlled by other Trustees of the Fund which are included under Human resources expenses. At the end of the Quarter \$28,250 (\$26,500 – 2009) remained in accounts payable.

The Fund recorded \$22,338 (\$12,352 – 2009) in professional and administrative fees during the Period paid to companies controlled by other Trustees of the Fund. At the end of the Quarter \$nil (\$10,240 – 2009) remained in due to/from accounts.

The Fund recorded \$106,200 (\$105,000 – 2009) of management services expenses during the Period to other officers which are included under Human resources expenses. At the end of the Quarter \$17,700 (\$nil– 2009) remained in accounts/payable. Management fees stipulated in management services agreements are based on a flat monthly amount.

## Notes to Consolidated Financial Statements

### six months ended June 30, 2010

### 13. Class B Unit Holders Equity

The Limited Partnership is authorized to issue an unlimited number of Class B Limited Partnership Units. There were no changes in the number of Class B Limited Partnership Units issued or outstanding during the Quarter.

Class B Unit holders' Equity	June 30, 2010		December 31, 2009	
	Units	\$'s	Units	\$'s
Balance at beginning of period	9,334,400	\$ 25,977,980	10,334,400	\$ 32,955,463
Unit class conversions	-	-	(1,000,000)	(3,193,434)
Debt conversion privilege		2,163,833		-
Class B limited partners' earnings allocation		14,155,569		6,472,945
Net earnings - discontinued operations		-		(2,046,454)
Distributions to Class B limited partners		(4,105,270)		(8,210,540)
Balance at end of period	9,334,400	\$ 38,192,112	9,334,400	\$ 25,977,980

### 14. Non-Controlling Interest

A minority partner in the Deerfoot Joint Venture holds a non-controlling interest of 9%.

### 15. Fund Unit Holders Equity

The Fund is authorized to issue an unlimited number of Fund Units. There were no changes in the number of issued or outstanding Fund Units during the Period. The weighted average of equivalent units outstanding at the end of the Period is equal to the units issued. The Fund did not have any options, warrants, or rights that would be potentially dilutive during the Quarter. The Fund has convertible instruments that would be dilutive if conversion privileges were exercised.

Fund Unit holder' Equity	June 30, 2010		December 31, 2009	
	Units	\$'s	Units	\$'s
Balance at beginning of period	11,773,153	\$ 30,439,635	10,773,153	\$ 32,018,886
Unit class conversions	-	-	1,000,000	3,193,434
Debt conversion privilege		2,729,168		-
Net earnings		17,853,926		8,164,099
Net earnings - discontinued operations		-		(2,581,120)
Distributions to Fund Unit holders		(5,177,833)		(10,355,664)
Balance at end of period	11,773,153	\$ 45,844,896	11,773,153	\$ 30,439,635

## Notes to Consolidated Financial Statements

six months ended June 30, 2010

### 16. Commitments

#### Deerfoot Joint Venture

The Fund has an 87.75% Contributing Interest Responsibility to the Deerfoot Joint Venture for any capital requirements. All current capital requirements of the Deerfoot Joint Venture have been satisfied. There were no requests for capital made by the Deerfoot Joint Venture during the Period.

#### Management Agreements

On June 1, 2003 the Fund entered into a management services agreement with Gamehost Management Inc. The management agreement stipulates that Gamehost Management Inc. is entitled to 2.0% of operational earnings before interest, taxes, depreciation and amortization of the Fund.

On April 26, 2005 the Deerfoot Joint Venture entered into a management services agreement with 1016312 Alberta Ltd. The management agreement stipulates that 1016312 Alberta Ltd is entitled to 1.5% of the gross revenues plus 2.0% of any operational earnings before interest, taxes, depreciation and amortization of the Deerfoot Joint Venture.

On January 1, 2007, the Fund entered into a management services agreement with 1068802 Alberta Ltd. (amalgamated to 1508956 Alberta Ltd.). The management agreement stipulates a fixed monthly fee of \$17,700 for site operational management for the Fund's Chief Operating Officer.

#### Other Commitments

The Fund has certain commitments for equipment, services and premises rent including the Funds Participating Interest Responsibility in commitments of a joint venture. At the end of the Quarter these commitments, including a 91% participating interest in commitments of the Deerfoot Joint Venture, were:

<u>Operating Leases and service contracts</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Thereafter</u>
	889,349	1,614,351	1,051,372	902,100	815,512	4,800,808

### 17. Guarantees

The Fund has entered into indemnification agreements with current Trustees to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the Trustees and officers as a result of any lawsuit, or any judicial, administrative or investigative proceeding in which the Trustees and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of the indemnification agreements prevents management from making a reasonable estimate of the maximum potential amount the Fund could be required to pay counterparties. The Fund has purchased directors' and officers' liability insurance.

The Fund provided an \$11.5 million unsecured limited liability guarantee to the lender to the Deerfoot Joint Venture to indemnify it in the event the Deerfoot Joint Venture does not perform its contractual obligations. At the end of the Quarter, the maximum potential liability under this guarantee was \$11.5 million. The Fund has not recorded a liability with respect to this guarantee, as the Fund does not expect to make any payments in excess of what is recorded on the Financial Statements for the aforementioned items. The Fund has not charged a fee to the Deerfoot Joint Venture in regards to this guarantee. No specific assets have been provided as security.

## Notes to Consolidated Financial Statements

### six months ended June 30, 2010

#### 18. Acquisition of Joint Venture Interest

During the Period, the Fund acquired an additional 51% interest in the Deerfoot Joint Venture from related parties (the “Acquisition”). Prior to the Acquisition, a special committee of independent trustees of the Fund accepted an independent valuation of the Deerfoot Joint Venture’s business and assets.

Prior to the Acquisition the Fund held a 40% minority interest in the Deerfoot Joint Venture. Post-Acquisition the Fund holds a 91% controlling interest. The move from minority interest to controlling interest necessitates a change in accounting policy (note 3 – Business Combinations). Accordingly, accounting for the Acquisition was performed in a number of steps resulting in 100% of the fair market value April 30, 2010 (FMV) of the Deerfoot Joint Venture less a 9% non-controlling interest reported in these Financial Statements:

Step 1 – recording a bump in value of the Funds original 40% minority interest from net book value (NBV) to fair market value (FMV) resulting in a gain recorded to income during the Period.

Property, plant and equipment	14,563,015
Licenses	7,600,000
(Gain) loss	(22,163,015)

Step 2 – recording the purchase of 51% of the FMV of tangible and intangible assets and assumed liabilities of the Deerfoot Joint Venture.

Cash	4,494,980
Property, plant and equipment	39,117,000
Net working capital	(6,890,551)
Licenses	9,690,000
Goodwill	6,273,000
Total purchase price	52,684,429
Less acquired cash	(4,773,885)
Cash paid net of cash acquired	47,910,544
60% - Deerfoot Joint Ventures’ net income to Apr 2010	(2,623,844)
	45,286,700

Step 3 – recording the remaining 9% non-controlling interest in the assets, liabilities and equity of the Deerfoot Joint Venture.

Property, plant and equipment	6,903,000
Net working capital	(465,101)
Licenses	1,710,000
Non-controlling interest at April 30, 2010	8,147,899

#### 19. Subsequent Events

##### Regular monthly distributions

The Fund declared a regular monthly distribution of \$0.0733 per unit for July 2010 payable August 13, 2010.