



**2010 Annual Financial Statements  
for the twelve months ended December 31, 2010**

## AUDITORS' REPORT

To the Shareholders of:  
Gamehost Inc.

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Gamehost Inc. which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income and comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Gamehost Inc. and its subsidiaries as at December 31, 2010 and 2009, and their financial performance and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Heywood Holmes & Partners LLP*

Red Deer, Alberta  
February 24, 2011

Chartered Accountants



**Consolidated Balance Sheets**

	<i>(audited)</i>	<i>(audited)</i>
	December 31, 2010	December 31, 2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 14,572,108	\$ 9,973,895
Restricted cash (note 7)	37,984	67,700
Accounts receivable	1,391,210	827,504
Inventories	499,348	305,488
Prepaid expenses	258,788	175,278
	16,759,438	11,349,865
Property, plant and equipment (note 8, 19)	88,350,933	31,007,914
Licenses (note 19)	19,000,000	-
Goodwill (note 19)	57,890,798	42,579,216
	\$ 182,001,169	\$ 84,936,995
<b>Liabilities and shareholders' / unitholders' equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,430,183	\$ 2,198,254
Revolving credit lines (note 10)	-	6,000,000
Demand loans (note 10)	25,304,521	17,250,076
Unitholder distribution payable (note 20)	1,547,184	1,547,184
	31,281,888	26,995,514
Debentures payable (note 10)	48,256,207	-
Future income taxes (note 9)	5,422,937	1,523,866
	84,961,032	28,519,380
Class B LP unitholders (note 12)	-	25,977,980
	84,961,032	54,497,360
Non-controlling interest (note 13)	8,059,081	-
Unitholders' equity (note 14)	-	30,439,635
Shareholders' equity (note 15)	88,981,056	-
	\$ 182,001,169	\$ 84,936,995
Commitments (note 17)		
Guarantees (note 18)		
Subsequent events (note 21)		

See accompanying notes to consolidated financial statements

On behalf of the Board:



David J. Will, Director



Darcy, J. Will, Director



<b>Consolidated Statements of Income and Comprehensive Income</b>					
	<i>(audited)</i>		<i>(unaudited)</i>		
	twelve months ended December 31		three months ended December 31		
	2010	2009	2010	2009	
Revenue					
Hotel - rooming	\$ 10,120,214	\$ 6,453,573	\$ 2,789,797	\$ 1,443,061	
Table games	9,605,088	7,961,953	2,602,061	1,775,752	
Slot machines	22,729,005	18,779,089	6,049,156	4,516,247	
Food and beverage services	15,609,708	10,722,477	5,022,519	3,029,545	
Lease and rental	392,052	372,865	96,373	101,511	
Other	5,217,410	3,792,262	1,620,173	922,269	
	63,673,477	48,082,219	18,180,079	11,788,385	
Operating Expenses					
Cost of goods sold	4,816,802	3,332,268	1,513,307	933,370	
Human resources	17,949,347	12,740,229	5,305,294	3,103,832	
Marketing and promotions	2,767,782	2,119,726	793,018	576,964	
Operating	7,522,170	5,972,307	2,201,935	1,599,577	
Corporate and general administration	2,831,039	2,301,981	666,115	652,218	
Amortization of property, plant & equipment	3,711,261	1,890,581	1,343,111	468,250	
	39,598,401	28,357,092	11,822,780	7,334,211	
Operating income	24,075,076	19,725,127	6,357,299	4,454,174	
Other income and (expenses)					
Gain on revaluation of assets (note 19)	27,083,015	-	-	-	
Interest charges	(1,940,637)	(813,899)	(614,676)	(229,201)	
Debenture Interest	(2,430,542)	-	(859,375)	-	
Guarantee payments	-	(4,551,000)	-	449,000	
	22,711,836	(5,364,899)	(1,474,051)	219,799	
Income before taxes and discontinued operations	46,786,912	14,360,228	4,883,248	4,673,973	
Future income tax recovery (expense) (note 9)	219,511	276,816	(70,664)	(39,882)	
Discontinued operations	-	(4,627,574)	-	-	
Net and comprehensive income	47,006,423	10,009,470	4,812,584	4,634,091	
Net and comprehensive income attributable to:					
Class B LP unitholders'	\$ 20,447,245	\$ 4,426,491	\$ 2,004,254	\$ 2,049,336	
Fund unitholders'	25,789,396	5,582,979	2,527,892	2,584,755	
Non-controlling interest	769,782	-	280,438	-	
	\$ 47,006,423	\$ 10,009,470	\$ 4,812,584	\$ 4,634,091	
Net and comprehensive income/unit - basic					
Continuing operations	\$ 2.191	\$ 0.693	\$ 0.215	\$ 0.220	
Discontinued operations	-	(0.219)	-	-	
	\$ 2.191	\$ 0.474	\$ 0.215	\$ 0.220	
Net and comprehensive income/unit – diluted					
Continuing operations	\$ 1.965	\$ 0.693	\$ 0.205	\$ 0.220	
Discontinued operations	-	(0.219)	-	-	
	\$ 1.965	\$ 0.474	\$ 0.205	\$ 0.220	
Weighted average # of outstanding units – basic	21,107,553	21,107,553	21,107,553	21,107,553	
Weighted average # of outstanding units - diluted	24,772,097	21,107,553	26,271,872	21,107,553	

See accompanying notes to financial statements



**Consolidated Statements of Cash Flows**

	<i>(audited)</i>		<i>(unaudited)</i>	
	twelve months ended December 31		three months ended December 31	
	2010	2009	2010	2009
<b>Operating Activities</b>				
Net and comprehensive income (loss)	\$ 47,006,423	\$ 10,009,470	\$ 4,812,584	\$ 4,634,092
Add non-cash items:				
Future income tax expense (recovery)	(219,511)	(276,816)	70,664	39,882
(Gain) on revaluation of assets	(27,083,015)	-	-	-
Amortization of debentures	810,566	-	290,411	-
Amortization of property, plant, equipment	3,711,261	1,890,581	1,343,111	468,250
Net loss discontinued operations	-	4,627,574	-	-
	24,225,724	16,250,809	6,516,770	5,142,224
Increase (decrease) in operating working capital:				
Accounts receivable	(11,276)	387,799	(51,638)	(156,225)
Inventories	1,268	(1,249)	(26,605)	(18,964)
Prepaid expenses	37,412	85,830	335,262	173,504
Accounts payable and accrued liabilities	996,989	(18,219)	385,432	(186,767)
Cash provided by operating activities	25,250,117	16,704,970	7,159,221	4,953,772
Cash provided by (used for) discontinued operations	-	(232,236)	-	-
	25,250,117	16,472,734	7,159,221	4,953,772
<b>Financing Activities</b>				
Advances (to) from related parties	-	(28,461)	-	(59,036)
Net advanced (repaid) on revolving loans	(6,000,000)	2,000,000	(3,500,000)	-
Net advanced (repaid) on demand term debt	32,021	1,917,152	(581,979)	(494,385)
Debenture proceeds (payments)	52,338,643	-	(9,303)	-
Deerfoot payments to venturers	(812,190)	-	(378,000)	-
Distributions to Class B limited partners'	(8,210,538)	(9,773,117)	(2,052,634)	(2,052,634)
Fund unitholder distributions	(10,355,665)	(12,326,491)	(2,588,916)	(2,588,916)
Cash provided by (used for) financing activities	26,992,271	(18,210,917)	(9,110,832)	(5,194,971)
Cash provided by (used for) discontinued operations	-	(647,020)	-	-
	26,992,271	(18,857,937)	(9,110,832)	(5,194,971)
<b>Investing Activities</b>				
Contributed capital to discontinued operations	-	(176,680)	-	(176,680)
Business acquisition (note 19)	(52,684,429)	-	-	-
Purchase of property, plant & equipment	(247,957)	(388,892)	(112,572)	(90,099)
Cash provided by (used for) investing activities	(52,932,386)	(565,572)	(112,572)	(266,779)
Cash provided by (used for) discontinued operations	-	(11,059)	-	-
	(52,932,386)	(576,631)	(112,572)	(266,779)
Increase (decrease) in cash and cash equivalents	(689,998)	(2,961,834)	(2,064,183)	(507,978)
Cash acquired in acquisition of subsidiary	5,288,211	-	-	-
Opening cash and cash equivalents				
Continuing operations	9,973,895	12,045,414	16,636,291	10,481,874
Discontinued operations	-	890,315	-	-
Closing cash and cash equivalents	\$ 14,572,108	\$ 9,973,895	\$ 14,572,108	\$ 9,973,896
Cash and cash equivalents related to:				
Continuing operations	\$ 14,572,108	\$ 9,973,895	\$ 14,572,108	\$ 9,973,895
Discontinued operations	-	-	-	-
	\$ 14,572,108	\$ 9,973,895	\$ 14,572,108	\$ 9,973,895

See accompanying notes to financial statements



	<b>Consolidated Statements of Changes in Equity</b>	
	<i>(audited)</i>	<i>(audited)</i>
	<b>twelve month ended December 31</b>	
	<b>2010</b>	<b>2009</b>
Balance at beginning of period	\$ 30,439,635	\$ 32,018,886
Class B units conversion to common shares	25,977,980	-
Unit class conversions	-	3,193,434
Debenture conversion privilege	4,893,001	-
Net earnings	46,236,641	8,164,099
Net earnings - discontinued operations	-	(2,581,120)
Distributions to unitholders	(18,566,201)	(10,355,664)
Shareholders' equity	88,981,056	30,439,635
Non-controlling Interest	8,059,081	-
<b>Equity balance at end of period</b>	<b>\$ 97,040,137</b>	<b>\$ 30,439,634</b>

See accompanying notes to financial statements

## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

#### 1. Organization Structure

##### The Corporation

Gamehost Inc. (“Gamehost”, the “Company”, the “Corporation”) was incorporated on March 15, 2010 pursuant to the provisions of the *Business Corporations Act* (Alberta) (the “ABCA”) and on December 31, 2010, under the name of Gamehost Newco Inc., and in conjunction with the completion of the Conversion (as defined below) filed articles of amendment to change its name to Gamehost Inc.

##### The Fund

Gamehost Income Fund (the “Fund”) was an unincorporated open-ended limited purpose trust established under the laws of the Province of Alberta and was governed by a trust agreement dated April 9, 2003 (the “Fund Agreement”). The Fund exchanged all issued and outstanding Fund Units for common shares of the Corporation on December 31, 2010.

##### The Trust

Gamehost Trust (the “Trust”) was an unincorporated open-ended limited purpose trust established under the laws of the Province of Alberta and was 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 were 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 Gamehost. The Limited Partnership began operations of Gamehost effective June 1, 2003. The Limited Partnership is authorized to issue any number and any class of units provided none rank ahead of the common shares of the Corporation. The Trust owns all of the issued and outstanding Class A Limited Partnership Units (“Class A LP Units”). Effective December 31, 2010, all Class B Limited Partnership Units (“Class B LP Units”) were exchanged for common shares of the Corporation.

##### 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 Limited Partnership and the Manager, the administration and management of the Fund was delegated to the Manager. Coinciding with the terminations of the Fund and the Trust, the administration and management of Gamehost will be delegated to the Manager.

##### Common Shares

Gamehost is authorized to issue any number of and any class of shares. The Corporation has 21,107,553 common shares (“Shares”) issued and outstanding which trade on the Toronto Stock Exchange (“TSX”) under the symbol GH.



## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

## 2. Nature of Operations

Gamehost'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, Gamehost 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, Gamehost increased its ownership interest in Deerfoot Inn & Casino Inc., (the "Deerfoot"), in Calgary from 40% to 91%.

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

## 3. Significant Accounting Policies

### Basis of preparation

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

These Financial Statements include the activities of the Corporation, the Fund, the Trust, the Limited Partnership with all its operating divisions, subsidiaries and a joint venture.

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 and trusts. All significant accounts and transactions between consolidated entities are eliminated.

### Joint venture

Gamehost's investment in the Deerfoot was accounted for using the proportionate consolidation method up to April 30, 2010. Following the acquisition of an additional 51% interest in the Deerfoot (the "Acquisition"), Gamehost gained control with ownership of 91% of the Deerfoot resulting in a change in the method of accounting which is handled prospectively. Beginning May 1, 2010 100% of the Deerfoot is consolidated.

### 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, and impairment of long-lived assets, accrued liabilities, intangibles, future income taxes and contingencies may include estimates.

## Notes to Consolidated Financial Statements

### twelve months ended December 31, 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 1.65%.

#### 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.

#### 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% - 100% reducing balance

#### Licenses

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

Gaming licenses are renewable every three years and are estimated 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

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. Gamehost 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.

#### 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.

## Notes to Consolidated Financial Statements

twelve months ended December 31, 2010

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

#### Revenue recognition

Revenues from gaming operations consist of Gamehost'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 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, including debentures 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 shareholders' 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.

Gamehost provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Where carrying values approximate fair values, this information is not provided.

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 is excluded from net income for that period. Gamehost does not have any items of comprehensive income in any period presented and accordingly net income equals comprehensive income.

## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

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

#### Earnings per share

Basic earnings per share is calculated using the net income from controlling interest divided by the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants convertible debentures and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted earnings per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

### 3. Adoption of New Accounting Standards

#### Currently Adopted Changes

##### Business combinations

Effective January 1, 2010 Gamehost adopted CICA Handbook Sections 1582, “Business Combinations”, 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”. Sections 1601 and 1582 were adopted with prospective application while Section 1602 was adopted with retrospective application. 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 requires net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests 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 expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

#### 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. Gamehost 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.

### 5. Capital Disclosure

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

## Notes to Consolidated Financial Statements

twelve months ended December 31, 2010

### 5. Capital Disclosure (cont.)

	December 31, 2010	December 31, 2009
Managed debt		
Unsecured facilities		-
Demand debt (note 10)	25,304,521	17,250,076
Debentures (note 10)	48,256,207	-
	73,560,728	17,250,076
Equity		
Capital contributions	70,358,511	70,358,510
Debenture conversion privilege	4,893,002	-
Cumulative earnings and comprehensive income less cash distributions	13,729,543	(13,940,895)
Total Equity	88,981,056	56,417,615
Total managed capital	162,541,784	73,667,691

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; one month’s operating expenses and one month’s interest costs on debt facilities. Gamehost’s internal working capital requirements typically exceed that of MCNWCP.

There were no changes to Gamehost’s overall capital management strategy during the Period.

### 6. Financial Instruments

Gamehost’s activities expose it to certain financial risks. Gamehost’s risk management program focuses on the unpredictability of financial markets and endeavors to minimize the potential adverse effects on Gamehost’s financial performance. Material risks are monitored by management.

Gamehost’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 Risk Interest Rate
Cash and cash equivalents	✓		✓	
Accounts receivable	✓			
Revolving credit lines	✓			✓
Accrued and accounts payable		✓		
Loans		✓		✓
Debentures		✓		✓

## Notes to Consolidated Financial Statements

twelve months ended December 31, 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 loans and unitholder distributions approximate their carrying value due to the short-term maturities of these instruments.

The fair value of Gamehost's convertible debentures is established in the public market. The convertible debentures trade on the Toronto Stock Exchange under the symbol GH.DB and were valued at par on December 31, 2010.

#### Foreign Exchange Risk

Gamehost has no material foreign currency risk.

#### Interest Rate Risk

Gamehost's interest rate risk arises primarily from its variable rate debt in the aggregate amount of \$25.3 million. Gamehost is paying interest at a stipulated floor rate of 4.0% on traditional bank demand 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 \$253,000 or \$0.012/share on an annualized basis.

#### Credit Risk

Credit risk arises from cash and cash equivalents held with banks and credit exposure to customers. Gamehost'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.

Gamehost, in the normal course of operations, monitors the financial condition of its customers. Gamehost 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. Gamehost 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.

#### Liquidity Risk

Liquidity risk arises from excess financial obligations over available financial assets due at any point in time. Gamehost's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet ongoing liquidity requirements. Gamehost achieves this by maintaining a conservative distribution policy. Availability on committed revolving credit facilities is \$8.0 million.

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

Gamehost's lender is accepting monthly blended payments that will amortize the demand loan balance by February, 2017 and the Deerfoot demand loan balance by January, 2021.

## Notes to Consolidated Financial Statements

twelve months ended December 31, 2010

### 6. Financial Instruments (cont.)

The final maturity date on Gamehost's \$55.0 million of convertible debentures is July 31, 2015, less any debentures converted prior to the final maturity date. The conversion privilege specified by Gamehost for redemption of the debentures provides for a conversion price of \$10.65 per Share.

Contractual commitments of Gamehost are reported in Note 17.

### 7. 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 \$37,984 (2009 - \$67,700) relating to progressive jackpots.

### 8. Property, Plant and Equipment

December 31, 2010	Cost	Accumulated Amortization	Net Book Value
Land	\$ 10,859,030	\$ -	\$ 10,859,030
Land Improvements	3,423,631	390,875	3,032,756
Buildings	72,895,496	9,822,945	63,072,551
Buildings for lease or rent	863,326	272,491	590,835
Leaseholds	2,491,968	1,238,648	1,253,320
Furniture, fixtures and equipment	18,958,675	9,416,234	9,542,441
	<u>\$ 109,492,126</u>	<u>\$ 21,141,193</u>	<u>\$ 88,350,933</u>

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
	<u>\$ 42,359,647</u>	<u>\$ 11,351,733</u>	<u>\$ 31,007,914</u>

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

## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

## 9. Income Taxes

### Income taxes

Income earned by the Trust as a limited partner of the Limited Partnership is subject to income taxes. The Trust established a policy to distribute all of its taxable income to unitholders of the Trust so that the Trust would not have any liability for tax under Part I of the Tax Act in any taxation year. Income allocations by the Limited Partnership to the Trust for the Period were made prior to the Conversion (note 16).

Income earned by the Fund as the sole unitholder of the Trust is subject to income taxes. The Fund established a policy to distribute all of its taxable income to the unitholders of the Fund so that the Fund would not have any liability for tax under Part I of the Tax Act in any taxation year. Income allocations by the Fund for the Period were made prior to the Conversion (note 16).

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

### Future income taxes

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% for 2012 when the Corporation first anticipates taxes payable.

Temporary differences and carry-forwards which give rise to future income tax assets and liabilities at the end of the Period are as follows:

	December 31, 2010	December 31, 2009
Future income tax asset (liability) arising from:		
Property, plant and equipment	(\$5,422,937)	(\$1,523,866)

## 10. Loans

The Limited Partnership has a \$19.2 million demand term loan secured by its land and buildings and long term leases with the Canadian Western Bank (“CWB”). Gamehost is paying interest at a stipulated floor rate of 4.0%; otherwise the rate on this loan is 1.0% above the CWB Prime Lending Rate. Gamehost is making blended monthly principal and interest payments on a \$13.2 million segment of the loan amortized over 10 years. A \$6.0 million segment of this loan is available on a revolving basis with interest only payments. The Limited Partnership is compliant with all covenants.

Security for the loan includes:

- General security agreement for perfected security interest in all of the Partnerships’ present and after acquired property.
- Demand collateral mortgage first charge in the amount of \$20.0 million.
- Caveat evidencing mortgage of lease over Boomtown Casino in the amount of \$20.0 million.
- Assignment of rents and leases
- Assignment of all risk casualty and liability insurance

Gamehost issued an unsecured demand promissory note to a related party (note 11) in the amount of \$4.1 million bearing interest at a fixed rate of 3.25%. The note was repaid in full during the year.



## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

#### 10. Loans (cont.)

Gamehost has a 91% Participating Interest Responsibility in the debt facilities of the Deerfoot. The Deerfoot 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. Gamehost's portion of the total outstanding balance of this loan is \$11.6 million. The Deerfoot is compliant with all covenants.

Gamehost issued \$55 million in 6.25% Convertible Unsecured Subordinated Debentures ("Debentures") which trade on the Toronto Stock Exchange ("TSX") under the symbol GH.DB which were obligations of the Fund. The Debentures have a maturity date of July 31, 2015 (the "Maturity Date"). Each Debenture is convertible into Shares at the option of the holder of a Debenture (a "Debentureholder") any time prior to the close of business on the Maturity Date of the Debentures. Gamehost may also call for redemption of the Debentures on the business day immediately preceding the date specified by Gamehost for redemption of the Debentures, at a conversion price of \$10.65 per Gamehost Inc. common share, being a conversion rate of approximately 93.8967 Gamehost Inc. Shares per \$1,000 principal amount of Debentures, subject to adjustment in certain events. Conversion of the debentures will result in the issue of an additional 5,164,319 Shares. Gamehost's option to call for redemption is restricted to on or after August 1, 2013 provided proper notice is given and the common share price is at least 125% of the \$10.65 per common share strike price. On or after August 1, 2014 there are no restrictions on Gamehost's option to call for redemption provided proper notice is given.

Interest on the debentures is paid semi-annually on January 31<sup>st</sup> and July 31<sup>st</sup> of each year. Debentures are measured at amortized cost using the effective interest method.

Credit Facilities	December 31, 2010	December 31, 2009
Authorized Maximum Loan amounts		
Demand loan	13,238,327	9,000,000
Revolving credit lines	6,000,000	6,000,000
Deerfoot - demand loan	22,000,000	8,800,000
Deerfoot - demand loan, revolving	2,000,000	800,000
Demand promissory note	-	4,100,000
Debentures face value	55,000,000	-
Continuing Operations	98,238,327	28,700,000
Outstanding balance		
Demand loan	12,598,093	7,500,793
Revolving credit lines	-	6,000,000
Deerfoot - demand loan	12,706,428	5,748,283
Demand promissory note	-	4,001,000
<sup>1</sup> Debentures payable	48,256,207	-
Continuing Operations	73,560,728	23,250,076
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 - demand loan	4.00% (P +1.00%)	4.00% (P +1.00%)
Deerfoot - demand loan, revolving	4.00% (P +1.00%)	4.00% (P +1.00%)
Demand promissory note	3.25%	3.25%
Debentures face value	6.25%	n/a

## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

#### 10. Loans (cont.)

<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 Shares. 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		<u>4,893,002</u>
PV of future interest payments and debenture payout		50,106,998
Less: debenture issue costs		<u>2,652,055</u>
Initial carrying value of debentures		47,454,943
Amortization of debenture issue costs		<u>801,264</u>
Debentures payable	\$	48,256,207

Prime rate (P) at the end of the Period was 3.00%. All prime based loans have a floor rate of 4.00%.

#### 11. Related Party Transactions

Related party transactions are measured at the exchange amount which is the amount agreed to by related parties. The comparative figures do not include Discontinued Operations. Related party balances are unsecured and non-interest bearing with no specific terms of repayment with one exception noted below.

Gamehost 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 Directors of Gamehost and significant shareholders. Together, the Wills control 44.1% of the outstanding Shares of Gamehost. Transactions with the Wills include the following:

- Gamehost recorded \$1,169,029 (\$839,007 - 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 Period \$85,382 (\$67,770 - 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 Gamehost, but are compensated through management services agreements.
- Gamehost recorded \$120,318 (\$30,678 – 2009) of charter aircraft rental expenses for the Period which is included in operating expenses. At the end of the Period, \$14,533 (\$11,785 – 2009) remained in accounts payable accounts. Travel to Gamehost's operational centers of Grande Prairie and Ft. McMurray is made more efficient via charter air services than can be accomplished through commercial carriers.



## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

#### 11. Related Party Transactions (cont.)

- Gamehost recorded \$46,500 (\$47,500 – 2009) in Trustee fees during the Period which are included in human resources expenses. At the end of the Period \$5,000 (\$5,000 – 2009) remained in accounts payable.
- Gamehost recorded \$86,861 (\$43,089 – 2009) in interest charges during the Period which are included in interest expense. At the end of the Period \$nil (\$11,044 – 2009) remained in accounts payable. Interest charges arose from \$nil (\$4,001,000 – 2009) in outstanding amounts on promissory notes during the Period. The promissory note was repaid in full July 2010. The loan was unsecured with a fixed interest rate of 3.25%.
- Gamehost acquired a further 51% interest in the Deerfoot on April 30, 2010 for \$52.7 million following approval by a committee of independent trustees (the “Independent Trustees”) of Gamehost’s Board.

Gamehost recorded \$135,250 (\$114,500 – 2009) in Trustee fees during the Period paid to other Trustees or companies controlled by other Trustees of Gamehost which are included under human resources expenses. At the end of the Period \$35,000 (\$29,000 – 2009) remained in accounts payable.

Gamehost recorded \$29,482 (\$21,544 – 2009) in professional and administrative fees during the Period paid to companies controlled by other Trustees of Gamehost.

Gamehost recorded \$212,400 (\$210,400 – 2009) of management services expenses during the Period to other officers which are included under human resources expenses. Management fees stipulated in management services agreements are based on a flat monthly amount.

#### 12. Class B LP unitholders

Class B Limited Partners of the Limited Partnership who together owned all of the Class B Limited Partnership Units (“Class B LP Units”) before they were exchanged for Shares of Gamehost Inc. (note 16).

Class B LP Unitholders	December 31, 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 LP unitholders earnings allocation		20,447,245		4,426,491
Distributions to Class B LP unitholders		(8,210,533)		(8,210,540)
Class B LP Unit conversion to Shares	(9,334,400)	(40,378,525)		-
Balance at end of period	-	\$ -	9,334,400	\$ 25,977,980



## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

#### 13. Non-Controlling Interest

A joint venturer in the Deerfoot is entitled to a 9% non-controlling participating interest in the assets, liabilities, equity and income of the Deerfoot.

#### 14. Unitholder's Equity

Fund Units were exchanged for Shares during the year (note 16).

Unitholder's Equity	December 31, 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
Debenture conversion privilege		2,729,168		-
Net earnings		25,789,396		5,582,979
Distributions to Fund unitholders		(10,355,668)		(10,355,664)
Fund unit conversion to Shares	(11,773,153)	(48,602,531)		-
Balance at end of period	-	\$ -	11,773,153	\$ 30,439,635

#### 15. Shareholder's Equity

Class B LP Units and Fund Units were exchanged for Shares during the year (note 16). The Corporation is authorized to issue an unlimited number of Shares of any class. The Corporation has convertible instruments that would be dilutive if conversion privileges were exercised. No debenture conversions were made during the year. Otherwise, the Corporation did not have any options, warrants, or rights that would be potentially dilutive during the Period.

#### 16. Corporate conversion

Gamehost Inc. was incorporated for the purpose of participating in the reorganization (the "Conversion") of the income trust structure of the Fund into that of a corporation (i.e. the Corporation) by way of a plan of arrangement under the provisions of the ABCA. Pursuant to the Conversion, (i) the former holders of Fund Units exchanged all Fund Units for Shares of the Corporation on the basis of one Share for each one Fund Unit held and (ii) the former holders of Class B LP Units of the Limited Partnership exchanged all Class B LP Units for Shares on the basis of one Share for each one Class B LP Unit held, such that upon completion of the Conversion the former holders of Fund Units and the former holders of Class B LP Units, together, owned 100% of the Shares and the Corporation owned 100% of the Fund Units and 100% of the Class B LP Units. Articles of arrangement for the Corporation giving effect to the Conversion were filed on December 31, 2010.

The Conversion has been accounted for as a continuity of interests of the Fund since there was no change of control and since Gamehost will continue to operate the business of the Fund.

## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

#### 17. Commitments

##### Deerfoot

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

##### Management Agreements

On June 1, 2003, Gamehost 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. This agreement was amended effective May 1, 2010 to reduce the fee to 1.5% of earnings before interest, taxes, depreciation and amortization with the intent that the Acquisition should have no impact on management fees except where performance of the Deerfoot changes.

On April 26, 2005, the Deerfoot 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.

On January 1, 2007, Gamehost entered into a management services agreement with 1508956 Alberta Ltd. The management agreement stipulates that 1508956 Alberta Ltd is entitles to a fixed monthly fee of \$17,700 for overseeing site operations.

##### Other Commitments

Gamehost has certain commitments for equipment, services and premises rent. At the end of the Period these commitments were;

<u>Operating Leases and service contracts</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Thereafter</u>
	1,679,343	1,051,372	902,100	815,512	823,363	3,977,445

#### 18. Guarantees

Gamehost has entered into indemnification agreements with current Directors 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 Directors and officers as a result of any lawsuit, or any judicial, administrative or investigative proceeding in which the Directors and officers are named in legal actions 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 Gamehost could be required to pay counterparties. Gamehost has purchased directors' and officers' liability insurance.

Gamehost provided an \$11.5 million unsecured limited liability guarantee to the lender to the Deerfoot to indemnify it in the event the Deerfoot does not perform its contractual obligations. At the end of the Period, the maximum potential liability under this guarantee was \$11.5 million. Gamehost has not recorded a liability with respect to this guarantee, as Gamehost does not expect to make any payments in excess of what is recorded on the Financial Statements for the aforementioned items. Gamehost has not charged a fee to the Deerfoot in regards to this guarantee.



## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

#### 19. Business Acquisition

Effective May 1, 2010 Gamehost acquired an additional 51% interest in the Deerfoot from related parties, thereby raising their ownership interest in Deerfoot to 91%. Prior to the Acquisition, a special committee of independent trustees of the Fund accepted an independent evaluation of Deerfoot's business and assets.

The Acquisition has been accounted for as a business combination in accordance with CICA Handbook section 1582. Accordingly, the fair value of the previously owned 40% interest is considered to form part of the consideration for the business combination. The \$27,083,015 increase in the fair value of the 40% interest is included in income.

The assets and liabilities acquired are as follows:

Cash	\$ 8,813,686
Accounts receivable	920,717
Inventory	325,214
Prepaid expenses	201,536
Property, plant and equipment	76,700,000
Licenses	19,000,000
Goodwill	15,311,582
Accounts payable	(2,058,234)
Demand debt	(13,370,707)
Future Income Tax (Liability)	(4,118,582)
Net assets acquired	<u>101,725,212</u>
Consideration for the Acquisition was:	
Cash	52,684,429
Fair value of prior owned 40% interest	40,690,085
Non-controlling interest	8,350,698
Total consideration	<u>\$ 101,725,212</u>

#### 20. Unitholder Distribution Payable

The final cash distribution of the Limited Partnership was declared in December 2010 and was payable to Class B LP unitholders of the Limited Partnership and Fund unitholders prior to the Conversion which saw the Corporation exchange all Class B LP Units and Fund Units for Shares of the Corporation.

#### 21. Subsequent Events

##### Regular monthly dividends

The Corporation declared regular monthly dividends of \$0.0733 per common share for January 2011 payable February 15, 2011 and for February 2011 payable March 15, 2011.



## **Notes to Consolidated Financial Statements**

**twelve months ended December 31, 2010**

### **21. Subsequent Events (cont.)**

#### Debenture redemptions

\$389,000 principal amount of Debentures were received for conversion to February 24, 2011, resulting in the issue of 36,521 Shares.

#### Organization Structure Changes

On January 1, 2011, the Fund transferred all of its assets, liabilities and equity to the Corporation and was terminated.

On January 1, 2011, the Trust transferred all of its assets, liabilities and equity to the Fund and was terminated.

A wholly owned subsidiary of Gamehost, holding losses stemming from discontinued operations of \$5.5 million amalgamated with Gamehost Inc. Losses were not available for use until the amalgamation concluded early in 2011. As a result, Gamehost recorded a future tax asset approximating \$1.4 million in the next fiscal period.