Game Host Income Fund

**2009 Interim Financial Statements**
**for the six months ended June 30, 2009**

## Interim Consolidated Balance Sheets
*(unaudited)*

| | June 30, 2009 | Audited December 31, 2008 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 11,809,076 | $ 12,935,729 |
| Restricted cash (note 8) | 4,170 | 58,962 |
| Accounts receivable | 627,114 | 1,265,275 |
| Inventories (note 3) | 349,717 | 357,509 |
| Prepaid expenses | 559,486 | 311,656 |
| Due from related parties (note 12) | 125,875 | 28,149 |
| | 13,475,438 | 14,957,280 |
| Property, plant and equipment (note 9, note 18) | 38,094,274 | 44,675,730 |
| Goodwill (note 3) | 42,579,216 | 42,579,216 |
| | $ 94,148,928 | $ 102,212,226 |
| **Liabilities and unit holder equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 2,444,805 | $ 2,690,652 |
| Revolving credit lines (note 11) | 7,356,127 | 5,367,004 |
| Current portion of capital leases note 11) | 30,610 | 29,705 |
| Demand loans (note 11) | 20,968,382 | 22,216,324 |
| Unit holder distributions payable | 1,547,184 | 5,080,588 |
| | 32,347,108 | 35,384,273 |
| Capital leases (note 11) | 37,408 | 52,922 |
| Future income taxes (note 10) | 24,789 | 1,800,682 |
| Minority unit holders' equity (note 14) | 31,371,720 | 32,955,463 |
| | 63,781,025 | 70,193,340 |
| Fund unit holders' equity (note 13) | 30,367,903 | 32,018,886 |
| | $ 94,148,948 | $ 102,212,226 |

Commitments (note 15)
Guarantees (note 16)
Impairment of long lived assets (note 18)
Subsequent events (note 19)

See accompanying notes to consolidated financial statements

## Interim Consolidated Statements of Fund Unit Holders' Equity
***(unaudited)***

| | six months ended June 30 | | three months ended June 30 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Balance at beginning of period | $ 32,018,886 | $ 32,133,482 | $ 32,418,982 | $ 32,771,193 |
| Net earnings | 3,087,051 | 5,643,505 | 317,940 | 2,851,163 |
| Distributions to Fund unit holders | (4,738,034) | (4,523,647) | (2,369,019) | (2,369,016) |
| Balance at end of period | $ 30,367,903 | $ 33,253,340 | $ 30,367,903 | $ 33,253,340 |

See accompanying notes to financial statements

## Interim Consolidated Statements of Earnings and Comprehensive Income *(unaudited)*

| | six months ended June 30 | | three months ended June 30 | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Revenue | | | | |
| Hotel - rooming | $ 3,480,518 | $ 4,059,708 | $ 1,467,442 | $ 1,989,333 |
| Table games | 5,101,400 | 3,760,591 | 2,508,190 | 1,850,307 |
| Slot machines | 10,127,027 | 10,720,768 | 5,107,018 | 5,537,314 |
| Food and beverage services | 5,843,180 | 5,797,491 | 2,782,430 | 2,901,747 |
| Lease and rental | 179,825 | 163,705 | 90,705 | 79,545 |
| Other | 2,150,854 | 2,375,516 | 1,081,172 | 1,186,528 |
| | 26,882,804 | 26,877,779 | 13,036,957 | 13,544,774 |
| Expenses | | | | |
| Cost of goods sold | 1,821,664 | 1,832,194 | 881,225 | 919,424 |
| Human resources | 7,405,461 | 6,980,980 | 3,720,178 | 3,510,031 |
| Marketing and promotions | 1,267,441 | 1,224,584 | 626,461 | 672,529 |
| Operating | 3,498,642 | 3,160,904 | 1,767,964 | 1,637,533 |
| Corporate and general administration | 1,213,715 | 1,055,198 | 705,668 | 481,121 |
| | 15,206,923 | 14,253,860 | 7,701,496 | 7,220,638 |
| Earnings before the following: | 11,675,881 | 12,623,919 | 5,335,461 | 6,324,136 |
| Interest charges | 561,364 | 661,521 | 256,303 | 358,025 |
| Future income taxes (recoveries) (note 10) | (1,775,893) | (97,224) | (1,745,139) | (121,091) |
| Unrealized gains(loss) on fair valuation of financial assets and liabilities | (46,062) | - | (47,169) | - |
| Impairment loss on long lived assets (note 18) | 5,607,754 | - | 5,607,754 | - |
| Amortization of property, plant and equipment | 1,280,342 | 1,002,452 | 640,783 | 500,994 |
| Earnings allocation to minority interest | 2,961,325 | 5,413,665 | 304,989 | 2,735,045 |
| Net earnings and comprehensive income | $ 3,087,051 | $ 5,643,505 | $ 317,940 | $ 2,851,163 |
| Earnings per unit, basic and fully diluted | $ 0.287 | $ 0.524 | $ 0.030 | $ 0.265 |

See accompanying notes to financial statements

## Interim Consolidated Statements of Cash Flows *(unaudited)*

| | six months ended June 30 | | three months ended June 30 | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Cash provided by (used for) operating activities | | | | |
| Net earnings | $ 3,087,051 | $ 5,643,505 | $ 317,940 | $ 2,851,163 |
| Add non-cash items: | | | | |
| Future income tax expense | (1,775,893) | (97,224) | (1,745,139) | (121,091) |
| Unrealized loss on fair valuation of financial assets and liabilities | (46,062) | - | (47,169) | - |
| Impairment of long lived assets | 5,607,754 | - | 5,607,754 | - |
| Amortization of property, plant & equipment | 1,280,342 | 1,002,452 | 640,783 | 500,994 |
| Allocation to minority interest | 2,961,325 | 5,413,665 | 304,989 | 2,735,045 |
| | 11,114,517 | 11,962,398 | 5,079,158 | 5,966,111 |
| Net changes in non-cash working capital: | | | | |
| Accounts receivable | 638,161 | 88,230 | 235,708 | (188,566) |
| Inventories | 7,792 | (59,957) | (22,520) | (115,757) |
| Prepaid expenses | (247,830) | (187,582) | (308,096) | (233,118) |
| Accounts payable and accrued liabilities | (145,312) | (399,009) | 187,195 | (343,096) |
| | 11,367,328 | 11,404,080 | 5,171,445 | 5,085,574 |
| Cash provided by (used for) financing activities | | | | |
| Advances (to) from related parties | (97,726) | 47,269 | (115,580) | 30,911 |
| Net advanced (repaid) on revolving loans | 1,989,123 | | 87,051 | - |
| Net advanced (repaid) on demand term debt | (1,247,942) | 15,485,083 | (619,317) | 294,524 |
| Capital leases repaid | (14,609) | - | (7,364) | - |
| Proceeds from collection of notes receivable | - | - | - | 1,063,841 |
| Distributions to minority unit holders | (6,348,495) | (8,289,930) | (2,272,534) | (2,201,073) |
| Fund unit holder distributions | (6,468,011) | (8,313,271) | (2,369,017) | (2,300,464) |
| | (12,187,660) | (1,070,849) | (5,296,761) | (3,112,261) |
| Cash provided by (used for) investing activities | | | | |
| Property, plant & equipment | (306,321) | (10,585,472) | (204,337) | (1,803,943) |
| Increase (decrease) in cash and cash equivalents | (1,126,653) | (252,241) | (329,653) | 169,370 |
| Opening cash and cash equivalents | 12,935,729 | 13,124,669 | 12,138,729 | 12,703,058 |
| Closing cash and cash equivalents | $ 11,809,076 | $ 12,872,428 | $ 11,809,076 | $ 12,872,428 |
| Supplemental cash flow information: | | | | |
| Interest earned | $ 19,308 | $ 118,466 | $ 2,239 | $ 47,849 |

Non-cash transaction:

Purchase of property, plant and equipment and accounts payable and accrued liabilities have been reduced by non-cash investing activities of $319.

See accompanying notes to financial statements

# Notes to Interim Consolidated Financial Statements *(unaudited)*
**six months ended June 30, 2009**

## 1. Organization Structure

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").

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.

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.

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 Fund Units and Class B Limited Partnership units ("B Units"). There are 10,773,153 Fund Units and 10,334,400 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 has been no change in the number of units issued or outstanding during the Period.

## 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 pub and full service restaurant operations. The Fund is a 40% joint venture partner in Deerfoot Inn & Casino Inc., (the "Deerfoot Joint Venture"), in Calgary and a 20% joint venture partner in Calgary West Hospitality Inc., (the "Stampede Joint Venture") that opened June 19, 2008 in Calgary.

# Notes to Interim Consolidated Financial Statements *(unaudited)*
**six months ended June 30, 2009**

## 2. Nature of Operations (cont.)

Gaming operations of the Fund are controlled by the Alberta Gaming and Liquor Commission. Operations include Fund owned table games and the government owned slot machines and lottery ticket outlets. Hotel operations of the Fund include full and limited service hotels and banquet and convention services. Food, beverage 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 Preparation

These consolidated interim financial statements ("Financial Statements") of the Fund have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

These Financial Statements include the activities of the Fund, the Trust, the Limited Partnership with all its operating divisions, subsidiaries and the Fund's proportionate share of its joint ventures. The Fund's functional and reporting currency is in Canadian dollars.

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 and its proportionate share of two joint ventures. All significant accounts and transactions between consolidated entities are eliminated.

Joint ventures

The Fund's investment in joint ventures is accounted for using the proportionate consolidation method.

Estimates

Preparation of these Financial Statements requires management to make estimates and assumptions that affect the reported amounts and disclosure of assets and liabilities at the date of the Financial Statements and the reported amount of revenues and expenses during the reported period. Actual results could differ from these estimates. Estimates are used when accounting for such items and matters 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.

Cash and cash equivalents

Cash and cash equivalents consist of floats, bank balances and credit card accounts. US dollar balances have been converted to Canadian equivalents using exchange rates at June 30, 2009.

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 stuffs, uniforms and playing cards. During the Period there were no reversals of write-downs or provisions recognized in prior periods.

# Notes to Interim Consolidated Financial Statements *(unaudited)*
**six months ended June 30, 2009**

## 3. Significant Accounting Policies (cont.)

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 |
| Assets under capital lease | - 33.33% straight line |

Assets under capital lease are accounted for at cost. Amortization is based on their estimated useful life which is the same period over which they are financed being 3 years.

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 which ever 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.

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.

# Notes to Interim Consolidated Financial Statements *(unaudited)*
**six months ended June 30, 2009**

## 3. Significant Accounting Policies (cont.)

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.

| **Classification** | **Measurement** | |
|---|---|---|
| **Financial asset / liability** | Fair Value | Amortized Cost |
| Held for trading | | |
| Cash and cash equivalents | ✓ | |
| Restricted cash | ✓ | |
| Interest rate swap | ✓ | |
| Loans and receivables | | |
| Accounts receivable | | ✓ |
| Due from related parties | | ✓ |
| Other liabilities | | |
| Revolving credit lines | | ✓ |
| Accrued and accounts payable | | ✓ |
| Capital leases | | ✓ |
| Unit holder distributions payable | | ✓ |
| Demand loans | | ✓ |

## 4. Adoption of New Accounting Standards

Goodwill and Intangible Assets, section 3450

This section replaces Goodwill and other Intangible Assets, section 3062 and Research and Development Costs, section 3450. The standard addresses when internally developed intangible assets meets the criteria for recognition as an asset. These changes are effective for fiscal years beginning on or after October 1, 2008 with earlier adoption permitted and were adopted by the Fund on January 1, 2009. Adoption of the new standard has had no impact on the financial results of the Fund.

PRONOUNCEMENTS

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.

# Notes to Interim Consolidated Financial Statements *(unaudited)*
**six months ended June 30, 2009**

## 5. Capital Disclosure

The Fund defines managed capital as cash and cash equivalents, short and long term debt and unit holders equity, which is comprised of issued units, organizational costs, cumulative earnings and comprehensive income and distributions declared. 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.

| | **June 30, 2009** | **December 31, 2008** |
|---|---|---|
| Liquidity: | | |
| Cash and cash equivalents | 11,809,076 | 12,935,729 |
| Available credit facilities | 843,873 | 2,832,996 |
| Total liquidity | 12,652,949 | 15,768,725 |
| Total managed debt | 28,324,509 | 27,583,328 |
| Equity | | |
| Cumulative earnings and comprehensive income | 104,582,543 | 94,832,772 |
| Balance of equity net of distributions | (38,952,031) | (29,858,422) |
| Total Equity | 65,630,512 | 64,974,350 |
| Total managed capital | 106,607,970 | 108,326,403 |

The Fund is subject to a minimum continuing net working capital position by the Alberta Gaming and Liquor Commission.

The Fund's debt facilities are subject to certain covenants as described in Note 11. At June 30, 2009, with the exception of the Stampede Joint Venture, the Fund has met all covenants.

Subsequent to the end of the Period the lender for the Stampede Joint Venture issued a demand letter for repayment of the Stampede Joint Venture loans. Consequently, the Stampede Joint Venture elected for a voluntary receivership. Amounts reported under capital disclosure relating to the Stampede Joint Venture will be eliminated with effective transition to the receiver scheduled for August 17, 2009.

The Deerfoot Joint Venture accelerated their debt reduction after considering the markets general adversity towards debt at the present time.

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

# Notes to Interim Consolidated Financial Statements *(unaudited)*
**six months ended June 30, 2009**

## 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

| | **Risks** | | | | |
|---|---|---|---|---|---|
| | | | Market Risks | | |
| **Financial asset / liability** | Credit | Liquidity | Currency | Interest Rate | Other Price |
| Cash and cash equivalents | ✓ | | ✓ | | |
| Restricted cash | ✓ | | ✓ | | |
| Accounts receivable | ✓ | | | | |
| Due from related parties | ✓ | | | | |
| Revolving credit lines | ✓ | | | ✓ | |
| Accrued and accounts payable | | ✓ | | | |
| Unit holder distributions payable | | ✓ | | | |
| Loans | | ✓ | | ✓ | ✓ |
| Capital Leases | | ✓ | | | |
| Interest rate swap | | | | ✓ | |

<u>Fair value</u>

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.

<u>Foreign Exchange Risk</u>

The Fund operates in Canada. The functional and reporting currency of the Fund is in Canadian dollars. The Fund is exposed, in its normal course of operations, to exchange rate risk from foreign exchange rate fluctuations. Foreign exchange risk arises because a Canadian dollar payable transaction denominated in foreign currencies may vary due to changes in exchange rates at the time the transactions are settled. Any differences in the settled amounts are recorded as part of cost of sales or expenses. Transactions in foreign currencies, mostly USA dollars, are not material. The Fund does not actively manage exposure to foreign exchange risk.

<u>Interest Rate Risk</u>

The Fund's interest rate risk arises primarily from its variable rate debt in the aggregate amount of $28.8 million. The Stampede Joint Venture has hedged a portion of its interest rate risk (see note 11). A plus or minus 1% change in interest rates would impact annual earnings by $288,000 on all floating rate debt.

# Notes to Interim Consolidated Financial Statements *(unaudited)*
**six months ended June 30, 2009**

## 6. Financial Instruments (cont.)

Credit Risk

Credit risk arises from cash and cash equivalents held with banks and credit exposure to customers. 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 June 30, 2009, 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 payout ratio on regular monthly distributable cash from operations and maintaining sufficient availability from committed debt facilities.

The Stampede Joint Venture, subsequent to the end of the Period, elected for voluntary receivership. Management determined that continuing to provide cash to subsidize the venture was not in the best interest of joint venturers and no further injections will be made following the Period. The Fund has given a guarantee to the lender of the Stampede Joint Venture. The maximum exposure to the Fund under this guarantee is $5.0 million. Traditional bank debt is being arranged in the event all or part of the guarantee becomes due. Neither the likelihood or amount of repayment can be reliably estimated at this point in time.

Contractual commitments of the Fund are reported in Note 15.

## 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 $48,000 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 $4,170 relating to progressive jackpots.

# Notes to Interim Consolidated Financial Statements *(unaudited)*

**six months ended June 30, 2009**

## 9. Property, Plant and Equipment

| June 30, 2009 | Cost | Accumulated Amortization | Net Book Value |
|---|---|---|---|
| Land | $ 4,396,976 | $ - | $ 4,396,976 |
| Land Improvements | 1,944,327 | 219,517 | 1,724,810 |
| Buildings | 31,756,569 | 5,366,357 | 26,390,212 |
| Buildings for lease or rent | 854,553 | 225,212 | 629,341 |
| Leaseholds | 2,491,968 | 866,925 | 1,625,043 |
| Equipment under capital lease | 93,159 | 25,845 | 67,314 |
| Furniture, fixtures and equipment | 7,521,775 | 4,261,197 | 3,260,578 |
| | $ 49,059,327 | $ 10,965,053 | $ 38,094,274 |

A write down of the Stampede Joint Venture assets as a result of the Stampede Joint Ventures voluntary receivership has been charged to these Financial Statements (see note 18).

| December 31, 2008 | Cost | Accumulated Amortization | Net Book Value |
|---|---|---|---|
| Land | $ 4,396,976 | $ - | $ 4,396,976 |
| Land Improvements | 1,944,327 | 165,213 | 1,779,114 |
| Buildings | 37,276,483 | 4,704,950 | 32,571,533 |
| Buildings for lease or rent | 851,708 | 209,148 | 642,560 |
| Leaseholds | 2,491,969 | 733,876 | 1,758,093 |
| Equipment under capital lease | 93,159 | 10,319 | 82,840 |
| Furniture, fixtures and equipment | 7,305,820 | 3,861,206 | 3,444,614 |
| | $ 54,360,442 | $ 9,684,712 | $ 44,675,730 |

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.

Future income taxes

On June 12, 2007 Bill C-52 formalizing the Government of Canada's proposal to tax the distributions of income trusts became law. The new tax effectively treats income trusts as corporations for tax purposes beginning January 1, 2011. Distributions, under the rules, will first be taxed at the Fund level at an expected rate of 31.5%. The net amount would then be distributable to unit holders and treated as dividends for tax purposes. As a result of the new tax, the Fund was required to recognize the future tax assets and liabilities expected to arise when the new tax becomes applicable. Future income tax assets

# Notes to Interim Consolidated Financial Statements *(unaudited)*
**six months ended June 30, 2009**

## 10. Income Taxes (cont.)

and liabilities are based on temporary differences between the tax treatment of assets and liabilities of the Fund and the accounting treatment of these same assets and liabilities reported on the Fund's financial statements to the extent that these differences will exist at 2011. Based on its assets and liabilities at June 30, 2009 and the expected tax rate of 31.5% for 2011, the Fund has estimated a future tax liability of $24,789.

The Fund will not be liable for current income taxes until January 1, 2011. At June 30, 2009 temporary differences giving rise to future tax are as follows:

| | Net Value (tax basis) | Net Value (accounting basis) | Temporary Differences |
|---|---|---|---|
| Plant and equipment | 33,776,761 | 33,698,067 | -78,694 |

## 11. Loans

The Fund has a $15.0 million demand loan with the Canadian Western Bank ("CWB"). On June 25, 2009 amendments were made to the original commitment letter resulting in 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 $13.2 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 has a 40% Participating Interest Responsibility in the debt facilities of the Deerfoot Joint Venture. The Deerfoot Joint Venture has a demand loan secured by its land and buildings. On June 25, 2009 amendments were made to the original commitment letter resulting in an interest rate floor of 4.0%, otherwise, the interest on this loan remains at 1.0% above the CWB Prime Lending Rate. A segment of this loan is revolving. The Fund's portion of the total outstanding balance of this loan is $6.3 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 Fund has a 20% Participating Interest Responsibility in the debt facilities of the Stampede Joint Venture. The Stampede Joint Venture has a 5 year term loan being amortized over 15 years. A portion of the loan has been issued in the form of a banker's acceptance (BA) with a rolling maturity period of 30 days.

The Fund's portion of the outstanding balance of this BA, $3.5 million, is tied to a 3 year interest rate swap maturing Oct 2011 at 3.23% to the lenders cost of funds rate (a risk management facility has been arranged to facilitate hedging risks on interest rates swaps). The Stampede Joint Venture also has a revolving loan to fund the working capital requirements of the casino.

# Notes to Interim Consolidated Financial Statements *(unaudited)*
**six months ended June 30, 2009**

## 11. Loans (cont.)

Subsequent to the end of the Period the lender to the Stampede Joint Venture issued a demand letter for repayment of the loans. Further to this, on August 4, 2009 by mutual agreement, the interest rate swap was terminated which will result in a realized loss on that date. The realized loss will replace the cumulative unrealized loss on fair valuation of financial assets and liabilities charged to these financial statements.

Security for the loan includes:

- A debenture providing first ranking security interest over all current and future undertakings and property of the borrower;
- First ranking pledge of all securities in all current and future subsidiaries of the borrower;
- Guarantees limited to the amount of their respective participating interests and secured by Hypothecation Pledge of shares of the borrower from all present and future owners of the borrower;
- Joint and several guarantees from related parties, the Wills;
- Guarantee from the Fund;
- First mortgage charge over the casino lease (the "Lease") with Calgary Exhibition and Stampede Limited;
- Assignment of the Lease and all rents

<u>Capital leases</u>

The Stampede Joint Venture has entered into a number of capital leases for equipment. Capital leases are for terms of three years at financing rates ranging from 5% to 10% per annum. Maturity dates range from April 2011 to September 2011.

# Notes to Interim Consolidated Financial Statements *(unaudited)*
**six months ended June 30, 2009**

## 11. Loans (cont.)

| Credit Facilities | June 30, 2009 | December 31, 2008 |
|---|---|---|
| Authorized Maximum Loan amounts | | |
| Demand loan | 9,000,000 | 9,000,000 |
| Revolving loan | 6,000,000 | 6,000,000 |
| Deerfoot Joint Venture - demand loan | 8,800,000 | 8,800,000 |
| Deerfoot Joint Venture - demand loan, revolving | 800,000 | 800,000 |
| Stampede Joint Venture – revolving | 1,400,000 | 1,400,000 |
| Stampede Joint Venture – risk management | 600,000 | 600,000 |
| Stampede Joint Venture – BA's | - | 3,400,000 |
| Stampede Joint Venture – BA w/swap agreement | 3,600,000 | 3,600,000 |
| Stampede Joint Venture - demand loan | 3,400,000 | - |
| | 33,600,000 | 33,600,000 |
| Outstanding balance | | |
| Demand loan | 7,917,899 | 8,384,641 |
| Revolving loan | 6,000,000 | 4,000,000 |
| Deerfoot Joint Venture - demand loan | 6,348,283 | 6,948,283 |
| Deerfoot Joint Venture - demand loan, revolving | - | - |
| Stampede Joint Venture – revolving | 1,356,127 | 1,367,004 |
| Stampede Joint Venture – risk management | - | - |
| Stampede Joint Venture – BA's | - | 3,303,600 |
| Stampede Joint Venture – BA w/swap agreement | 3,458,400 | 3,579,800 |
| Stampede Joint Venture - demand loan | 3,243,800 | - |
| | 28,324,509 | 27,583,328 |
| Advances (payments) during the calendar year | | |
| Demand loan | (466,742) | 3,084,641 |
| Revolving loan | 2,000,000 | 4,000,000 |
| Deerfoot Joint Venture - demand loan | (600,000) | (855,243) |
| Stampede Joint Venture – revolving | (10,877) | 1,367,004 |
| Stampede Joint Venture – BA's | (3,303,600) | 3,303,600 |
| Stampede Joint Venture – BA w/swap agreement | (121,400) | 3,579,800 |
| Stampede Joint Venture - demand loan | 3,243,800 | - |
| | 741,181 | 14,479,802 |
| Interest rate | | |
| Demand loan | 4.00% (P +1.00%) | 4.00% (P +1.00%) |
| Revolving loan | 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%) |
| Stampede Joint Venture – revolving | 2.25% (P) | 3.00% (P)) |
| Stampede Joint Venture – BA's | | 4.00% (COF + 2.25%) |
| Stampede Joint Venture – BA w/swap agreement | 5.48% (3.23% + 2.25%) | 5.48% (3.23% + 2.25%) |
| Stampede Joint Venture - demand loan | 3.25% (P +1.00%) | - |

# Notes to Interim Consolidated Financial Statements *(unaudited)*
**six months ended June 30, 2009**

## 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 non-interest bearing with no specific terms of repayment.

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 44.0% of the outstanding units of all unit classes of the Fund. Transactions with the Wills include the following:

- The Fund recorded $464,441 ($495,307 – 2008) of management services expenses during 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 $68,962 ($29,882 - 2008) 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 $6,606 ($42,063 – 2008) of charter aircraft rental expenses during the Period which are included in Operating expenses. At the end of the Period $3,964 ($28 – 2008) remained in accounts payable. 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 $23,000 ($26,000 – 2008) in Trustee fees during the Period which are included in Human resources expenses. At the end of the Period $5,000 ($7,500 – 2008) remained in accounts payable.

The Fund recorded $51,500 ($55,500 – 2008) 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 Period $26,500 ($27,250 – 2008) remained in accounts payable.

The Fund recorded $12,568 ($79,290 – 2008) in professional and administrative fees during the Period paid to companies controlled by other Trustees of the Fund. At the end of the Period $173 ($nil – 2008) remained in accounts payable.

The Fund recorded $105,000 ($105,000 – 2008) 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.

## 13. 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 for the Period is equal to the units issued. The Fund did not have any options, warrants, rights or convertible instruments that would be potentially dilutive during the Period.

# Notes to Interim Consolidated Financial Statements *(unaudited)*
**six months ended June 30, 2009**

## 13. Fund Unit Holders Equity (cont.)

| **Fund Units** | **June 30, 2009** | | | **December 31, 2008** | | |
|---|---|---|---|---|---|---|
| | **Units** | | **$'s** | **Units** | | **$'s** |
| Balance at beginning of period | 10,773,153 | $ | 32,018,886 | 10,773,153 | $ | 32,133,482 |
| Net earnings | | | 3,087,051 | | | 10,950,508 |
| Distributions to Fund Unit holders | | | (4,738,034) | | | (11,065,104) |
| Balance at end of period | 10,773,153 | $ | 30,367,903 | 10,773,153 | $ | 32,018,886 |

## 14. Minority 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 Period.

| **Minority Unit Holders Equity** | **June 30, 2009** | | | **December 31, 2008** | | |
|---|---|---|---|---|---|---|
| | **Units** | | **$'s** | **Units** | | **$'s** |
| Balance at beginning of period | 10,334,400 | $ | 32,955,463 | 10,334,400 | $ | 33,065,390 |
| Minority interest earnings allocation | | | 2,961,325 | | | 10,504,534 |
| Distributions to minority interest unit holders | | | (4,545,068) | | | (10,614,461) |
| Balance at end of period | 10,334,400 | $ | 31,371,720 | 10,334,400 | $ | 32,955,463 |

# Notes to Interim Consolidated Financial Statements *(unaudited)*
**six months ended June 30, 2009**

## 15. Commitments

Deerfoot Joint Venture

The Fund has a 47.75% 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.

Stampede Joint Venture

The Fund, through its wholly owned subsidiary 1363840 Alberta Ltd (the "Subsidiary"), has a 23% Contributing Interest Responsibility to the Stampede Joint Venture for any capital requirements. During the Period, $347,040 was contributed by the Fund to the Stampede Joint Venture for cash calls. The Stampede Joint Venture, subsequent to the end of the Period, elected for voluntary receivership. Management determined that continuing to provide cash to subsidize the venture was not in the best interest of joint venturers and no further injections were or will be made following 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 a percentage of any earnings before interest, taxes, depreciation and amortization of the Fund.

The Fund entered into a management services agreement with 1068802 Alberta Ltd. The management agreement stipulates a fixed rate for site operational management for the Fund's Chief Operating Officer.

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 a percentage of the gross revenues plus a percentage of any earnings before interest, taxes, depreciation and amortization of the Deerfoot Joint Venture.

On November 1, 2007 the Stampede Joint Venture entered into a management services agreement with 1016312 Alberta Ltd. The management agreement stipulates that 1016312 Alberta Ltd is entitled to a percentage of the gross revenues plus a percentage of any earnings before interest, taxes, depreciation and amortization of the Stampede Joint Venture.

Other Commitments

The Fund has certain commitments for equipment, services and premises rent including the Funds Participating Interest Responsibility in commitments of joint ventures. At June 30, 2009 these commitments were:

| **Operating Leases and service contracts** | **2009** | **2010** | **2011** | **2012** | **2013** | **Thereafter** |
|---|---|---|---|---|---|---|
| | **1,191,644** | **2,182,938** | **2,193,433** | **1,699,365** | **1,564,408** | **34,710,000** |

A rental commitment for the Stampede Joint Venture is arranged so that the greater of a set fee or percentage of revenue is paid for a lease of land from the Calgary Exhibition and Stampede Limited for a term of 50 years.

# Notes to Interim Consolidated Financial Statements *(unaudited)*
**six months ended June 30, 2009**

## 16. 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 $11.46 million unsecured limited liability guarantee to the Deerfoot Joint Venture to indemnify it in the event the Deerfoot Joint Venture does not perform its contractual obligations. At June 30, 2009, the maximum potential liability under this guarantee was $6.3 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.

The Fund provided a $5.0 million unsecured limited liability guarantee to the lender to the Stampede Joint Venture to indemnify it in the event the Stampede Joint Venture does not perform its contractual obligations. The Fund has not charged a fee to the Stampede Joint Venture in regards to this guarantee. Subsequent to the balance sheet date, the Stampede Joint Venture received a demand notice for the repayment of the Stampede Joint Venture loans. The Stampede Joint Venture opted for voluntary receivership and is currently negotiating with the lender to the Stampede Joint Venture on settlement of guarantees. The likelihood and magnitude of any eventual settlement of the guarantees can not be determined with reliability at the present time.

## 17. Investment in Joint Ventures

The following financial statements report the Fund's proportionate share (Participating Interest) in joint venture(s) assets, liabilities, revenues and expenses and net income, and cash flows resulting from operating, financing and investing activities.

<u>Deerfoot Joint Venture</u>

The Fund has a 40% Participating Interest Responsibility and a 47.75% Contributing Interest Responsibility in Deerfoot Inn & Casino Inc., a Joint Venture, which operates Deerfoot Inn & Casino in Calgary, Alberta.

The Fund, though it's Subsidiary, is severally liable for all obligations of the Deerfoot Joint Venture in proportion to its Participating Interest Responsibility or Contributing Interest Responsibility as the case may be. All Deerfoot Joint Venture partners are contingently liable for obligations of the Deerfoot Joint Venture in situations where other Deerfoot Joint Venture partners are in default as defined by the Deerfoot Joint Venture Agreement.

# Notes to Interim Consolidated Financial Statements *(unaudited)*
**six months ended June 30, 2009**

## 17. Investment in Joint Ventures (cont.)

All of the assets of the Deerfoot Joint Venture are available for the purpose of satisfying any such obligation. No provision for any contingent amount payable has been accrued to these financial statements.

Stampede Joint Venture

The Fund's Subsidiary, has a 20% Participating Interest Responsibility and a 23.1% Contributing Interest Responsibility in Calgary West Hospitality Inc., a joint venture that constructed and opened the new Stampede Casino in Calgary, Alberta on June 19, 2008.

The Fund, through its Subsidiary, is severally liable for all obligations of the Stampede Joint Venture in proportion to its Participating Interest Responsibility or Contributing Interest Responsibility as the case may be. All Stampede Joint Venture partners are contingently liable for obligations of the Stampede Joint Venture in situations where other Stampede Joint Venture partners are in default as defined by the Stampede Joint Venture Agreement. All of the assets of the Stampede Joint Venture are available for the purpose of satisfying any such obligation. No provision for any contingent amount payable has been accrued to these financial statements. (note 18, note 19)

**Participating Interest of the Fund in Joint Ventures**
**Interim Balance Sheet**
***(unaudited)***

| | June 30, 2009 | Audited<br>December 31, 2008 |
|---|---|---|
| Assets | | |
| Current assets | $ 4,911,697 | $ 6,266,484 |
| Property, plant & equipment | 20,716,838 | 26,231,799 |
| | $ 25,628,535 | $ 32,498,283 |
| Liabilities and unit holder equity | | |
| Current liabilities | $ 15,576,757 | $ 16,296,489 |
| Capital Leases | 37,408 | 52,922 |
| Joint venture equity | 10,014,370 | 16,148,872 |
| | $ 25,628,535 | $ 32,498,283 |

# Notes to Interim Consolidated Financial Statements *(unaudited)*
**six months ended June 30, 2009**

## 17. Investment in Joint Ventures (cont.)

### Participating Interest of the Fund in Joint Ventures
### Interim Statements of Operation
***(unaudited)***

| | six months ended June 30 | | three months ended June 30 | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Revenues | $ 9,884,417 | $ 8,911,767 | $ 4,868,506 | $ 4,524,560 |
| Expenses | 6,954,206 | 5,790,189 | 3,557,238 | 3,081,295 |
| Earnings before the following: | 2,930,211 | 3,121,578 | 1,311,268 | 1,443,265 |
| Interest charges | 302,275 | 240,110 | 137,548 | 108,424 |
| Unrealized loss on fair valuation of financial assets and liabilities | (46,062) | - | (47,169) | - |
| Amortization of property, plant and equipment | 696,870 | 408,154 | 349,047 | 204,331 |
| Impairment of long lived assets | 4,864,999 | - | 4,864,999 | - |
| Expenses | 12,772,288 | 6,438,453 | 8,861,663 | 3,394,050 |
| Net earnings | $ (2,887,871) | $ 2,473,314 | $ (3,993,157) | $ 1,130,510 |
| Cash provided by (used for) operating activities | 2,635,729 | 2,368,074 | 1,200,748 | 959,302 |
| Cash provided by (used for) financing activities | (3,872,426) | 6,435,462 | (1,541,153) | 708,591 |
| Cash provided by (used for) investing activities | (40,405) | (9,754,520) | (64,544) | (1,695,471) |
| Increase (decrease) in cash and cash equivalents | (1,277,102) | (950,984) | (404,949) | (27,578) |
| Opening cash and cash equivalents | 5,519,090 | 5,705,123 | 4,646,936 | 4,781,717 |
| Closing cash and cash equivalents | $ 4,241,988 | $ 4,754,139 | $ 4,241,987 | $ 4,754,139 |

# Notes to Interim Consolidated Financial Statements *(unaudited)*
**six months ended June 30, 2009**

## 18. Impairment of Long Lived Assets

On July 24, 2009, following unsuccessful negotiations to secure sufficient relief on principal, interest and lease costs, the Stampede Joint Venture received a demand notice for repayment of all outstanding loans from the lender to the Stampede Joint Venture. This event together with an analysis of future near and longer term expected cash flows from the Stampede Joint Venture led management to opt for voluntary receivership. The conditions that led to this event and change in circumstances existed as of the balance sheet date. The Stampede Joint Venture recognized a full write down of the equivalent of joint venturer equity to Property plant & equipment as at June 30, 2009. An equal non cash charge to earnings was also recorded in the Period.

Fair value of the impaired assets can not be measured with any certaintly at the present time. The actual asset valuation may vary significantly from the amount estimated at the time of impairment resulting in further adjustments to the impairment charge.

The Fund, through its Subsidiary, has a 20% Participating Interest Responsibility and a 23.1% Contributing Interest Responsibility in the Stampede Joint Venture. The Fund's 20% Participating Interest in the write down of the Stampede Joint Venture equity through proportionate consolidation totals $4.9 million. Furthermore, the Fund recorded a similar write down of the excess of its Contributing Interest Responsibility over its Participating Interest Responsibility of $0.7 million to Property plant & equipment as at June 30, 2009 for a total impairment loss of $5.6 million.

## 19. Subsequent Events

The Fund declared a regular monthly distribution of $0.0733 per units for July 2009. The July distribution is payable August 14, 2009.

The Stampede Joint Venture had been granted a reprieve from all principal payments effective July 2009. Disappointing operating results, however, over the annual 10 day Calgary Exhibition & Stampede summer fair prompted the Stampede Joint Venture to seek additional relief from both the lender and landlord to the Stampede Joint Venture. Those negotiations were unsuccessful. On July 24, 2009, the lender to the Stampede Joint Venture issued a demand notice for full repayment of all outstanding loans. As a result, management of the Stampede Joint Venture consented to have the Court appoint a receiver manager to operate the business. An orderly transition of the asset and operations to the receiver will take place August 17, 2009. As a result of this event and changes in circumstances, a write down of the Stampede Joint Venture asset equivalent to the total of joint venturers equity was charged to income as at the balance sheet date (see note 18). On August 4, 2009, the Stampede Casino and their lender mutually agreed to terminate an interest rate swap. With the unwinding of this interest rate swap an actual loss will be recognized in the period in which the loss was realized (see note 11). The actual loss will replace a valuation of this derivative recorded as unrealized losses on these Financial Statements.

Management is in continued negotiations with the lender to the Stampede Joint Venture over settlement of guarantees made by joint venturers. Results of these negotiations can not be reasonably estimated at the present time. The Funds maximum exposure under guarantee is $5.0 million. Traditional bank debt is being arranged in the event all or part of this guarantee becomes due.