Management Discussion and Analysis

for the three months ended March 31, 2012

To Our Shareholders

Management and Directors of Gamehost Inc. ("Gamehost", the "Company", the "Corporation", "Our") are pleased to present annual results for the three months ended March 31, 2012 (the "Period" or "Quarter").

Batter Up

Total operating revenues for the Quarter grew by 12.5% to $18.9 million from $16.8 in the same quarter of 2011. Earnings before interest, taxes, depreciation and amortization ("EBITDA") that is attributable to owners of the Company ("EBITDA to Owners") grew $1.6 million or 23.9% to $8.3 million for the Quarter compared to $6.7 million for the same quarter in 2011. EBITDA to Owners margin percentage ("EBITDA to Owners %") climbed by 4.1 percentage points to 44.3% from 40.2% in the Quarter compared to one year earlier. Batting two for two, these results follow similar results in Q4 of last year and we hope are the beginning of a longer term trend.

Economies of Scale

With revenues passing a critical threshold we are seeing some of the benefits of costs reductions and efficiencies made during the past few years while we rode out the recession. Principally in our slot business, revenue growth comes with minimal incremental cost and explains the higher growth rate in EBTDA to Owners versus operating revenue.

Sharing the Faith

Our common shares have traded consistently above Our debenture's conversion strike price of $10.65 since October of 2011. As a result, during the Quarter $2.6 million of the Company's debentures were presented for conversion to 246,944 common shares. A further $4.3 million in debentures have been converted subsequent to the end of the Quarter for an additional 401,499 common shares. The accelerated rate of conversions signal a growing faith in the sustainability of the dividend. The Company repurchased 9,200 common shares for $106,750 under a normal course issuer bid that commenced March 10, 2011 and expired March 9, 2012 . A new bid commenced April 12, 2012 and will expire April 11, 2013 which to date 33,400 common shares have been repurchased for cancellation for a total of $402,835. We will continue to exploit the issuer bid when we believe Gamehost shares are trading below their underlying value.

On The Road

Management recently completed a tour visiting current and prospective shareholders in Toronto, Montreal and Vancouver. It was an opportunity to update institutional investors on our business, opportunities for organic growth and the economic conditions, as we see them, for Alberta. During the tour we reinforced our commitment to managing the Company for long term sustainability of the dividend and potential for dividend growth when conditions and prudence dictate. We responded to questions about growth opportunities by acquisition saying that we regularly explore the Canadian market for such opportunities and will continue to do so. Opportunities to acquire gaming assets will be rare, but they do present themselves from time to time as smaller independent owner/operators approach retirement. At the present time there may be greater opportunity on the hospitality side of our business which we will focus some attention on as we move forward.

Thank you for your continued faith in management and your investment in Gamehost Inc.

May 8, 2012

On behalf of all management and Directors, sincerely,

David J. Will
President and Chief Executive Officer
Gamehost Inc.

Darcy J. Will
Vice President and Secretary
Gamehost Inc.

Management’s discussion and analysis
for the three months ended March 31, 2012

This Management’s Discussion and Analysis (“MD&A”) of the business, operating results, liquidity and capital resources and other financial information of Gamehost Inc. (“Gamehost”, the “Company”, the “Corporation”, "Our") is prepared as at May 8, 2012. This MD&A should be read in conjunction with the condensed consolidated interim financial statements of Gamehost Inc. and accompanying notes for the three months ended March 31, 2012 and with the audited annual consolidated financial statements of Gamehost Inc. and accompanying notes for the year ended December 31, 2011.

This MD&A focuses on year over year comparative results for the three months ended March 31, 2012 (the "Period" or "Quarter"). Readers are directed to prior MD&A for specific discussion of results of previous quarters. Previously issued financial statements and management discussion and other disclosures of the Company can be found on the Company website at www.gamehost.ca or SEDAR at www.sedar.com.

Caution to the reader

Use of Non-International Financial Reporting Standards ("IFRS") financial measures

This MD&A makes reference to financial measures that do not have any standardized meaning prescribed by IFRS. Specifically, the MD&A may reference earnings before interest, taxes, depreciation and amortization (“EBITDA“), EBITDA attributable to owners of the Company ("EBITDA to Owners") and EBITDA to Owners margin percentage ("EBITDA to Owners %") which are non-IFRS financial measures.

Other Industry specific terms and measures relating to the operations of the Company are used throughout this MD&A and defined when they first appear and capitalized throughout this MD&A.

Forward-looking statements

This MD&A may contain forward-looking information. All statements, other than statements of historical fact are forward-looking statements. Forward-looking statements contain wording such as “anticipates”, “believes”, “could”, “expects”, “indicates”, “plans” or other similar expressions that suggest future outcomes or events. Forward looking information contains risks and uncertainties of varying significance. The Company attempts to minimize the use of forward-looking information. Any use of forward-looking information reflects reasonable assumptions made on the basis of management’s current beliefs with information known by management at the time of writing. Factors that may affect results include, but are not limited to, governmental legislation and regulation at the national, provincial or municipal level, general or local business and economic conditions, financial market volatility, the good standing of business, gaming and liquor licenses, competition, consumer preferences and disposable incomes, demographic shifts and weather patterns. Any number of these factors, or others, could cause actual results to differ from forward-looking information. Additional discussion about the inherent risks in forward-looking information and any Company assumptions of risk can be found in the Business risks, opportunities and outlook section at the end of this MD&A.

These factors and other risks and uncertainties are discussed in the Company’s continuous disclosure documents filed with the Canadian securities regulatory authorities from time to time, including in the “Risk Factors” section of the Company’s most recent Annual Information Form. Continuous disclosure documents are on record through SEDAR at www.sedar.com.

Forward-looking information contained in this MD&A or documents incorporated by reference are relevant only at the date of the MD&A or document date. Readers should not place undue reliance on forward-looking information as there can be no assurances that the plans, intensions or expectations upon which they are based will occur. The Company undertakes no obligation to publically revise forward-looking information to reflect subsequent events or circumstances.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that reasonably, accurately and fairly represent transactions of the Company; (2) provide reasonable assurance that transactions are recorded as required to permit the preparation of Financial Statements in accordance with IFRS and that receipts and expenditures are made with appropriate authorization of the Company's management and directors and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Financial Statements.

There has been no change in the Company's internal control over financial reporting that occurred during the Quarter that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Organizational structure

Gamehost Inc. (the "Company" or "Gamehost" or "Corporation") is incorporated in Canada under the Business Corporations Act (Alberta). The condensed consolidated interim financial statements of the Company are comprised of the Company and its subsidiaries.

Shares

The Corporation had 21,341,036 Shares issued and outstanding at March 31, 2012 and 21,709,135 Shares issued and outstanding at May 8, 2012 which trade on the Toronto Stock Exchange ("TSX") under the symbol GH. The Corporation is authorized to issue any number of and any class of shares.

Debentures

The Corporation had $47,142,000 face value debentures outstanding at March 31, 2012 and $42,866,000 face value debentures outstanding at May 8, 2012 which trade on the TSX under the symbol GH.DB.

Address

The Corporation was incorporated for the purpose of participating in 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 of the Fund exchanged all Fund Units for Shares ("Shares") of Gamehost 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.

A number of amalgamations of subsidiaries of the Company were completed in 2011 so as to make available for use by the Company certain tax losses from discontinued operations.

The head office of the Corporation is located at 548C, 37400 Hwy 2, Red Deer County, Alberta, T4E 1B9. The registered office of the Corporation is located at 2800, 715 – 5th Avenue S.W., Calgary, Alberta T2P 2X6.

Overview of Gamehost

Gamehost's activities are currently confined to the province of Alberta, Canada. Operations include the Boomtown Casino ("Boomtown") in Ft. McMurray, the Great Northern Casino ("Great Northern") and Service Plus Inns & Suites ("Service Plus"), a limited service hotel, in Grande Prairie. As a complement to the Grande Prairie hotel, Gamehost owns a retail complex ("Strip Mall") that leases space to a pub, a full service restaurant operation and a liquor store. Gamehost has a 91% ownership interest in Deerfoot Inn & Casino Inc., ("Deerfoot"), in Calgary.

Gaming operations of Gamehost are controlled by the Alberta Gaming and Liquor Commission (the "AGLC"). 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 the Gamehost's casino locations.

Gamehost believes in a combined entertainment and hospitality model. Our model targets the entertainment seeker and social occasional gamer. Clean, inviting venues that deliver live entertainment, lounging and dining, rest and relaxation together with gaming are situated in community based locales.

It is the Company's intent to continue a policy of consistent and regular monthly ' eligible' dividends to shareholders of $0.0733 per common share. If and when economic conditions and the financial performance of the Company dictate that an increase to the dividend rate is prudent and would not jeopardize future sustainability of the regular dividend rate, an increase or special dividend may be considered by the Company's board of directors.

Overall financial results and condition of Gamehost

Financial results for the Quarter include a $2.1 million or 12.3% increase in operating revenue compared to Q1 2011, a $1.5 million or 22.1% increase in EBITDA to Owners compared to Q1 2011 and a 4.1 percentage point increase in EBITDA to Owners margin percentage to 44.3% as compared to in 40.2% in Q1 2011.

At the end of the Period, Gamehost had $179.5 million in total assets down $4.8 million from the start of the year. Cash balances of $15.4 million were down $2.3 million from the start of 2012. Drawings on the Company operating lines and principal reductions during the Period resulted in a net repayment of $4.6 million bringing the total demand loan balance to $22.4 million from $26.9 at the start of the year.

Quarterly performance summary

Quarterly performance	**2012**	**2011**				**2010**		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Operating Revenue	**18.9**	18.9	17.6	18.6	16.8	17.8	17.3	15.9
Cost of sales	**(10.0)**	(10.5)	(9.8)	(10.0)	(9.6)	(10.0)	(9.2)	(8.7)
Gross Profit	**8.9**	8.4	7.8	8.6	7.2	7.8	8.1	7.2
Other income	**0.1**	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Administrative expenses	**(1.3)**	(1.4)	(1.3)	(1.4)	(1.5)	(1.5)	(1.5)	(1.3)
Profit from operating activities	**7.7**	7.1	6.6	7.3	5.8	6.4	6.7	6.0
Other gains	**-**	-	-	-	-	-	-	27.1
Finance costs	**(2.0)**	(1.2)	(1.5)	(1.4)	(1.4)	(1.5)	(1.5)	(1.2)
Net change in fair value of Class B limited partnership units	**-**	-	-	-	-	(9.2)	(7.4)	(1.2)
Distributions to Class B limited partnership units	**-**	-	-	-	-	(2.0)	(2.0)	(2.0)
Net finance costs	**(2.0)**	(1.2)	(1.5)	(1.4)	(1.4)	(12.7)	(10.9)	(4.4)
Profit (loss) before income tax	**5.7**	5.9	5.1	5.9	4.4	(6.3)	(4.2)	28.7
Income tax (expense) recovery	**(1.5)**	(3.0)	(1.2)	(1.4)	0.3	(0.9)	(0.3)	0.5
Profit (loss)	**4.2**	2.9	3.9	4.5	4.7	(7.2)	(4.5)	29.2
Less Non-controlling interests	**(0.3)**	(0.3)	(0.3)	(0.3)	(0.2)	(0.3)	(0.3)	(0.2)
Profit (loss) attributable to owners of the Company	**3.9**	2.6	3.6	4.2	4.5	(7.5)	(4.8)	29.0
(in millions of dollars unless stated otherwise)								
EBITDA to Owners	**8.3**	8.1	7.5	8.2	6.7	7.4	7.7	6.4
EBITDA to Owners %	**44.3%**	36.9%	45.4%	48.4%	40.2%	42.6%	46.1%	40.7%
Income (loss)/unit- basic and diluted	**0.183**	0.123	0.170	0.198	0.211	(0.357)	(0.199)	1.349

Operating segments

The Company's reportable segments are strategic business units that offer different services. They are managed separately because of the unique operational and marketing requirements. Each segment compliments the other segment.

The Company has three reportable segments: gaming operations, hotel operations and food and beverage operations. The gaming operations include three casinos offering slot, VLT, lottery kiosks and table games. The hotel operations include two hotels catering to the casino players and mid range clients. The food and beverage operations are located within the casinos and hotels as a further compliment to those operations.

three months ended March 31, 2012	Gaming	Hotel	Food & Beverage	Corporate, other [1]	Total
Revenues	10.8	3.3	4.7	0.1	18.9
Finance costs, net of finance income	0.9	0.5	0.5	-	1.9
Depreciation	0.4	0.4	0.3	-	1.1
Other expenses net of other income	4.7	1.9	3.0	0.6	10.2
Profit before income tax	4.8	0.5	0.9	(0.5)	5.7
Segment assets	118.1	45.1	12.8	3.5	179.5
Segment liabilities	40.9	17.4	12.2	13.6	84.1
Capital expenditures	-	0.1	-	-	0.1

three months ended March 31, 2011	Gaming	Hotel	Food & Beverage	Corporate, other (1)	Total
Revenues	9.6	3.0	4.2	0.1	16.9
Finance costs, net of finance income	0.7	0.3	0.4	-	1.4
Depreciation	0.4	0.5	0.3	-	1.2
Other expenses net of other income	4.5	1.8	2.9	0.7	9.9
Profit before income tax	4.0	0.4	0.6	(0.6)	4.4
Segment assets	120.7	46.4	13.1	4.8	185.0
Segment liabilities	44.2	19.4	14.0	7.8	85.4
Capital expenditures	0.1	-	-	-	0.1

[1] Corporate and other consists of revenues and expenses which are not allocated to segments and do not meet the definition of an operating segment on their own.

(in millions of dollars unless stated otherwise)

Operating revenue

Operating revenue consists of revenues generated by the Company's operating assets, Boomtown Casino, Great Northern Casino, Service Plus Inns and Suites in Grande Prairie and the Deerfoot Inn & Casino. Major revenue streams include rooming revenue, table gaming, slot machines, food and beverage sales and ancillary revenues.

Operating revenue	Q1 (three months)		
	2012	2011	+(-)
Operating revenue	**18.9**	16.8	12.5%

(in millions of dollars unless stated otherwise)

Results from gaming, hotel and food & beverage activities produced solid year over year revenue gains during the Quarter compared to the same quarter one year earlier. Improved consumer confidence and seasonal spring breakup in the energy sector boosted results.

All operating properties of the company performed well during the Quarter producing year over year revenue increases of 12.8% for Boomtown,14.8% for Service Plus, 11.6% for Great Northern and 12.0% for Deerfoot indicating that each of the three geographical regions of the province in which we operate are experiencing improved economic conditions.

Room revenue

Room revenue includes both guest and meeting room sales at hotels. Occupancy includes sold and complimentary rooms while Average Daily Rate ("ADR") is calculated as total room revenue divided by sold rooms only.

Rooming	Q1 (three months)		
	2012	**2011**	**+(-)**
Rooming	**3.2**	3.0	6.7%
Occupancy	**73.6%**	69.1%	4.5%
ADR	**$150.58**	$148.79	$1.79

(in millions of dollars unless stated otherwise)

At Service Plus, in year over year comparisons for the Quarter, revenues rose 14.3% from improved occupancy and ADR. Occupancy rose 7.6 percentage points to 78.9% from 71.3% while the ADR over the same comparative period climbed by $2.86.

At Deerfoot, in year over year comparisons for the Quarter, revenues rose 5.3% from improved occupancy and ADR. Occupancy rose 2.6 percentage points to 70.2% from 67.6% while the ADR over the same comparative period climbed by $1.97. Meeting room sales were down marginally.

Table game revenue

Table play and table revenue sharing is regulated in Alberta by the AGLC. In general terms, 'Drop' is the total amount of money cashed to chips at most table games. 'Hold' is the amount won from the Drop at each table. Hold % is the measure of the Hold to the Drop and can fluctuate significantly, but should average +/- 17%. Drop, Hold and Hold % are not always reliable indicators of table activity as demonstrated by the following examples:

Example 1 – A player buys $20,000 in chips at a table. The player plays one hand, loses $2,000, and cashes out. The Drop is high at $20,000, the Hold is good at $2,000 but the Hold Percentage is low at 10%. The table was not busy.

Example 2 – A player buys $5,000 in chips at a table. The player plays all evening before losing $1,000 and cashing out. The Drop is low at $5,000, the Hold is low at $1,000 and the Hold Percentage is high at 20%. The table was busy.

The preceding examples demonstrate how variables can provide fluctuating results for Drop, Hold and Hold Percentage. These statistics should be taken with a grain of salt, at the end of the day, the only measure that really counts is Hold.

The Hold is shared in varying percentages between charities and the casino operator dependent on the size and location of the casino. The operator's percentage of the Hold is the 'Net' or Net Table Revenue. The game of Poker has a 'Pot' rather than a Drop. The Pot is the total amount anted and bet by players at a poker table. 'Rake' is the total amount of the Pot that is retained by the table and is usually a flat fee for each hand played. Rake is shared in varying percentages between the charity and casino operator dependent on agreements with the AGLC. The operator's percentage of the Rake is the 'Net'. Financial statements of Gamehost report only the Net of the Hold or Rake.

Net revenue	**Q1 (three months)**		
	2012	**2011**	+(-)
General, progressive and high limit	**2.1**	1.9	10.5%
Poker	**0.6**	0.5	20.0%
Total	**2.7**	2.4	12.5%

(in millions of dollars unless stated otherwise)

# of tables	**End of Period**		
	2012	**2011**	+(-)
General, progressive and high limit	**51**	51	-
Poker	**16**	16	-
Total	**67**	67	-

Drop and Hold	**Q1 (three months)**		
	2012	2011	+(-)
Drop	**22.6**	21.6	4.6%
Hold %	**16.9%**	16.0%	0.9%

(in millions of dollars unless stated otherwise)

At Boomtown, the current Quarter saw a 25.3% increase in Drop and a 1.4 percentage point increase in Hold % resulting in a 36.0% increase in Net revenue. Poker results which are much less significant in terms of overall table revenues were 4.4% lower in year over year comparisons for the Quarter.

At Great Northern, the current Quarter saw a 13.2% increase in Drop offset by a 4.6 percentage point decrease in Hold % resulting in a 12.8% decrease in Net revenue. Poker results which are much less significant in terms of overall table revenues were 9.6% higher in year over year comparisons for the Quarter.

At Deerfoot, the current Quarter saw a 3.4% decrease in Drop but a 2.2 percentage point increase in Hold % resulting in a 11.2% increase in Net revenue. Poker results which are much less significant in terms of overall table revenues were up 17.4 % year over year for the Quarter.

Slot revenue

In Alberta, slot machine odds are regulated by the AGLC. The revenue sharing arrangement for amounts won by the machines is also set by the AGLC. Under the current arrangement, casino operators, charities and the provincial government share the machine win on a 15/15/70 split respectively. Machine Win/Day represents the average total revenue earned by slot machines in a day and is affected by the number of hours each machine operates and how much money is played on a machine ('Cash Play') during hours of operation. Revenue to the operator, or 'Net', is determined by all of the above factors and arrangements.

Slot statistics	Q1 (three months)		
	2012	2011	+(-)
Cash Play	**595.5**	524.4	13.6%
Machines [1]	**1,606**	1,605	1.0

(in millions of dollars unless stated otherwise)

1 At the end of the Period / Quarter

Slot revenue	Q1 (three months)		
	2012	2011	+(-)
Net	**6.6**	5.8	13.8%

(in millions of dollars unless stated otherwise)

Cash Play continued to improve this Quarter on improved consumer confidence.

Boomtown, for the Quarter versus the comparable quarter one year earlier, saw a 10.7% increase in Cash Play resulting in a 11.2% increase in Net revenue. Machine Win/Day climbed $37.51 to $421.82 on 420 machines when compared to 419 machines in Q1 2011.

Great Northern, for the Quarter versus the comparable quarter one year earlier, saw a 13.6% increase in Cash Play resulting in a 16.6% increase in Net revenue. Machine Win/Day climbed $36.43 to $273.45 on 419 machines when compared to the same number of machines in Q1 2011.

Deerfoot, for the Quarter versus the comparable quarter one year earlier, saw a 16.4% increase in Cash Play resulting in a 15.1% increase in Net revenue. Machine Win/Day climbed $30.90 to $254.39 on 767 machines when compared to the same number of machines in Q4 2010.

Food & beverage (“F&B”) revenue

Food service operating arrangements differ by property from 100% owner operations to combinations of owner and 3rd party operating agreements. Only beverage service is consistently delivered directly by Gamehost. Where food operations are run by a 3rd party, Gamehost earns a commission on those sales.

F&B Revenue	Q1 (three months)		
	2012	2011	+(-)
Food	**1.8**	1.7	5.9%
Liquor	**2.8**	2.5	12.0%
Total	**4.6**	4.2	9.5%

(in millions of dollars unless stated otherwise)

F&B sales continue to climb on increased consumer confidence and higher corporate free spending. Spring breakup in the oil sector also provides a boost to sales.

Boomtown saw F&B sales increase 9.4% during the Quarter from one year earlier. Beverage sales were up by 13.2%. Food sales decreased 11.3% over the same comparable period, though being commission based at Boomtown had little impact on the overall F&B increase.

Great Northern saw F&B sales increase 13.9% during the Quarter from one year earlier. Beverage sales were up strongly by 14.3%. Food sales increased 6.3% over the same comparable period. Food sales are 3rd party operated and commission based at Great Northern and have a minor impact on overall F&B sales.

Deerfoot reported a F&B sales increase of 9.0% during the Quarter from one year earlier. Beverage sales were up by 14.1% while food sales increased 5.8% over the same comparable period. Food sales are owned and operated by the Company at the Deerfoot and therefore contribute substantially to revenue. Increased food revenues were driven less by volume and more by higher ticketed plate prices predominantly for banquets and the cancellation of lower priced buffets that had been offered on multiple occasions during the week in the prior year.

Ancillary revenue

Ancillary revenue includes the more significant items of automated teller (ATM) fees, Video Lottery Terminals (VLT's), lottery ticket sales, entertainment ticket sales, cigarette sales, equipment rentals, movie rentals and other room charges to hotel guests as well as and rental revenue.

Ancillary revenue	**Q1 (three months)**		
	2012	2011	+(-)
Total	**1.7**	1.3	30.8%

(in millions of dollars unless stated otherwise)

Ancillary revenues are highly correlated to gaming revenues most significantly from ATM fees.

Cost of sales

The Company's consolidated statement of comprehensive income uses the 'Function' rather than the 'Nature' method of reporting operating expenses. Costs are reported based on their function within the Company. For example, wage costs that are a function of generating revenue are considered a cost of sales rather than by nature a human resource expense. The Company includes in cost of sales all cost of product sold, direct marketing and promotion expenses, direct human resources costs and administrative personnel where they are integral to managing sales and all other direct operating costs at the facility level. Depreciation of the facility assets are also included in cost of sales.

Cost of sales	**Q1 (three months)**		
	2012	2011	+(-)
Total	**10.0**	9.6	4.2%
% of revenues	**52.9%**	57.1%	(4.2%)

(in millions of dollars unless stated otherwise)

Management continues to be vigilant on hold costs in check. After much hard work in streamlining costs to match recessionary sales volumes we intend to manage cost escalation tightly.

Cost of sales - cost of product

Cost of product includes the costs of food, beverage and other incidental items purchased for resale. Cost of product will for the most part, follow the performance of F&B revenue. Other incidental items of cost of product are made up of mostly room service charges in the hotel for such items as long distance telephone, movie rentals, laundry etc. Cost of product as a percentage of corresponding revenues will fluctuate moderately for food & mix and liquor categories depending on the sales mix of individual products. More significant variations in the cost of product percentage can be experienced for sales of other incidental items due to the dissimilar nature of the products included.

Cost of product	**Q1 (three months)**		
	2012	2011	+(-)
Food	**0.6**	0.6	0.0%
Liquor	**0.6**	0.5	20.0%
Other	**0.1**	0.1	0.0%
Total	**1.3**	1.2	8.3%

(in millions of dollars unless stated otherwise)

Cost of product %	**Q1 (three months)**		
	2012	2011	+(-)
Food	**33.3%**	35.3%	(2.0%)
Liquor	**21.4%**	20.0%	1.4%
Other	**37.6%**	47.3%	(9.7%)

Both Boomtown and Great Northern have commission based third party arrangements for food services and therefore food sales at these locations do not factor significantly into costs of product results.

Liquor costs at all properties were higher in year over year comparison predominantly from increases to beer costs.

A number of promotionally priced weekly buffet offerings at the Deerfoot were cancelled prior to the end of 2011 which has improved overall food margins in year over year comparison by a substantial amount. Furthermore, banquet patrons selected higher ticketed plates during the Quarter when compared to the prior year. This, we believe, reflects a willingness of corporations to increase their spending.

Cost of sales - operating labour

Operating labour includes wages, salaries, bonuses, benefit costs, payroll taxes and other miscellaneous human resource costs directly attributable to the smooth and safe operation of each facility. No corporate overhead costs are included.

Operating labour	**Q1 (three months)**		
	2012	2011	+(-)
Operating labour	**4.8**	4.6	4.3%
% of revenues	**25.4%**	27.4%	(2.0%)

(in millions of dollars unless stated otherwise)

Higher priced food offerings and double digit growth in slot revenues required minimal additional labour costs resulting in a significant improvement in the overall labour costs as a percentage of total revenues.

Cost of sales - marketing and promotions

Marketing and promotions include all donations, sponsorships and complimentary services offered at properties in addition to direct sales and advertising expenses. Staff promotions, including discounted meal vouchers, are also included under this heading.

Marketing	Q1 (three months)		
	2012	2011	+(-)
Total	**0.7**	0.7	0.0%
% of revenues	**3.7%**	4.2%	(0.5%)

(in millions of dollars unless stated otherwise)

Continued efforts in reducing costs and more targeted marketing programs helped improve the ratio of marketing costs to overall revenues for the Quarter in year over year comparison.

Cost of sales - other operating costs

Some of the more significant expenditures in this classification include entertainment, premises leases, repairs & maintenance, utilities, property taxes, depreciation and operating supplies.

Other operating costs	Q1 (three months)		
	2012	2011	+(-)
Total	**3.3**	3.1	6.5%
% of revenues	**17.5%**	18.5%	(1.0%)

(in millions of dollars unless stated otherwise)

Economies of scale provided substantial benefits during the Quarter as we have passed a critical revenue threshold after which minimal costs are required on certain gaming revenue streams on each incremental dollar in revenue.

Other income

Other income consists of the net income from an investment property being the Strip Mall in Grande Prairie located next to the Service Plus.

Other income	Q1 (three months)		
	2012	2011	+(-)
Total	**0.1**	0.1	0.0%

(in millions of dollars unless stated otherwise)

The Strip Mall is fully leased. A lease with a term expiring in December 2013 has renewal options. The second lease term expires in January 2015 and also has renewal options.

Administrative expenses

Administrative expenditures include all costs not directly attributable to the operation of the company's operating assets. Management fees, costs associated with being a public issuer, professional fees, corporate office costs, corporate travel expenses and depreciation of corporate assets are included in this category.

Administrative expenses	Q1 (three months)		
	2012	2011	+(-)
Total	**1.3**	1.5	(13.3%)
% of revenues	**6.9%**	8.9%	(2.0%)

(in millions of dollars unless stated otherwise)

Lower professional fees, corporate travel expenses and depreciation helped reduce overall administrative costs in year over year comparison for the Quarter.

Net finance costs

Net finance costs include Interest expenses recorded on the Company's demand debt, accrued interest on convertible debentures and amortization of the debenture conversion privilege and issuing costs of the debentures offset by interest earned on bank balances.

Net finance costs	Q1 (three months)		
	2012	2011	+(-)
Total	**1.9**	1.4	35.7%

(in millions of dollars unless stated otherwise)

A greater number of debenture conversions took place during the Quarter as compared to the prior year resulting in higher amortization of the conversion privilege and debenture issue costs.

Income tax (recovery)

Income tax includes provision for current income taxes, timing differences between depreciation recorded by the Company on property, plant and equipment versus amounts allowed for tax purposes and timing differences on amortization of cumulative eligible capital and that allowed for tax purposes. Originations and changes in timing differences are also recorded to income tax expense in the period in which the originations or changes occur. Taxes are calculated using corporate tax rates substantively enacted for the period the taxes are expected to be payable.

Income tax (recovery)	Q1 (three months)		
	2012	2011	+(-)
Provision for current income tax (deferred)	**1.3**	1.0	30.0%
Taxes arising from changes in timing differences	**0.2**	(1.3)	(115.4%)
	1.5	(0.3)	(600.0%)

(in millions of dollars unless stated otherwise)

The combined federal and provincial tax rate in Alberta for 2012 is 25.0%.

On June 26, 2011, a federal government Ways and Means Motion to limit tax deferral opportunities for corporations with interests in partnerships received royal assent. Consequently, a perpetual deferral of current year taxes will end in 2013. As a result, during the Quarter non-current income taxes were reclassified to current income taxes and a non-current deferred tax asset was reclassified to current income taxes. These previously deferred taxes will be paid in February 2013 together with income taxes recorded for the current tax year. Tax installments for 2013 tax year will begin in January 2013.

Reconciliation of EBITDA to Owners to net earnings

EBITDA to Owners to net earnings	Q1 (three months)		
	2012	2011	+(-)
EBITDA to Owners	**8.3**	6.7	23.9%
EBITDA to Owners %	**44.3%**	40.2%	4.1%
Add back:			
Amortization on property, plant and equipment	**(1.1)**	(1.2)	(8.3%)
Finance costs	**(1.9)**	(1.4)	35.7%
Income tax expense	**(1.5)**	0.3	(600.0%)
EBITDA attributable to non-controlling interest	**0.4**	0.3	33.3%
Total profit (loss)	**4.2**	4.7	(10.6%)

(in millions of dollars unless stated otherwise)

Facilities

Capital expenditures	Q1 (three months)		
	2012	2011	+(-)
Capital maintenance	**0.1**	0.1	-

(in millions of dollars unless stated otherwise)

Financial condition

Liquidity

Cash provided by operating activities before changes in working capital for the Quarter totaled $8.7 million compared to $7.1 million for Q1 2011. At the end of the Quarter cash balances totaled $15.4 million compared to $17.7 million at the start of the year. Factors affecting Gamehost's ability to generate cash in the near and longer terms were listed in the section 'Forward looking statements'. These factors are discussed in more specific terms in the section 'Business risks, opportunities and outlook'. Management closely monitors Gamehost's ability to sustain current cash dividends with cash flow from operating activities and other sources of cash.

Gamehost has revolving credit lines totaling $6.0 million of which $6.0 million was available to be drawn at March 31, 2012. Available revolving credit is $5.0 million at May 8, 2012.

Gamehost's cash balances are made up of cash floats and traditional bank balances only.

Gamehost has a 91% Participating Interest in the operating activities of the Deerfoot.

Working capital

The Company's demand debt held by Gamehost Limited Partnership and Deerfoot include demand clauses in the event certain performance covenants are not met. Demand loans are presented as current liabilities for financial reporting purposes to recognize these demand clauses. The Company's lender does not consider the loans to be repayable within 12 months.

Internal working capital requirements for the Company consist of cash floats for the operation of gaming tables, VLT's, slot machines, ATM machines, POS terminals, progressive jackpots and petty cash as well as one month's operating expenses, one month's interest costs on debt facilities and one month's regular dividend to the holders of Shares less amounts due to related parties. Float amounts are set by management and will fluctuate based on activity levels in the casinos. The AGLC requires all casinos to maintain a Minimum Continuing Net Working Capital Position ("MCNWCP").

Debentures

Debentures are redeemable at the holder's discretion. Converted debentures increase total cash out flow as the current dividend rate requires 32% more cash than interest payments on unconverted debentures.

Commitments

Gamehost has an 87.75% Contributing Interest Responsibility to the Deerfoot for any capital funding requirements. All current capital requirements of the Deerfoot have been satisfied. No capital was contributed during the Period.

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 1.5% of operational earnings before interest, taxes, depreciation and amortization of Gamehost.

On November 21, 2010, Deerfoot Inn & Casino Inc. entered into a management services agreement with a related party. This new agreement follows the termination of an earlier agreement with a related party and contains essentially the same terms and conditions as the earlier agreement including entitling the related party to 1.5% of the gross revenues plus 2.0% of operational earnings before interest, taxes, depreciation of Deerfoot.

On January 1, 2007 Gamehost entered into a management services agreement with a company controlled by key management personnel. The management agreement stipulates that a key management person is entitled to a fixed monthly fee of $17,700 for overseeing site operations of Gamehost.

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

Commitments	**2012**	**2013**	**2014**	**2015**	**2016**	**Thereafter**
Total	**0.9**	1.1	1.1	1.1	1.1	2.9

(in millions of dollars unless stated otherwise)

Dividend policy and practice

The board of directors of Gamehost is responsible for determining the dividend policy of Gamehost. Being a company formed under the Alberta Business Corporations Act (the "ABCA"), the dividend policy must comply with the requirements of the ABCA, including satisfying the dividend test applicable to ABCA corporations (i.e. an ABCA corporation shall not declare or pay a dividend if there are reasonable grounds for believing that (a) the corporation is, or would after the payment be, unable to pay its liabilities as they become due or (b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities and stated capital of all classes).

The monthly dividend policy of the Corporation is designed to provide for regular monthly dividend payments to holders of Shares in the amount of $0.0733 per Share (i.e. $0.8796 per Share on an annualized basis). However, the board of directors of the Corporation retain the right to modify such dividend policy from time to time at its discretion.

Productive capacity

Gamehost's assets include land, land improvements, buildings, leasehold improvements, and furniture, fixtures and equipment. At the end of the Quarter, productive capacity of Gamehost consisted of 123 guest rooms and 1 meeting room at Service Plus, 188 guest rooms, 10 meeting/banquet rooms, 1 showroom, 3 restaurants and a lounge at the Deerfoot and ancillary amenities for both facilities. Also included in productive capacity are Gamehost's interests in three gaming licenses, one each for Boomtown Casino, Great Northern Casino and the Deerfoot Casino. Together these licenses provide a revenue stream for Gamehost from an equivalent 1,612 electronic gaming devices, 67 table/poker games and other ancillary equipment. The table below summarizes changes in productive capacity since the beginning of operations.

Productive capacity

Year	Event	Gaming Sq. Ft	Banquet sq. ft.	Guest rooms	F & B seating	Electronic gaming devices	Tables	Lease/ retail sq. ft.
2003	Inception of Fund	31,864		123	165	420	32	10,530
2003	Great Northern Casino Expansion	9,800	1,200		45	59		
	AGLC adds slot machines					20		
2004	AGLC adds slot machines					83		
2005	Deerfoot opening	24,000	8,000	75	140	252	13	
2006	Boomtown Casino expansion	11,000			40	193		
	AGLC adds slot machines					20		
2007	Deerfoot renovation	480			(20)	23		
2008	AGLC adds slot machines					16		
	Stampede Joint Venture	19,200	480		60	120	8	
	AGLC adds slot machines					3		
2009	AGLC adds slot machines					8		
	Stampede Joint Venture now discontinued operations	(19,200)	(480)		(60)	(120)	(8)	
2010	AGLC adds slot machines					60		
	AGLC adds VLT's					3		
	Acquisition of an additional interest in Deerfoot	31,212	10,200	113	153	448	20	
	Deerfoot table addition						2	
2011	AGLC adds VLT's					3		
2012	AGLC adds slot machine					1		
at March 31, 2012		**108,356**	**19,400**	**311**	**523**	**1,612**	**67**	**10,530**

Productive capacity maintenance

Productive capacity maintenance costs for rooming and food and beverage facilities of Gamehost are minimal. Maintaining the shine on our properties so that they continue to attract guests is largely one of regular refurbishment such as paint or new carpets. For the most part, maintenance costs are treated as operational expenses at the time they are incurred and as such are already included in the periodic cash provided by (used for) operating activities as reported in financial statements. Management may, however, undertake smaller capital projects to be paid from cash generated from operating activities. Examples of these costs include, but are not limited to such things as converting to keyless entry on guest room access doors or the installation of digital security. These capital costs, when funded from operating cash flow, would fall into the category of productive capacity maintenance for the purpose of determining cash available for dividend distribution.

Liquor sales require Gamehost to hold valid liquor licenses issued by the AGLC. Productive capacity maintenance of liquor sales is most significantly related to keeping these licenses in good standing, and requires Gamehost paying for liquor orders electronically prior to delivery from AGLC wholesale.

Gaming operations require minimal capital outlay by Gamehost. Slot, VLT and Lottery equipment is owned and maintained by the AGLC. Tables are owned or leased and maintained by Gamehost. Productive capacity maintenance of both tables and slot machines is more significantly measured in terms of maintenance of Gamehost's charitable gaming operator licenses issued by the AGLC. Holders of these licenses must adhere to a strict set of terms and conditions. Furthermore, the three year licenses are subject to annual due diligence audits by the AGLC. Maintaining these licenses requires a nominal fee to cover the cost of AGLC's due diligence investigation which is expensed. Gamehost's charitable gaming operator licenses have consistently received favourable results from these audits. Current licenses are valid to June 30, 2014, but the Company considers the licenses to have indefinite life.

Normal annual capitalized costs for productive capacity maintenance are not expected to exceed $600,000.

Discretionary and other items

From time to time, at their discretion, management or directors may elect to use or reserve cash for other purposes. Discretionary uses of cash reduce the availability of cash for distribution to shareholders.

Long-term unfunded contractual obligations

Gamehost has no long-term unfunded contractual obligations. Gamehost does not have a pension plan or stock based compensation plan. The benign nature of Gamehost's operations does not require that reserves be set up for environmental clean up, asset retirement or other real or potential liabilities.

Capital Strategy

Current debt instruments will be maintained or eliminated to the extent they allow for repayment. All of Gamehost's traditional bank debt instruments allow for additional payments without penalty. Debt maintenance includes regular amortized monthly principal payments, extra principal payments and intermittent payments on outstanding revolving debt instruments when surplus cash is available. Management is working towards maintaining a debt to EBITDA ratio of approximately 2 to 1.

Debentures of Gamehost issued April 16, 2010, pay interest semi-annually in arrears allowing Gamehost to use excess cash, between interest payments, for revolving credit line reductions.

Larger scale expansions or acquisitions would be funded by debt or equity at the discretion of the directors of Gamehost.

Gamehost intends to repay existing non-revolving debt obligations over a period of time which will allow it to continue to pay dividends in the manner described under "Dividend policy and practice". Current interest rates allow for scheduled amortization periods of between 10 and 15 years in meeting dividend objectives.

Financing restrictions on dividends caused by debt covenants

The Company has a demand loan secured by assets owned and leased by Gamehost. The loan has two segments, the first requires blended principal and interest payments and is scheduled to term out over 10 years and the second is advanced on a revolving basis.

Debt facilities of the Company require the maintenance of certain financial covenants. The Company is in compliance with all covenants.

Income taxes

The Company is subject to income taxes, but as yet has not made payments for any income taxes. Certain tax deferrals available to the Company will be closed by the federal government effective at the end of 2012. Consequently, income taxes deferred from the 2011 fiscal year, income taxes for the 2012 fiscal year and income tax installments for the 2013 fiscal year will be payable in 2013. Payment of these income taxes, including a large balloon payment for the deferred 2011 and current 2012 income taxes will be made from working capital and available revolving credit facilities.

Working capital

Working capital, by definition, is current assets minus current liabilities. Gamehost's demand debt includes a demand clause in the event certain performance covenants are not met. Demand loans are presented as current liabilities for financial reporting purposes to recognize demand clauses in the loans. Gamehost's and the Deerfoot's lender does not consider the loans to be repayable within 12 months.

Internal working capital requirements for Gamehost consists of cash floats for the operation of gaming tables, slot machines, VLT's, ATM machines, TITO Kiosks, POS terminals, progressive jackpots and petty cash. Float amounts are set by management and will fluctuate based on activity levels in the casinos. Management works to minimize float balances on premises to a maximum 4% of combined slot cash play and table drop activity levels with cash surplus to this held in bank accounts.

In addition to cash floats on premises, Gamehost maintains one month's operating expenses, one month's interest cost on traditional debt facilities, one month's interest costs on Debentures and one month's dividends payable to the Common Shareholders less amounts due to related parties. Unused portions of revolving debt are considered working capital in Gamehost's determination of internal working capital.

Inventory levels and receivable targets vary by operation. Minimum targets include turning combined liquor and food inventories three times per month. Receivables are limited to hotel and banquet operations. Operations are expected to maintain a days sales outstanding (DSO) of not greater than 45 days. Gamehost's objective is to maintain the highest relationship with suppliers and remits all payables within stated terms, typically 30 days, but will take advantage of all early payment discounts offered.

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

Cash dividends

2012 dividend summary				
Month	**Date declared**	**Record date**	**Payment date**	**Dividend per Share**
January	01/16/2012	01/31/2012	02/15/2012	0.0733
February	02/13/2012	02/29/2012	03/15/2012	0.0733
March	03/13/2012	03/31/2012	04/13/2012	0.0733
April	04/16/2012	04/30/2012	05/15/2012	0.0733
May	05/08/2102	05/31/2012	06/15/2012	0.0733
Total				0.3665

2011 dividend summary				
Month	**Date declared**	**Record date**	**Payment date**	**Dividend per Share**
January	01/13/2011	01/31/2011	02/15/2011	0.0733
February	02/14/2011	02/28/2011	03/15/2011	0.0733
March	03/08/2011	03/31/2011	04/15/2011	0.0733
April	04/13/2011	04/30/2011	05/16/2011	0.0733
May	05/12/2011	05/31/2011	6/15/2011	0.0733
June	06/13/2011	06/30/2011	07/15/2011	0.0733
July	07/18/2011	07/31/2011	08/15/2011	0.0733
August	08/10/2011	08/31/2011	09/15/2011	0.0733
September	09/16/2011	09/30/2011	10/15/2011	0.0733
October	10/17/2011	10/31/2011	11/15/2011	0.0733
November	11/14/2011	11/30/2011	12/15/2011	0.0733
December	05/12/2011	12/31/2011	01/13/2012	0.0733
Total				0.8796

Tax attributes of dividends to Shareholders

Dividends paid to Shareholders are considered ‘eligible dividends’. Eligible dividends are subject to a schedule of gross-up rates and enhanced dividend tax credits providing the investor with a more favourable income stream for tax purposes. Generally, the Income Tax Act aims to provide a lower tax rate on all dividends ultimately sourced from income subject to the usual corporate level tax rates in Canada (i.e., Income that is not income of a Canadian-controlled private corporation (CCPC) subject to the small business rate).

Income tax

Income taxes include provisions for income taxes payable on current year taxable income and temporary differences and carry-forwards which give rise to future income tax assets and liabilities Taxes are calculated using the applicable combined federal and Alberta tax rate substantively enacted. To the extent taxes can be deferred, they will be calculated at the rate of tax expected at the time the future tax asset or liability will be realized.

Income taxes	Q1 (three months)	
	2012	2011
Current income tax expense:	1.3	1.0
Deferred tax expense (recovery)		
Origination (reversal) of temporary differences	0.2	(1.3)
	1.5	(0.3)
Profit for tax purposes	5.4	4.0
Current income tax expense:		
Company's domestic tax rate	25.0%	26.5%
Expected income tax expense at domestic tax rate	1.3	1.1
Tax deferrals resulting in a lower tax rate	-	(0.1)
	1.3	1.0
Origination (reversal) of temporary differences	0.2	(1.3)
	1.5	(0.3)

(in millions of dollars unless stated otherwise)

on June 26, 2011, the federal government passed legislation which included measures to limit tax deferral opportunities for corporations with interests in partnerships. The legislation was aimed at limiting a deferral of tax on income earned by a corporation through a partnership in circumstances where the partnership has a fiscal period that differs from the corporation's tax year. This legislation results in the end of a perpetual one year tax deferral for Gamehost at the end of 2012.

Capital resources

The Company has a demand loan secured by its land and buildings. Gamehost is paying interest at a stipulated floor rate of 4.0%; otherwise the rate on this loan is 1.0% above the lender's 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. The remaining $6.0 million segment of this loan is available on a revolving basis with interest only payments of which $nil is drawn at March 31, 2012.

In 2010, the Company issued $55 million in 6.25% Convertible Unsecured Subordinated Debentures ("Debentures") which trade on the Toronto Stock Exchange ("TSX") under the symbol GH.DB. 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 at $10.65 per Gamehost Inc. common Share (the "Conversion Price"). 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 the Conversion Price, 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. A portion of the proceeds from the Debenture issue were allocated to the conversion feature which is reported as equity rather than a non-current liability. Proceeds of the debenture issue were used to acquire a further 51% interest in the Deerfoot in May of 2010. At March 31, 2012, $47.1 million debentures at face value remain unconverted.

The Deerfoot has a demand loan secured by its land and buildings. The Deerfoot is paying interest at a stipulated floor rate of 4.0%; otherwise the rate on this loan is 1.0% above the lender's prime lending rate. The Deerfoot is making blended monthly principal and interest payments on the loan amortized over 15 years.

Credit facilities	**Original Maturity**	**March 31, 2012**	**December 31, 2011**
Face value			
Demand loan		10.9	11.3
Revolving credit lines		6.0	6.0
Deerfoot - demand loan		11.4	11.7
Debentures face value		47.1	49.8
		75.4	78.8
Carrying value			
Current liabilities			
Demand loan	2020	10.9	11.3
Revolving credit lines		-	4.0
Deerfoot - demand loan	2025	11.5	11.7
		22.4	26.9
Non-current liabilities			
[1] Debentures payable	2015	43.2	45.0
		65.6	71.9
Interest rate			
[2] Demand Loan		4.00% (P +1.00%)	4.00% (P +1.00%)
[2] Revolving Credit Line		4.00% (P +1.00%)	4.00% (P +1.00%)
[2] Deerfoot Joint Venture - demand loan		4.00% (P +1.00%)	4.00% (P +1.00%)
Debentures face value		6.25%	6.25%

(in millions of dollars unless stated otherwise)

[1] 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 and debenture conversion privileges are amortized to interest expense over the life of the Debentures. The effective interest rate for amortization of the debenture issue costs is 9.6%.

[2] Prime rate (P) at the end of the Period was 3.00%. All Prime based financing has a floor rate of 4.00%.

Gamehost provided an $11.5 million unsecured limited liability guarantee to the lender of the Deerfoot to indemnify it in the event the Deerfoot does not perform its contractual obligations. The maximum potential liability under this guarantee is $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. No specific assets have been provided as security.

The Company may cause to be issued unlimited numbers of units or other securities provided they do not rank ahead of the Shares of the Corporation as to dividends, voting rights and other rights protected by the Limited Partnership Agreement.

Financial instruments

Fair value

The fair value of cash, restricted cash, trade and other receivables, trade and other payables, deferred income, loans and borrowings and dividends payable approximate their carrying value due to the short-term maturities of these instruments.

Interest rate risk

Gamehost's interest rate risk arises primarily from its variable rate debt in the aggregate amount of $22.4 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 1.0% increase in interest rates would have an unfavourable impact on earnings of $223,505 or $0.010/share on an annualized basis.

Credit risk

Credit risk arises from cash held with banks and credit exposure to customers. Gamehost's day to day commercial banking is 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. Carrying amounts of accounts receivable are reduced by direct write-off to earnings in the period of loss recognition. At the end of the Period, past due accounts are insignificant.

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.

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

Gamehost's lender has scheduled monthly blended payments that will amortize the demand loan balance by May, 2020 and the Deerfoot demand loan balance by February, 2021. Extra payments on the Deerfoot loan result in the completion date for the Deerfoot loan being different from it's reported maturity date.

The maturity date on Gamehost's debentures is the earlier of the holder's election to convert, Gamehost's call for redemption or the final maturity date of the debentures on July 31, 2015. The current dividend rate results in a 32% increase to cash payments over the interest liability on debentures.

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

Industry risk

Service Plus in Grande Prairie derives a significant portion of its business from corporate clients in the energy sector. As a result, Gamehost is exposed to some industry risk at this operation.

Related party transactions

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

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 key management personnel and directors of the Company as well as significant shareholders. Together, the Wills control 43.7% of the outstanding Shares of Gamehost.

- Gamehost recorded $383,766 ($336,703 - 2011) in key management personnel compensation for the Period which are included in administrative expenses. Compensation is in the form of short term employee benefits, director fees and management agreements. 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 $47,550 ($212,752 - 2011) remained in accounts payable.

- Gamehost recorded $35,431 ($43,208 – 2011) of charter aircraft rental expenses for the Period which is included in administrative expenses. At the end of the Period, $11,071 ($21,231 – 2011) remained in accounts payable. Travel to Gamehost's operational centres of Grande Prairie and Ft. McMurray is made more efficient via charter air services than can be accomplished through commercial carriers.

- Gamehost recorded $15,885 ($15,885 – 2011) of rental expenses for the Period which is included in cost of sales. Service Plus and Great Northern rent tractor trailer parking and storage space from the related party.

Gamehost recorded $26,000 ($29,500 – 2011) in directors fees during the Period paid to other directors of Gamehost.

Gamehost recorded $3,958 ($5,136 – 2011) in professional and administrative fees during the Period paid to companies controlled by other directors of Gamehost.

Gamehost recorded $53,100 ($53,100 – 2011) in management services expenses paid to companies controlled by other officers of Gamehost. At the end of the Period $nil ($17,700 - 2011) remained in accounts payable.

Gamehost recorded $36,000 ($36,000 – 2011) in salaries to other key management personnel.

Non-controlling interest

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

Shareholder equity

The Corporation is authorized to issue an unlimited number of Shares of any class. Common stock is valued at the original contributed capital amount as at the 2003 plan of arrangement which formed Gamehost Income Fund. Adjustments to the value of common stock include fair value adjustments on Class B limited partnership units and conversion of those same units to common stock when Gamehost converted from an income trust to a corporation. The Corporation also has convertible instruments that may be dilutive when conversion privileges are exercised. Common stock is also adjusted on conversion of debentures to Shares for a prorata portion of the debenture conversion privilege.

Business risks, opportunities and outlook

Economic outlook

Results from the Quarter have been encouraging. Now we have experienced two consecutive strong growth quarters. Should a solid trend develop, the Company could experience significant organic growth without any required capital investment to return to revenue levels achieved in 2007.

The state of mind of the gaming and entertainment consumer is highly correlated to the health of the energy sector in Alberta. Natural gas is trading at ten year lows resulting in minimal gas exploration and development activity. This has been the story since mid 2009 and is already factored into current and comparable results.

Opposite to natural gas, oil pricing has seen good price support which has been fueling activity and jobs in the province. The outlook for oil activity is more favourable, but not also without risks. Continued development of Alberta's oil sands requires avenues for product export. Pipeline projects required to support increased oil sand's production have significant hurdles to overcome with challenges coming from environmentalists as well as first nations, provincial, national and international politics.

At a more local level, the Company stands to benefit from some significant and tangible healthcare infrastructure projects. In Calgary, the South Health Campus is on schedule for a phased opening beginning summer of 2012 to full operation in 2013. On completion of the $1.3 billion Phase 1, approximately 2,400 staff and 183 physicians will be employed at the site to support 298 beds, 200,000 outpatient visits, 2,500 births per year and 11 operating rooms. Surrounding residential and commercial development is now heating up including two large suburban office parks with some 2 million square feet of leasable space. Our near proximity Deerfoot Inn & Casino is well situated for organic growth to materialize in part from this new development in the area.

Grande Prairie, once a major benefactor of a strong natural gas sector has seen it's fortunes improve on a changeover to oil activity in the region. In the city of Grande Prairie and directly adjacent to the Company's hotel and casino operations, ground has broken on a new $520 million Health and Education Centre. Access to Our properties will not be impacted during the construction period. We expect to benefit from additional lodging provided to predominantly engineers and consultants to the project as well as increased foot traffic in Our casino from out-of-town construction crews. Longer term benefits from the hospital's operation should accrue to our properties through increased exposure and further commercial and residential development surrounding the new hospital.

The Alberta economy will continue to be the most significant driver of growth for the Company. Simply put, if the province can continue to provide high income jobs attracting increased population, the Company will benefit from greater consumer spending on hospitality and gaming.

Government regulation

The Federal Government has jurisdiction regarding First Nations lands. The Federal Government defers governmental authority to either provincial governments or First Nations Bands at their discretion. The Federal Government, to date, has chosen not to become involved in the smoking-in-public-places debate on First Nations lands. Presently, all First Nations casinos in Alberta permit smoking and enjoy a competitive edge over traditional casino operators who are subject to provincial non-smoking legislation. We believe, however, that this competitive advantage has diminished over time as the public has become accustomed to smoke-free public places.

The Alberta and Canadian gaming industries are highly regulated by provincial governments resulting in high barriers of entry. Revenue sharing agreements between governments and operators are subject to change by unilateral government action. Revenue sharing and operator agreements are not the same from province to province. Neither are they the same for traditional casino operators and First Nations casino operators. Traditional casino operators in Alberta receive less favourable compensation when compared to competing Alberta First Nations operators and some of their provincial counterparts.

Special interest groups routinely lobby government on a host of matters. Gaming is a subject of high public interest both for and against. Lobbying efforts can be effective in influencing government action. Next to the Alberta Government Department of Treasury, provincial charitable groups are the main benefactor to the gaming industry. An uneven playing field between traditional casino operators and First Nations casino operators also creates compensation issues for charitable groups supported by traditional casino operators.

Competition

The Deerfoot is a unique facility in the Calgary market being the only casino to also offer full service hotel and convention facilities. Within a block of the Deerfoot is a limited service hotel owned and operated by a related party to the Deerfoot and Gamehost. This limited service hotel was built to secure the competitive market for the Deerfoot from aggressive pressure on room rates and to compliment the Deerfoot operations. It does so by providing cost conscious clientele who would otherwise not stay at the higher cost Deerfoot an option closer to our casino than competitor properties. Furthermore, the Deerfoot is now able to attract larger convention events with the additional room capacity available down the block.

Competition to Deerfoot's casino operations in Calgary remains the close proximity of First Nations gaming (14 kilometres) who can offer indoor smoking. Traditional casino operators must comply with non-smoking regulations that require the operator to prohibit smoking within a minimum 30 metres from entry ways.

The Great Northern Casino in Grande Prairie is the only full service casino in the city. Evergreen Park, the area's exhibition and trade grounds are located 8.5 kilometres from the city centre. The park operates a small racino with off-track betting and 99 slot machines. Should Alberta follow a recent decision by the Ontario Lottery Corporation to rescind certain agreements that allow horse racing tracks to house slot machines, Great Northern Casino would benefit from such a decision.

Gamehost’s Service Plus hotel property operates in a highly competitive market, but continues to succeed on superior location and service. The property is directly across from the areas community college and a favoured choice of sports teams. Service Plus is also adjacent to the Power Centre big box shopping outlet and convenient for those travelling to Grande Prairie as their nearest major market city. Our limited service hotel is a consist top three performer the cities occupancy statistics.

Management is not aware of any further hotel developments or gaming applications that could have a material effect on Gamehost’s operations.

International Financial Reporting Standards (IFRS)

New standards

i) IAS 12, Deferred Taxes - Recovery of Underlying Assets

The IASB issued an amendment to IAS 12, "Income Taxes" ("IAS 12 amendment"), which introduces an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The IAS 12 amendment is effective for annual periods beginning on or after January 1, 2012. The IAS 12 amendment did not have a significant impact on the Company's results of operations, financial position or disclosures.

New standards and interpretations not yet adopted

A number of new Standards, interpretations and amendments to existing Standards, are not yet effective for the financial year ended December 31, 2012, and have not been applied in preparing these unaudited condensed consolidated financial statements. The following Standards, amendments to and interpretations of existing Standards have been published and are mandatory for the Company's accounting periods beginning on or after December 31,

i) IFRS 7, Financial Instruments - Disclosures

This amendment is effective for annual periods beginning on or after July 1, 2011 and requires incremental disclosures regarding transfers of financial assets. The Company will apply the amendment to its 2012 annual financial statement disclosures and does not expect the implementation to have a significant impact on the Company's disclosures.

ii) IFRS 9, Financial Instruments

This Standard is effective for periods beginning on or after January 1, 2015 and is part of a wider project to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 replaces the current multiple classification categories: amortized cost and fair value. The basis of classification depends on the Company's business model and the contractual cash flow characteristics of the financial asset or liability. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. Gamehost is assessing the impact of this new Standard on its consolidated financial statements.

iii) IFRS 10, Consolidated Financial Statements

This Standard is effective for periods beginning on or after January 1, 2013 and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 defines the principle of control and establishes control as the basis for determining which entities are consolidated in the financial statements. Gamehost is assessing the impact of this new Standard on its consolidated financial statements.

iv) IFRS 11, Joint Arrangements

This Standard is effective for periods beginning on or after January 1, 2013 and establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 requires a party to assess the rights and obligations arising from an arrangement in determining whether an arrangement is either a joint venture or a joint operation. Joint ventures are to be accounted for using the equity method while joint operations will continue to be accounted for using proportionate consolidations. Gamehost is assessing the impact of this new Standard on its consolidated financial statements.

v) IFRS 12, Disclosure of Interests in Other Entities

This Standard is effective for periods beginning on or after January 1, 2013 and applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or and unconsolidated structures entity. IFRS 12 integrates and makes consistent the disclosure requirements for a reporting entities interest in other entities and presents those requirements in a single Standard. Gamehost is assessing the impact of this new Standard on its consolidated financial statements.

vi) IFRS 13, Fair Value Measurement

This Standard is effective for periods beginning on or after January 1, 2013 and provides additional guidance where IFRS requires fair value to be used. IFRS 13 defines fair value, sets out in a single standard a framework for measuring fair value and establishes the required disclosures about fair value measurement. Gamehost is assessing the impact of this new Standard on its consolidated financial statements.

vii) IAS 1, Presentation of Financial Statements

An amended version of IAS 1 becomes effective for periods beginning on or after January 1, 2012 and requires companies preparing consolidated financial statements in accordance with IFRS to group together items with other comprehensive income ("OCI") that may be reclassified to the profit or loss section of the statements of earnings. The amendment also reaffirms existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. Gamehost is assessing the impact of the amendment on its consolidated financial statements.

viii) Amendments to IAS 27, Separate Financial Statements

An amended version of IAS 27 becomes effective for periods beginning on or after January 1, 2013 and must be applied retrospectively. The amendment contains the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate (non-consolidated) financial statements. IAS 27 will not have an impact on the Company’s consolidated results of operations, financial position and disclosures.

ix) Amendments to IAS 28, Investments in Associates and Joint Ventures

On May 12, 2011 the IASB revised IAS 28 to correspond to the guidance provided in IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements. The amendments to IAS 28 are effective for annual periods beginning on or after January 1, 2013. Gamehost is assessing the impact of the amendment on its consolidated financial statements.

x) Amendments to IAS 32 and IFRS 7, Offsetting Financial Assets and Liabilities

On December 16, 2011 the IASB issued amendments to IAS 32 to clarify that an entity currently has a legally enforceable right to set-off if that right is: not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are: offset in the statement of financial position; or subject to master netting arrangements or similar arrangements. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014 and for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013. Gamehost is assessing the impact of the amendment on its consolidated financial statements.

Additional information

All required public disclosures including material documents, press releases, annual information form and financial statements of Gamehost can be found on SEDAR at www.sedar.com. Additional information about Gamehost can be found at www.gamehost.ca.