Consolidated Annual Financial Statements
for the twelve months ended December 31, 2011

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of:
Gamehost Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Gamehost Inc., which comprise the consolidated statement of financial position as at December 31, 2011, December 31, 2010 and January 01, 2010 and the consolidated statement of profit and comprehensive profit, consolidated statement of changes in equity and consolidated statement of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Gamehost Inc. as at December 31, 2011, December 31, 2010 and January 01, 2010, and its consolidated financials performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Heywood Holmes & Partners LLP

Red Deer, Alberta
March 8, 2012

Chartered Accountants

Consolidated statement of profit (loss) and comprehensive income (loss)

In Canadian dollars	*Note*	***(audited)***		***(unaudited)***	
		twelve months ended December 31		**three months ended December 31**	
		2011	**2010**	**2011**	**2010**
Operating revenue	6	$ 71,989,151	$ 62,449,609	$ 18,957,496	$ 17,820,644
Cost of sales					
Other	5	(37,432,038)	(31,524,933)	(9,863,356)	(9,405,924)
Depreciation	15	(2,355,818)	(2,228,479)	(591,336)	(633,236)
		(39,787,856)	(33,753,412)	(10,454,692)	(10,039,160)
Gross profit		32,201,295	28,696,197	8,502,804	7,781,484
Other income	7	240,386	240,383	68,257	58,985
Administrative expenses					
Other	8	(2,959,443)	(3,435,257)	(750,388)	(793,768)
Depreciation	15	(2,663,731)	(1,446,991)	(682,823)	(700,927)
		(5,623,174)	(4,882,248)	(1,433,211)	(1,494,695)
Profit from operating activities		26,818,507	24,054,332	7,137,850	6,345,774
Other gains	9	1,677	27,083,015	1,677	-
Finance income	10	82,542	56,540	21,893	20,477
Finance costs	10	(5,586,935)	(12,581,717)	(1,238,534)	(3,526,685)
Fair value changes to Class B limited partnership units	23	-	(23,336,000)	-	(9,241,056)
Profit (loss) before income taxes		21,315,791	15,276,170	5,922,886	(6,401,490)
Income tax expense	11	(5,301,001)	(564,272)	(2,984,706)	(851,091)
Profit (loss) and comprehensive income (loss) for the period		$ 16,014,790	$ 14,711,898	$ 2,938,180	$ (7,252,581)
Profit (loss) and comprehensive income (loss) attributable to:					
Owners of the Company		$ 14,860,454	$ 13,942,116	$ 2,618,808	$ (7,533,019)
Non-controlling interest		1,154,336	769,782	319,372	280,438
Profit (loss) and comprehensive income (loss) for the period		$ 16,014,790	$ 14,711,898	$ 2,938,180	$ (7,252,581)
Earnings per share	12				
Basic and diluted earnings (loss) per share		$ 0.702	$ 0.661	$ 0.123	$ (0.357)

The accompanying notes are an integral part of the consolidated financial statements

Consolidated statement of financial position

In Canadian dollars	*Note*	*(audited)* December 31, 2011	*(audited)* December 31, 2010	*(audited)* January 1, 2010
Assets				
Current assets				
Cash		$ 17,733,971	$ 14,572,108	$ 9,973,895
Restricted cash	13	24,490	37,984	67,700
Trade and other receivables		1,670,369	1,391,210	827,504
Inventories	14	548,426	499,348	305,488
Prepaid expenses		334,839	258,788	175,278
		20,312,095	16,759,438	11,349,865
Non-current assets				
Property, plant and equipment	15	82,943,421	87,651,021	30,272,210
Intangible assets	16	76,890,798	76,890,798	42,579,216
Investment property	17	2,820,000	2,820,000	2,820,000
Deferred tax assets	11	1,382,951	1,382,951	1,382,951
		164,037,170	168,744,770	77,054,377
		$ 184,349,265	$ 185,504,208	$ 88,404,242
Liabilities				
Current liabilities				
Trade and other payables		$ 4,300,483	$ 5,114,395	$ 2,882,465
Loans and borrowings	18	26,946,719	25,304,521	23,250,076
Distributions payable		-	862,972	862,973
Dividends payable	19	1,547,011	-	-
		32,794,213	31,281,888	26,995,514
Non-current liabilities				
Debentures payable	18	44,959,139	48,256,207	-
Current year income tax	11	4,665,291	-	-
Deferred tax liabilities	11	8,055,688	7,419,978	2,737,124
Class B limited partnership units		-	-	72,279,371
		57,680,118	55,676,185	75,016,495
		90,474,331	86,958,073	102,012,009
Equity				
Share capital	19	132,061,681	132,533,714	-
Contributed surplus		4,427,899	4,893,001	-
Unitholders capital		-	-	36,918,348
Deficit		(50,712,063)	(46,939,661)	(50,526,115)
Equity attributable to the Company		85,777,517	90,487,054	(13,607,767)
Non-controlling interest		8,097,417	8,059,081	-
		93,874,934	98,546,135	(13,607,767)
		$ 184,349,265	$ 185,504,208	$ 88,404,242

The accompanying notes are an integral part of the consolidated financial statements

On behalf of the Board:

(signed, David J. Will)
David J. Will, Director

(signed, Darcy J. Will)
Darcy J. Will, Director

Consolidated statement of changes in equity

In Canadian dollars	*Note*	Unitholder capital	Share capital	Contributed surplus	Deficit	Total	Non-controlling interest	Total equity
		(audited)						
Equity as at January 1, 2010		$ 36,918,348	$ -	$ -	$ (50,526,115)	$ (13,607,767)	$ -	$ (13,607,767)
Profit for the period		-	-	-	13,942,116	13,942,116	769,782	14,711,898
Distributions to owners of the Company		-	-	-	(10,355,662)	(10,355,662)	-	(10,355,662)
Conversion of limited partnership units to common shares	19	(36,918,348)	132,533,714	-	-	95,615,366	-	95,615,366
Debenture conversion privilege		-	-	4,893,001	-	4,893,001	-	4,893,001
Non-controlling interest addition due to Acquisition	21	-	-	-	-	-	8,147,899	8,147,899
Distributions to non-controlling interest		-	-	-	-	-	(858,600)	(858,600)
Equity as at December 31, 2010		$ -	$ 132,533,714	$ 4,893,001	$ (46,939,661)	$ 90,487,054	$ 8,059,081	$ 98,546,135
Profit for the period		-	-	-	14,860,454	14,860,454	1,154,336	16,014,790
Dividends to owners of the Company	19	-	-	-	(18,632,856)	(18,632,856)	-	(18,632,856)
Distributions to non-controlling interest		-	-	-	-	-	(1,116,000)	(1,116,000)
Shares repurchased for cancellation		-	(5,446,935)	-	-	(5,446,935)	-	(5,446,935)
Conversion of debentures into common shares		-	4,509,800	-	-	4,509,800	-	4,509,800
Debenture conversion privilege on debentures converted to common shares		-	465,102	(465,102)	-	-	-	-
Equity as at December 31, 2011		$ -	$ 132,061,681	$ 4,427,899	$ (50,712,063)	$ 85,777,517	$ 8,097,417	$ 93,874,934

The accompanying notes are an integral part of the consolidated financial statements

Consolidated statement of cash flows

In Canadian dollars	*Note*	***(audited)*** twelve months ended December 31 2011	***(audited)*** twelve months ended December 31 2010	***(unaudited)*** three months ended December 31 2011	***(unaudited)*** three months ended December 31 2010
Cash provided by (used in):					
Operating activities					
Profit (loss) for the period		$ 16,014,790	$ 14,711,898	$ 2,938,180	$ (7,252,581)
Adjustments for non-cash items:					
Depreciation of property, plant and equipment	15	5,019,549	3,675,470	1,274,159	1,334,163
Finance costs	10	5,586,935	35,917,717	1,238,534	12,767,741
Other gains	9	(1,677)	(27,083,015)	(1,677)	-
Income tax expense	11	5,301,001	564,272	2,984,706	851,091
		31,920,598	27,786,342	8,433,902	7,700,414
Change in:					
Trade and other receivables		(279,159)	(11,276)	(359,581)	(51,638)
Inventories		(49,078)	1,268	(25,890)	(26,605)
Prepaid expenses		(76,051)	37,412	348,808	335,262
Trade and other payables		14,541	(470,191)	(41,496)	(555,240)
Interest paid		(5,188,394)	(10,303,976)	(292,390)	(2,342,016)
Income taxes paid		-	-	-	-
Net cash provided by operating activities		26,342,457	17,039,579	8,063,353	5,060,177
Investing activities					
Purchase of property, plant and equipment	15	(313,897)	(247,957)	(71,908)	(112,572)
Proceeds from sale of property, plant and equipment		2,857	-	2,857	-
Acquisition, net of cash acquired	21	-	(47,396,218)	-	-
Net cash (used in) investing activities		(311,040)	(47,644,175)	(69,051)	(112,572)
Financing activities					
Loan proceeds		4,000,000	2,000,000	4,000,000	-
Loan payments		(2,357,802)	(7,967,979)	(592,334)	(4,081,979)
Debenture proceeds		-	52,338,643	-	(9,303)
Distributions to non-controlling interest		(1,116,000)	(812,190)	(288,000)	(331,590)
Distributions to fund unit holders		(862,972)	(10,355,665)	-	(2,588,916)
Dividends paid		(17,085,845)	-	(4,688,561)	-
Share repurchases		(5,446,935)	-	(4,746,940)	-
Net cash (used in) provided by financing activities		(22,869,554)	35,202,809	(6,315,835)	(7,011,788)
Net increase (decrease) in cash		3,161,863	4,598,213	1,678,467	(2,064,183)
Opening cash		14,572,108	9,973,895	16,055,504	16,636,291
Closing cash		$ 17,733,971	$ 14,572,108	$ 17,733,971	$ 14,572,108

The accompanying notes are an integral part of the consolidated financial statements

1 Reporting entity

Gamehost Inc. (the “Company”, "Corporation" or “Gamehost”) is incorporated in Canada under the Business Corporations Act (Alberta). The address of the Company’s registered office is Suite 2800 – 715, 5th Avenue S.W. Calgary, Alberta T2P 2X6. The consolidated financial statements of the Company as at and for the twelve months ended December 31, 2011 (the "Period" or "Year") are comprised of the Company, its wholly owned subsidiaries and its 91% controlling interest in Deerfoot Inn & Casino Inc. ("Deerfoot"). The Company’s activities are currently confined to the Province of Alberta, Canada. Operations include the Deerfoot Inn & Casino in Calgary, 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 Company owns a retail complex (the “Strip Mall”) that leases space to a pub, a full service restaurant operation and a liquor store. Gaming operations of the Company are controlled by the Alberta Gaming and Liquor Commission (the "AGLC") including Company owned table games and government owned slot machines, video lottery terminals and lottery ticket outlets. Hotel operations of the Company include full and limited service hotels and banquet and convention services. Food, beverages and entertainment are offered at each of the Company’s casino locations.

2 Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS"). These are the Company's first annual consolidated financial statements prepared in accordance with IFRS. The Company followed the procedures set out in IFRS 1 - First-time Adoption of International Financial Reporting Standards on the Company's initial adoption of IFRS.

IFRS 1 First-time Adoption of International Financial Reporting Standards ("Standard") sets out the requirements that the Company must follow when it adopts IFRS for the first time as the basis for preparing its consolidated annual financial statements. The Company is required to establish its IFRS accounting policies for the year ended December 31, 2011, and apply these retrospectively to determine the IFRS opening statement of financial position as at the Company’s date of transition of January 1, 2010. To assist companies in the transition process, the Standard permits a number of specified exemptions from the general principle of retrospective restatement. The Company has elected certain specified exemptions from the general principal of retrospective application as follows:

i. The Company has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the Company’s date of transition to IFRS.

ii. The Company has elected to apply the transitional provisions of IAS 23 prospectively from the Company’s date of transition to IFRS. This exemption applies capitalized borrowing costs included in all qualifying assets measured at cost in the opening IFRS statement of financial position.

Estimates made under IFRS at January 1, 2010 are consistent with estimates made for the same date under previous generally accepted accounting principles ("GAAP").

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 27. This note includes reconciliations of equity and comprehensive income for comparative periods as at the date of transition reported under previous GAAP to those reported for those periods and at the date of transition under IFRS.

These consolidated annual financial statements were authorized for issue by the Board of Directors on March 8, 2012. The policies applied in these consolidated annual financial statements are based upon IFRS issued and outstanding as at December 31, 2011.

2 Basis of presentation (cont.)

(b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for investment property in the statement of financial position, which is recorded at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information is presented in Canadian dollars.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, and disclosures of contingent assets and liabilities at the dates of the consolidated financial statements. Actual results may differ materially from these estimates.

Estimates, judgments and assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant estimates used in the preparation of these consolidated annual financial statements include estimates and assumptions used in the determination of the useful lives of property and equipment [note 3(e)], the fair value of investment property [note 3(g)] and the variables in determining the debenture conversion privilege reported as contributed surplus.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated annual financial statements is included in the note appearing below related to the impairment of financial and non-financial assets [note 3(i)(ii)].

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated annual financial statements and in preparing the opening IFRS statement of financial position as at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

The accounting policies have also been applied consistently by Company entities.

(a) Basis of consolidation

i) Business combinations

The Company applies the acquisition method to account for business combinations. The Company measures goodwill at the acquisition date as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative a bargain purchase gain is recognized immediately in profit or loss.

The Company elects on a transaction-by-transaction basis whether to measure non-controlling interest at fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

3 Significant accounting policies (cont.)

i.i) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of the subsidiaries are included in the consolidated annual financial statements from the date that control commences until the date that control ceases.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. The accounting policies of subsidiaries have been changed when necessary to align them with policies adopted by the Company.

i.ii) Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders. Therefore, no goodwill is recognized as a result of such transactions.

i.iii) Transactions eliminated on consolidation

Intra-Company balances and transactions, and any unrealized income and expenses arising from intra-Company transactions, are eliminated in preparing the consolidated annual financial statements.

(b) Financial instruments

The Company's financial assets and liabilities are classified into the following categories:

		Measurement	
Financial asset/liability	Classification	Fair Value	Amortized Cost
Cash	Loans and receivables		✔
Trade and other receivables	Loans and receivables		✔
Trade and other payables	Other financial liabilities		✔
Class B limited partnership units	Fair value through profit or loss ("FVTPL")	✔	
Loans, debentures and other borrowings	Other financial liabilities		✔

The Company has not classified any of its financial assets as available-for-sale or held-to-maturity.

i) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company classifies its non-derivative financial assets in the loans and receivables category. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

3 Significant accounting policies (cont.)

Loans and receivables are comprised of cash and trade and other receivables.

ii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

iii) Other financial liabilities

Other financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise: loans and borrowings and trade and other payables.

iv) Financial liabilities at fair value through profit or loss

A financial liability is classified at fair value through profit or loss (FVTPL) if it is held for trading or if it is designated as FVTPL upon initial recognition. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at FVTPL are measured at fair value and changes therein are recognized in profit or loss.

Financial liabilities designated at fair value through profit or loss are comprised of the Class B limited partnership units.

v) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

vi) Compound financial instruments

Compound financial instruments issued by the Company comprise its convertible debentures that can be converted to common shares at the option of the holder. The number of shares issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument, which is recorded in contributed surplus, is not re-measured subsequent to initial recognition.

3 Significant accounting policies (cont.)

Interest and losses and gains, relating to the financial liability are recognized in profit or loss. On conversion, the financial liability is reclassified to equity along with a prorated portion of the original proceeds allocated to the equity component; no gain or loss is recognized on conversion.

(c) Cash

Cash includes cash on hand, and balances with financial institutions. Cash balances with financial institutions earn interest at a rate of bank prime less 1.65%.

(d) Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is based on the first-in first-out method and includes expenditures incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a declining or straight-line basis, over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

3 Significant accounting policies (cont.)

The estimated useful lives for the current and comparative periods are as follows:

Land Improvements	- 2% straight line
Buildings	- 4% - 5% declining balance
Leaseholds	- 5 to 10 years straight line
Furniture, fixtures and equipment	- 20% - 100% declining balance

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Intangible assets

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. See note 3(a)(i) for the policy on measurement of goodwill at initial recognition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, see note 3(i)(ii).

Licenses

Licenses are issued by the Alberta Gaming and Liquor Commission and allow for the operation of government owned slot machines, video lottery terminals and lottery ticket kiosks as well as private operator owned table games in private operator facilities. While licenses are renewable every three years, the Company has estimated them to have an indefinite life. They are measured at cost less accumulated impairment losses.

(g) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change therein recognized in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

The Company's Strip Mall has been classified as investment property.

(h) Leases

Leases in which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and are not recognized in the Company's statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

Significant accounting policies (cont.)

(i) Impairment

i) Financial Assets (including loans and receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

3 Significant accounting policies (cont.)

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(j) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected income tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Employee benefits

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. The Canada Pension Plan corresponds to a defined contribution plan.

A liability is recognized for the amount expected to be paid under short term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3 Significant accounting policies (cont.)

(l) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(m) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as the principal or agent. The following specific recognition criteria must also be met before revenue is recognized:

Gaming operations

Revenues from gaming operations consist of the Company's share of the gaming wins net of prizes paid pursuant to its operating agreement with Alberta Gaming and Liquor Commission and are recognized in profit or loss in the same period in which the game is played. Related operating costs are recorded in the profit or loss in the period they are incurred.

Hotel operations

Revenues from hotel operations are recognized in profit or loss when services are rendered to customers, when the selling price is fixed or determinable, and when collection is reasonably assured. Related operating costs are recorded in profit or loss in the period they are incurred.

Food and beverage operations

Revenues from food and beverage sales are recognized in profit or loss when services are rendered to customers, when the selling price is fixed and determinable, and when collection is reasonably assured. Related operating costs are recorded in profit or loss in the period they are incurred.

In certain locations, food and beverage sales are commission based. When the Company acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commissions earned by the Company.

(n) Finance income and finance costs

Finance income comprises interest income on funds on deposit. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial liabilities at fair value through profit or loss, and impairment losses recognized on financial assets.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

3 Significant accounting policies (cont.)

(o) Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise of convertible debentures.

(p) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's Chief Operating Officer ("COO") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the COO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(q) New Standards and interpretations not yet adopted

A number of new Standards, interpretations and amendments to existing Standards, are not yet effective for the period ended December 31, 2011, and have not been applied in preparing these consolidated financial statements. The following Standard, amendments to and interpretations of existing Standards have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2013:

i) 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.

ii) 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.

3 Significant accounting policies (cont.)

iii) 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.

iv) 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.

v) 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.

vi) 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 of 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.

vii) 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.

viii) 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.

4 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, lotto 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.

Twelve months ended December 31, 2011	Gaming	Hotel	Food & Beverage	Corporate and other [1]	Total
Revenues	41,733,271	12,523,853	17,732,027	-	71,989,151
Other gains	-	-	-	1,677	1,677
Finance costs, net of finance income	2,744,488	2,501,917	340,445	(82,457)	5,504,393
Depreciation	1,131,949	873,374	356,621	2,657,605	5,019,549
Other expenses net of other income	19,311,812	6,292,597	12,705,827	1,840,859	40,151,095
Profit before income tax	18,545,022	2,855,965	4,329,134	(4,414,330)	21,315,791
Segment assets	120,267,910	46,203,407	13,223,073	4,654,875	184,349,265
Segment liabilities	42,524,638	18,705,436	13,154,855	16,089,402	90,474,331
Capital expenditures	126,311	80,986	32,600	74,000	313,897

Twelve months ended December 31, 2010	Gaming	Hotel	Food & Beverage	Corporate and other [1]	Total
Revenues	37,469,765	9,367,441	15,612,403	-	62,449,609
Other gains	-	-	-	27,083,015	27,083,015
Finance costs, net of finance income	1,430,034	1,303,641	177,391	32,950,111	35,861,177
Depreciation	893,848	639,512	196,129	1,945,981	3,675,470
Other expenses net of other income	17,338,901	4,706,661	11,187,018	1,487,227	34,719,807
Profit before income tax	17,806,982	2,717,627	4,051,865	(9,300,304)	15,276,170
Segment assets	121,308,426	46,687,037	13,152,571	4,356,220	185,504,254
Segment liabilities	41,324,167	18,177,382	12,783,494	15,045,317	87,330,360
Capital expenditures	23,821,570	14,292,942	9,528,628	1,035	47,644,175

[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.

5 Cost of sales by nature

	Twelve months ended December 31		Three months ended December 31	
Cost of sales - Other	2011	2010	2011	2010
Food and beverage inventory used	4,634,710	3,756,552	1,282,306	1,183,539
Human resources	18,681,272	15,912,560	4,828,214	4,765,022
Marketing & Promotions	3,037,239	2,725,925	715,954	788,490
Operating	9,073,010	7,441,813	2,518,705	2,175,685
Direct overhead and other	2,005,807	1,688,083	518,177	493,188
	37,432,038	31,524,933	9,863,356	9,405,924

	Twelve months ended December 31		Three months ended December 31	
Human resources	2011	2010	2011	2010
Wages and salaries	16,314,610	13,918,767	4,251,285	4,217,058
Canada pension plan remittances	714,704	688,187	148,650	142,912
Employment Insurance remittances	399,982	233,334	103,994	98,297
Other human resource related expenses	1,251,976	1,072,272	324,285	306,755
	18,681,272	15,912,560	4,828,214	4,765,022

The Company does not have a defined benefit plan obligation. Employee benefits are limited to those under the Canada Pension Plan ("CPP") for which the Company makes regular contributions with each payroll period. In addition to Company contributions to CPP, Gamehost also co-administers an employee Health Spending Plan ("HSP"). Benefits under this plan are limited to fixed annual Company contributions, which if not used for allowable medical expenses as defined by the Canada Revenue Agency, are paid out as taxable income to the employee.

6 Revenue

	Twelve months ended December 31		Three months ended December 31	
Revenue	2011	2010	2011	2010
Sale of goods	17,732,027	15,612,403	5,092,255	4,808,813
Rendering of services	54,257,124	46,837,206	13,865,241	13,011,831
	71,989,151	62,449,609	18,957,496	17,820,644

The sale of goods relates to food and beverage revenues while the rendering of services relates to the casino, hotel and ATM revenues.

7 Other income

	Twelve months ended December 31		Three months ended December 31	
Other income	2011	2010	2011	2010
Lease revenue from investment property	240,386	240,383	68,257	58,985

8 Administrative expenses - by nature

	Twelve months ended December 31		Three months ended December 31	
Administrative expenses - Other	2011	2010	2011	2010
Corporate salaries	473,098	473,607	120,519	118,642
Management fees	1,759,677	1,563,179	449,112	421,630
Legal and other professional fees	231,312	894,536	44,074	126,671
General and other	495,356	503,935	136,683	126,825
	2,959,443	3,435,257	750,388	793,768

9 Other gains

Other gains	Twelve months ended December 31 2011	Twelve months ended December 31 2010	Three months ended December 31 2011	Three months ended December 31 2010
Gain on sale of property, plant and equipment	1,677	-	1,677	-
Gain on revaluation of original ownership position in Deerfoot	-	27,083,015	-	-
	1,677	27,083,015	1,677	-

10 Finance income and finance costs recognized in profit or loss

Net finance costs recognized in profit or loss	Twelve months ended December 31 2011	Twelve months ended December 31 2010	Three months ended December 31 2011	Three months ended December 31 2010
Interest income on bank deposits	82,542	56,540	21,893	20,477
Finance income	82,542	56,540	21,893	20,477
Debenture interest	3,362,834	2,430,542	807,445	866,438
Debenture amortization	1,212,855	810,566	191,136	290,411
Interest on demand loans	1,011,246	1,130,071	239,953	317,202
Distributions to Class B limited partnership units	-	8,210,538	-	2,052,634
Finance costs	5,586,935	12,581,717	1,238,534	3,526,685
Net finance costs recognized in profit or loss	5,504,393	12,525,177	1,216,641	3,506,208

11 Income tax

Income tax expense is based on management's best estimate of the annual income tax rate expected for the full financial year applied to the pre-tax income of the annual period. The Company's consolidated effective tax rate for the Period ended December 31, 2011 was 25 percent (December 31, 2010 - 28 percent). The change in effective tax rate was caused by the following factors:

Prior to December 31, 2010, the corporation was an income trust subject to a different tax structure. The Company's policy was to fully distribute taxable income to unit holders resulting in zero taxes paid.

A non-current liability has been recorded for current years income taxes. Current year income taxes are deferred to 2013 by available arrangements within the tax act for flow through income from partnerships to corporations that have differing year ends for tax purposes. On June 26, 2011, a federal government Ways and Means Motion received royal assent which will now limit tax deferral opportunities for corporations with interests in partnerships. Consequently, deferral of current year taxes will end in 2013.

Deferred taxes arise from timing differences on the depreciation of property, plant and equipment, goodwill and financing charges.

Income taxes expense (recovery) is comprised of:

Period ended	December 31, 2011	December 31, 2010	January 1, 2010
Current tax expense (recovery):	4,665,291	-	-
Deferred tax expense (recovery)			
Origination and reversal of temporary differences	635,710	564,272	-
Arising from non-capital losses	-	-	(1,382,951)
	5,301,001	564,272	(1,382,951)
Profit for tax purposes	18,661,163	-	-
Income tax expense on current year income			
Company’s domestic tax rate	26.5%	28.0%	28.0%
Expected income tax expense at domestic tax rate	4,945,208	-	-
Origination and reversal of temporary differences	635,710	564,272	-
Arising from non-capital losses	-	-	(1,382,951)
Changes in expected income tax resulting from:			
Tax deferrals resulting in a lower tax rate	(279,917)	-	-
	5,301,001	564,272	(1,382,951)
The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities are presented below:			
Deferred tax assets:			
Arising from non-capital losses	1,382,951	1,382,951	1,382,951
Deferred tax liabilities:			
Property, plant and equipment, goodwill and financing charges	(8,055,688)	(7,419,978)	(2,737,124)
	(8,055,688)	(7,419,978)	(2,737,124)
Net deferred income tax liability	(6,672,737)	(6,037,027)	(1,354,173)

12 Earnings per share

Basic earnings per share

The calculation of basic earnings per share at December 31, 2011 was based on the profit attributable to common shareholders and weighted average number of common shares outstanding of 21,171,718 (21,107,553 - 2010)*, calculated as follows:

	Twelve months ended December 31		Three months ended December 31	
Profit attributable to common shareholders	2011	2010 *	2011	2010 *
Profit (loss) for the period	16,014,790	14,711,898	2,938,180	(7,252,581)
Less attributable to non-controlling interests	(1,154,336)	(769,782)	(319,372)	(280,438)
Profit (loss) attributable to common shareholders	14,860,454	13,942,116	2,618,808	(7,533,019)

	Twelve months ended December 31		Three months ended December 31	
Weighted average number of common shares	2011	2010 *	2011	2010 *
Opening balance	21,107,553	-	21,168,683	-
Effect of trust unit to share conversion	-	21,107,553	-	21,107,553
Effect of debenture conversions	123,659	-	281,923	-
Effect of shares purchased for cancellation	(59,494)	-	(186,019)	-
Ending balance	21,171,718	21,107,553	21,264,587	21,107,553
Basic earnings (loss) per share	$ 0.702	$ 0.661	$ 0.123	$ (0.357)

Diluted earnings per share

The addition of shares from convertible debentures has an anti-dilutive impact on the diluted profit (loss) per share calculation.

* In 2010, earnings are attributed to unit holders and opening balance relates to units before a 1 for 1 conversion to common shares.

13 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 $24,490 ($37,984 - 2010) relating to progressive jackpots.

14 Inventories

	December 31, 2011	December 31, 2010	January 1, 2010
Consumables	126,462	114,592	80,826
Merchandise	13,008	16,113	17,633
Product supplies	408,956	368,643	207,029
	548,426	499,348	305,488

Consumables consist of supplies that are used in daily operations including uniforms and cards. Merchandise inventory are promotional items. Product supplies include cigarettes, food and liquor used in the supply of food and beverages. In 2011, consumables, merchandise and product supplies recognized as a cost of sales amounted to $4,700,303 ($3,816,626 - 2010). During 2011 and 2010, no inventories were written down, and no reversals of previous write-downs occurred.

15 Property, plant and equipment

	Land	Land Improvement	Buildings	Leaseholds	Furniture and equipment	Total
Cost						
At January 1, 2011	10,859,030	3,306,709	72,895,496	2,491,968	18,908,738	108,461,941
Additions	-	-	48,861	-	265,036	313,897
Disposals	-	-	-	-	(17,781)	(17,781)
At December 31, 2011	10,859,030	3,306,709	72,944,357	2,491,968	19,155,993	108,758,057
Accumulated depreciation						
At January 1, 2011	-	373,607	9,822,944	1,238,648	9,375,721	20,810,920
Depreciation	-	66,133	2,607,144	217,850	2,128,422	5,019,549
Disposals	-	-	-	-	(15,833)	(15,833)
At December 31, 2011	-	439,740	12,430,088	1,456,498	11,488,310	25,814,636
Carrying value at December 31, 2011	10,859,030	2,866,969	60,514,269	1,035,470	7,667,683	82,943,421

	Land	Land Improvement	Buildings	Leaseholds	Furniture and equipment	Total
Cost						
At January 1, 2010	4,396,206	1,827,406	25,891,078	2,491,968	6,722,804	41,329,462
Acquisition through business combination	6,462,824	1,479,303	49,282,464	-	11,989,962	69,214,553
Additions	-	-	51,986	-	257,429	309,415
Disposals	-	-	(2,330,032)	-	(61,457)	(2,391,489)
At December 31, 2010	10,859,030	3,306,709	72,895,496	2,491,968	18,908,738	108,461,941
Accumulated depreciation						
At January 1, 2010	-	189,169	5,438,578	999,974	4,429,530	11,057,251
Acquisition through business combination	-	128,382	3,483,256	-	4,225,787	7,837,425
Depreciation	-	56,056	1,257,772	238,674	720,404	2,272,906
Disposals	-	-	(356,662)	-	-	(356,662)
At December 31, 2010	-	373,607	9,822,944	1,238,648	9,375,721	20,810,920
Carrying value at December 31, 2010	10,859,030	2,933,102	63,072,552	1,253,320	9,533,017	87,651,021
Carrying value at January 1, 2010	4,396,206	1,638,237	20,452,500	1,491,994	2,293,273	30,272,210

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

16 Intangible assets

	Goodwill	Licenses	Total
Cost			
At January 1, 2011	57,890,798	19,000,000	76,890,798
Additions and disposals	-	-	-
At December 31, 2011	57,890,798	19,000,000	76,890,798
Accumulated depreciation and impairments			
At January 1, 2011	-	-	-
Additions and disposals	-	-	-
At December 31, 2011	-	-	-
Carrying amount at December 31, 2011	57,890,798	19,000,000	76,890,798

16 Intangible assets (cont.)

	Note	Goodwill	Licenses	Total
Cost				
At January 1, 2010		42,579,216	-	42,579,216
Additions and disposals:				
Acquisition through business combination	21	15,311,582	19,000,000	34,311,582
At December 31, 2010		57,890,798	19,000,000	76,890,798
Accumulated depreciation and impairments				
At January 1, 2010		-	-	-
Additions and disposals		-	-	-
At December 31, 2010		-	-	-
Carrying amount at December 31, 2010		57,890,798	19,000,000	76,890,798
Carrying amount at January 1, 2010		42,579,216	-	42,579,216

For the purpose of impairment testing, intangible assets are allocated to the Company's cash generating units which represent the lowest level within the Company at which the intangibles are monitored for internal management purposes, which is not higher than the Company's operating segments.

The aggregate carrying amounts of intangibles allocated to each unit are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Great Northern Casino	29,379,659	29,379,659	29,379,659
Boomtown Casino	13,199,557	13,199,557	13,199,557
Service Plus Inns and Suites- Grande Prairie	-	-	-
Deerfoot Casino	26,655,791	26,655,791	-
Deerfoot Hotel	7,655,791	7,655,791	-
	76,890,798	76,890,798	42,579,216

The impairment test for each cash generating unit is based on fair value less costs to sell determined using a discounted cash flow model based on marketplace participant assumptions. Cash flows were projected over a ten-year period using historical operating results, zero growth rate and 2% cost inflation in years 5 through 10. The costs to sell are based on an estimated percentage of the fair value.

17 Investment property

The Company's classifies the Strip Mall as an investment property. This property is located in Grande Prairie and lease income is earned from two tenants.

18 Loans and borrowings

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 $4.0 million is drawn at December 31, 2011.

18 Loans and borrowings (cont.)

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.

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	Maturity	December 31, 2011	December 31, 2010	January 1, 2010
Face value				
Demand loan		11,274,260	12,598,093	7,500,793
Revolving credit lines		6,000,000	6,000,000	6,000,000
Deerfoot - demand loan		11,672,459	12,706,428	5,748,283
Deerfoot - revolving credit line		-	-	-
Demand promissory note		-	-	4,001,000
Debentures face value		49,772,000	55,000,000	-
		78,718,719	86,304,521	23,250,076
Carrying value				
Current liabilities				
Demand loan	2020	11,274,260	12,598,093	7,500,793
Revolving credit lines		4,000,000	-	6,000,000
Deerfoot - demand loan	2025	11,672,459	12,706,428	5,748,283
Demand promissory note		-	-	4,001,000
		26,946,719	25,304,521	23,250,076
Non-current liabilities				
[1] Debentures payable	2015	44,959,139	48,256,207	-
		71,905,858	73,560,728	23,250,076
Interest rate				
[2] Demand Loan		4.00% (P +1.00%)	4.00% (P +1.00%)	4.00% (P +1.00%)
[2] Revolving Credit Lines		4.00% (P +1.00%)	4.00% (P +1.00%)	4.00% (P +1.00%)
[2] Deerfoot - demand loan		4.00% (P +1.00%)	4.00% (P +1.00%)	4.00% (P +1.00%)
[2] Deerfoot - demand loan, revolving		n/a	n/a	4.00% (P +1.00%)
Demand promissory note		n/a	n/a	3.25%
Debentures face value		6.25%	6.25%	6.25%

[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 9.4%.

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

18 Loans and borrowings (cont.)

Gamehost provided an $11.46 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 $11.46 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.

The Company is required to maintain certain financial covenants with it lender such as cash flow coverage ratios, debt to equity ratios and debt to tangible net worth ratios. All bank covenants have been met. The Company is also required to maintain an minimum continuing net working capital position ("MCNWCP") for the AGLC. The Company's internal minimum working capital requirements are typically more substantial that the AGLC's MCNWP. The Company was well within the MCNWCP requirements of the AGLC as at December 31, 2011, December 31, 2010 and January 1, 2010.

19 Capital and other components of equity

	December 31, 2011		December 31, 2010		January 1, 2010	
	Shares	$'s	Shares	$'s	Units	$'s
Ending number of Fund units					11,773,153	36,918,348
Opening number of common shares	21,107,553	132,533,714	-	-	-	-
Conversion of Fund units to common shares	-		11,773,153	36,918,348	-	-
Conversion of Class B limited partnership units to common shares			9,334,400	95,615,366	-	-
Debenture conversions	490,879	4,974,902	-	-	-	-
Shares purchased for cancellation	(495,140)	(5,446,935)	-	-	-	-
Ending number of common shares	21,103,292	132,061,681	21,107,553	132,533,714	-	-

Normal course issuer bid

The Company repurchased 495,140 common shares for $5.4 Million under a normal course issuer bid. All shares have or will be cancelled. Neither the Company, nor its subsidiaries or associates hold treasury shares. The bid commenced March 10, 2011 and will expire March 9, 2012 or such earlier time as the bid is completed or terminated at the option of the Company.

Convertible debentures

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 were issued in 2010. 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.

19 Capital and other components of equity (cont.)

The Corporation's convertible debentures may be dilutive if conversion privileges were exercised. During the Period $5,228,000 in face value debentures were converted to common shares leaving a total $49.8 million in debentures equating to potentially dilutive shares of 4,673,427. Fractional shares from conversions during the Period, valued at $124, were expensed. Otherwise, the Corporation did not have any options, warrants, or rights that would be potentially dilutive during the period.

Corporate conversion

Class B limited partnership units and Fund units were exchanged for Shares on December 31, 2010.

Common shares

Common shares of the Company have no par value. The Corporation is authorized to issue an unlimited number of common shares without nominal or par value to which shares shall be attached the right to vote at any meeting of shareholders of the Corporation; receive any dividend declared by the Corporation; and receive the remaining property of the Corporation upon dissolution.

Dividends

The following dividends were declared by the Company:

	December 31, 2011	December 31, 2010 [1]
January	1,547,184	-
February	1,549,861	-
March	1,548,439	-
April	1,548,439	-
May	1,548,439	-
June	1,548,439	-
July	1,549,677	-
August	1,556,808	-
September	1,561,132	-
October	1,564,404	-
November	1,563,023	-
December	1,547,011	-
	18,632,856	-

[1] Prior to 2011 distributions of the former Gamehost Income Fund were considered income distribution. Income distribution in 2010 totaled $0.8796 per unit equal to $0.8796 per share dividend distributed in 2011. Former units of Gamehost Income Fund were exchanged one to one for shares of Gamehost Inc.

Dividend is based on $0.0733 per qualifying share. Dividends are considered "eligible" dividends for income tax purposes of the holder.

20 Related party transactions

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

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 44.1% of the outstanding Shares of Gamehost.

- Gamehost recorded $1,443,151 ($1,215,530 - 2010) 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 $45,913 ($90,382 - 2010, $92,956 January 1, 2010) remained in accounts payable.

- Gamehost recorded $149,370 ($120,318 – 2010) of charter aircraft rental expenses for the Period which is included in administrative expenses. At the end of the Period, $nil ($14,533 – 2010, $11,548 - January 1, 2010) remained in accounts payable accounts. Travel to Gamehost's operational centers of Grande Prairie and Ft. McMurray is made more efficient via charter air services than can be accomplished through commercial carriers.

- Gamehost recorded $63,540 ($63,540 – 2010) of parking lot rental expenses for the Period which is included in cost of sales. Great Northern Casino rents tractor trailer parking from the related party.

- Gamehost recorded $nil ($86,861 – 2010) in interest charges during the Period related to a promissory note $nil ($nil - 2010, $4,100,000 - January 1, 2010) which are included in finance costs. The promissory note was repaid in full in July 2010. The loan was unsecured with a fixed interest rate of 3.25%.

- Gamehost acquired $nil ($52.7 million – 2010, $nil - January 1, 2010) being a further 51% interest in the Deerfoot following approval by a committee of independent trustees (the "Independent Trustees") of Gamehost's Board.

Gamehost recorded $111,000 ($135,250 – 2010) in directors fees during the Period paid to other directors of Gamehost. At the end of the Period $1,500 ($35,000 - 2010, $29,000 - January 1, 2010) remained in accounts payable.

Gamehost recorded $10,780 ($29,482 – 2010) in professional and administrative fees during the Period paid to companies controlled by other directors of Gamehost.

Gamehost recorded $212,400 ($212,400 – 2010) in management services expenses paid to companies controlled by other officers of Gamehost.

Gamehost recorded $151,200 ($144,000 – 2010) in salaries and bonuses to other key management personnel.

21 Business acquisition (2010)

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

In the twelve months ended December 31,2010, Deerfoot contributed revenue of $30.8 million and net profit of $10.5 million. If the Acquisition had occurred on January 1,2010 consolidated revenue would have been $69.8 million and consolidated profit would have been $16.8 million for the year ended December 31, 2010.

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

Goodwill recorded is largely an estimate of the established relationship of the enterprise in the community, with the AGLC and with the charities supported by the gaming operations. $6,300,333 of the goodwill recognized is deductible for tax purposes.

Costs incurred on the Acquisition totaled $0.6 million, which related mainly to external legal and other professional fees and due diligence costs. These costs have been included in Administrative expenses in the consolidated statement of profit (loss) and comprehensive income (loss).

A 9% non-controlling interest was valued at book value.

22 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 originally stipulated that Gamehost Management Inc. was entitled to 2.0% of operational earnings before interest, taxes, depreciation and amortization of Gamehost. Amendments to this agreement were finalized during the Period. Effective May 1, 2010, the fee was reduced to 1.5% of EBITDA. The amendment has been included in financial results.

22 Commitments (cont.)

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 EBITDA of the 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	1,390	1,139	1,110	1,059	1,058	3,988

(in thousands of dollars unless stated otherwise)

23 Determination of fair values

Some of the Company's accounting policies require the determination of fair value. Fair values have been determined for measurement and disclosure purposes as follows:

Non-financial assets

The Company's non-financial assets requiring impairment testing consist of property, plant and equipment [note 3(e)] and intangible assets [note 3(f)]. The Company's intangible assets consist of goodwill and licenses both of which have indefinite lives. Non-financial assets are reviewed at each reporting date for indications of impairment. If any indication of impairment exists, the recoverable amount of the asset(s) is estimated. Regardless of any indication of impairment, the recoverable amounts of non-financial assets are estimated annually at December 31.

Assets that cannot be tested individually for impairment are grouped into cash generating units ("CGUs"). A CGU is defined as the smallest group of assets that generate cash inflows that are largely independent of cash inflows of other CGU's. Intangible assets that were acquired in a business combination are allocated to the CGU's that are expected to benefit from the business combination. All of the Company's non-financial assets have been grouped or allocated to CGU's.

An impairment loss is recognized when the carrying amount of a CGU is greater than its estimated recoverable amount. Impairment losses are recognized in profit(loss) in the period in which they occur. An impairment loss at a CGU will be allocated first to any goodwill to the extent there is goodwill included in the CGU and then to licenses to the extent there is licenses included in the CGU and then to other assets in the CGU on a prorated basis.

Impairment losses that reduce the value of intangible assets are never reversed. Impairment losses that reduce the value of other assets may be reversed if a change in estimates used to determine the recoverable amount warrants a reversal. The reversal of an impairment cannot exceed the carrying amount that would have been determined if the impairment loss had never been recognized.

There is no indication of impairment in any of the Company's non-financial assets and no impairment loss has been recorded or reversed during the year.

23 Determination of fair values (cont.)

Estimates relating to the fair value of the debenture conversion privilege reported as contributed surplus include the determination of cost of capital. The Company's cost of capital was determined by evaluating the Company's current and future expected costs of debt including a risk premium for potential default. No events have occurred or are expected to occur that would result in a material risk to the established cost of capital based on cost of debt. Furthermore the Company, has evaluated the cost of equity by reviewing other similar investments with comparable risk profiles. No events have occurred and no events are expected to occur that would result in a material risk to the established cost of capital based on cost of equity. Yield rates for comparable investments have not changed significantly since our original assessment of cost of equity.

No events have occurred or are expected to occur that would change our assessment of the Company's determination of CGU's. Factors used in determination of the Companies CGU's, such as customer base and independent cash flows remain consistent with the date of determination of the Company's CGU's.

Recent changes to tax laws as they relate to the Company's liability for current and future taxes have been factored into the determination of reported taxes. No foreseeable events have materialized or are expected to materialize that would result in a risk to tax rates used in the determination of the Company's liability for current or future tax.

Investment property

The Company's investment property was appraised by an external, independent valuation company in early 2010. The appraisal was completed by a representative of the valuation company with recognized professional qualifications and experience in the location and category of property being valued. The appraisal was based on market values, being the estimated amount for which the property could expect to be sold for on the date of the valuation to a willing buyer in an arm's length transaction after proper marketing where both the buyer and the seller had each acted knowledgeably and willingly. Given only modest changes in market conditions where the Company's investment property is located, the Company has relied on the 2010 valuation for 2011 reporting.

There is no indication of impairment of the Company's investment property and no impairment loss has been recorded or reversed during the year.

Class B limited partnership units

Class B limited partnership units were adjusted to fair value being the open market closing trading price of Fund units of the predecessor Gamehost Income Fund.

24 Financial risk and capital management

Financial risk management

The Company is exposed to certain risks as a result of holding financial instruments including interest rate risk, credit risk, liquidity risk and industry risk.

Interest rate risk

Gamehost's interest rate risk arises primarily from its variable rate debt in the aggregate amount of $26.9 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 $229,467 or $0.011/share on an annualized basis.

24 Financial risk and capital management (cont.)

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 February, 2017 and the Deerfoot demand loan balance by January, 2021.

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.

24 Financial risk and capital management (cont.)

The following are the undiscounted contractual maturities of financial liabilities, including estimated interest payments.

	Carrying amount	Contractual cash flows	1 year or less	1 to 5 years	More than 5 years
As at December 31, 2011					
Trade and other payables	4,300,483	4,300,483	4,300,483	-	-
Demand loans	22,946,719	22,946,719	2,398,615	10,046,336	10,501,768
Revolving credit facility	4,000,000	4,000,000	-	-	4,000,000
Debentures payable	49,772,000	11,147,564	3,110,750	8,036,814	-
	81,019,202	42,394,766	9,809,848	18,083,150	14,501,768
As at December 31, 2010					
Trade and other payables	5,114,395	5,114,395	5,114,395	-	-
Demand loans	25,304,521	25,304,521	2,264,745	9,859,498	13,180,278
Revolving credit facility	-	-	-	-	-
Debentures payable	55,000,000	15,755,993	3,437,500	12,318,493	-
	85,418,916	46,174,909	10,816,640	22,177,991	13,180,278
As at January 1, 2010					
Trade and other payables	2,882,465	2,882,465	2,882,465	-	-
Demand loans	13,249,076	13,249,076	1,908,569	9,680,474	1,660,033
Revolving credit facility	6,000,000	6,000,000	-	-	6,000,000
Demand promissory note	4,001,000	4,001,000	-	-	4,001,000
	26,132,541	26,132,541	4,791,034	9,680,474	11,661,033

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.

Capital management

The Company's objectives in managing capital is to maintain a strong balance and limiting exposure to fluctuating interest rates that could impair the Company's ability to maintain or increase dividends.

Gamehost's capital is comprised of net debt and shareholder equity:

	December 31, 2011	December 31, 2010	January 1, 2010
Total debt including revolving loans	71,905,858	73,560,728	23,250,076
Less cash	(17,733,971)	(14,572,108)	(9,973,895)
Net debt	54,171,887	58,988,620	13,276,181
Total equity	93,874,934	98,546,135	(13,607,767)
Class B limited partnership units	-	-	72,279,371
	93,874,934	98,546,135	58,671,604
	148,046,821	157,534,755	71,947,785

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.

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.

24 Financial risk and capital management (cont.)

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 regular dividends at the current monthly rate of $0.0733 per common share. Current interest rates allow for scheduled amortization periods of between 10 and 15 years in meeting dividend objectives.

The Company initiated a normal course issuer bid, to repurchase for cancellation, shares equal to the amount of shares issued as a result of debenture conversions throughout the year. Otherwise, there has been no change in the Company's approach to capital management in the year.

Financing restrictions on dividends caused by debt covenants

The Company has a demand loan secured by assets owned 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 require the maintenance of certain financial covenants. The Company is in compliance with all covenants.

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

25 Financial instruments

Gamehost's cash, trade and other receivables, trade and other payables, and loans, debentures and other borrowings are measured at amortized cost subsequent to initial recognition.

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

		December 31, 2011		December 31, 2010		January 1, 2010	
	Note	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortized cost							
Cash		17,733,971	17,733,971	14,572,108	14,572,108	9,973,895	9,973,895
Trade and other receivables		1,670,369	1,670,369	1,391,210	1,391,210	827,504	827,504
		19,404,340	19,404,340	15,963,318	15,963,318	10,801,399	10,801,399
Liabilities carried at fair value							
Class B limited partnership units		-	-	-	-	72,279,371	72,279,371
		-	-	-	-	72,279,371	72,279,371
Liabilities carried at amortized cost							
Trade and other payables		4,300,483	4,300,483	5,114,395	5,114,395	2,882,465	2,882,465
Loans and borrowings		26,946,719	26,946,719	25,304,521	25,304,521	23,250,076	23,250,076
Debentures payable		44,959,139	52,758,320	48,256,207	55,000,000	-	-
		76,206,341	84,005,522	78,675,123	85,418,916	26,132,541	26,132,541

25 Financial instruments (cont.)

The fair value of financial assets and liabilities classified as loans and receivables and other financial liabilities approximate their carrying value due to the short-term nature of these financial instruments.

Class B limited partnership units are measured at fair value. IFRS 7, *Financial Instruments: Disclosures*, requires classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of fair value hierarchy ("FVH") are:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;
Level 3 - Inputs that are not based on observable market data.

Class B limited partnership units $nil ($nil - 2010, $nil - January 1, 2010) are classified as level 2 within the hierarchy.

26 Subsequent events

Regular monthly dividends

The Corporation declared a regular monthly dividend of $0.0733 per common share for each of January 2012 and February 2012 payable on the 15th day of the subsequent months.

Debenture conversions

Debentures totaling a principal amount of $600,000 were converted to common shares in January 2012, resulting in the issue of 56,336 common shares. Debentures totaling a principal amount of $1,140,000 were converted to common shares in February 2012, resulting in the issue of 107,041 common shares.

27 Explanation of transition to IFRS

These financial statements are the first consolidated annual financial statements prepared by the Company under IFRS.

The accounting policies set out in note 3 have been applied in preparing the consolidated annual financial statements for the twelve months ended December 31, 2011, the comparative information presented in these consolidated annual financial statements for both the twelve months ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 which is the Company's date of transition.

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported in financial statements formerly prepared under previous GAAP. The differences reported and their effects are detailed in the following sections, which include a reconciliation of the Company's closing balance sheet at the end of 2009 under previous GAAP with its provisional opening balance sheet under IFRS on January 1, 2010. Reconciliations of total comprehensive income and equity from previous GAAP to IFRS for the year ended December 31, 2010 follow.

In addition to the changes required to adjust for the accounting policy differences described in the following notes, interest paid and income taxes paid have been moved into the body of the consolidated statement of cash flows as part of operating activities, whereas they were previously disclosed as supplementary information. There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under previous GAAP.

27 Explanation of transition to IFRS (cont.)

IFRS 1 *First-time Adoption of International Financial Reporting Standards* sets out the requirements that the Company must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Company is required to establish its IFRS accounting policies for the year ending December 31, 2011, and apply these retrospectively to determine the IFRS opening statement of financial position at the Company's date of transition of January 1, 2010. To assist companies in the transition process, the Standard permits a number of specified exemptions from the general principle of retrospective restatement. The Company has elected certain specified exemptions from the general principal of retrospective application as follows:

i. The Company has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the Company's date of transition to IFRS.

ii. The Company has elected to apply the transitional provisions of IAS 23 prospectively from the Company's date of transition to IFRS. This exemption applies to capitalized borrowing costs included in all qualifying assets measured at cost in the opening IFRS statement of financial position.

The remaining optional exemptions under IFRS 1 are not applicable to the Company. All other mandatory exceptions in IFRS 1 were not applicable because there were no significant differences in management's application of previous GAAP in these areas.

Estimates made under IFRS at January 1, 2010 are consistent with estimates made for the same date under previous GAAP.

27 Explanation of transition to IFRS (cont.)

Consolidated statement of financial position

	Appendix	Previous GAAP (recast)	Effect of transition to IFRS	IFRS	Previous GAAP (recast)	Effect of transition to IFRS	IFRS
		December 31, 2009		January 1, 2010	December 31, 2010		
Assets							
Cash		9,973,895	-	9,973,895	14,572,108	-	14,572,108
Restricted cash		67,700	-	67,700	37,984	-	37,984
Trade and other receivables		827,504	-	827,504	1,391,210	-	1,391,210
Inventories		305,488	-	305,488	499,348	-	499,348
Prepaid expenses		175,278	-	175,278	258,788	-	258,788
Total current assets		11,349,865	-	11,349,865	16,759,438	-	16,759,438
Property, plant and equipment	B	31,007,914	(735,704)	30,272,210	88,350,933	(699,912)	87,651,021
Intangible assets		42,579,216	-	42,579,216	76,890,798	-	76,890,798
Investment property	B	-	2,820,000	2,820,000	-	2,820,000	2,820,000
Deferred tax asset	A	1,382,951	-	1,382,951	1,382,951	-	1,382,951
Total non-current assets		74,970,081	2,084,296	77,054,377	166,624,682	2,120,088	168,744,770
Total assets		86,319,946	2,084,296	88,404,242	183,384,120	2,120,088	185,504,208
Liabilities							
Trade and other payables	C	2,198,254	684,211	2,882,465	4,430,183	684,212	5,114,395
Loans and borrowings		23,250,076	-	23,250,076	25,304,521	-	25,304,521
Distributions payable	C	1,547,184	(684,211)	862,973	1,547,184	(684,212)	862,972
Total current liabilities		26,995,514	-	26,995,514	31,281,888	-	31,281,888
Debentures payable		-	-	-	48,256,207	-	48,256,207
Deferred tax liabilities	A, B, D	2,476,587	260,537	2,737,124	7,154,967	265,011	7,419,978
Class B limited partnership units	C	-	72,279,371	72,279,371	-	-	-
Total non-current liabilities		2,476,587	72,539,908	75,016,495	55,411,174	265,011	55,676,185
Total liabilities		29,472,101	72,539,908	102,012,009	86,693,062	265,011	86,958,073
Minority Interest	C	25,977,980	(25,977,980)	-	-	-	-
		55,450,081	46,561,928	102,012,009	86,693,062	265,011	86,958,073
Equity							
Unitholders capital		36,918,348	-	36,918,348	-	-	-
Share capital	E	-	-	-	68,033,010	64,500,704	132,533,714
Contributed surplus		-	-	-	4,893,001	-	4,893,001
Deficit	F	(6,048,483)	(44,477,632)	(50,526,115)	15,705,966	(62,645,627)	(46,939,661)
Equity attributable to the Company		30,869,865	(44,477,632)	(13,607,767)	88,631,977	1,855,077	90,487,054
Non-controlling interest		-	-	-	8,059,081	-	8,059,081
Total equity		30,869,865	(44,477,632)	(13,607,767)	96,691,058	1,855,077	98,546,135
Total liabilities and equity		86,319,946	2,084,296	88,404,242	183,384,120	2,120,088	185,504,208

27 Explanation of transition to IFRS (cont.)

Consolidated statement of profit (loss) and comprehensive income (loss)

	Appendix	Previous GAAP (recast)	Presentation adjustments	Effect of transition to IFRSs	IFRS
		twelve months ended December 31, 2010			
Revenue		63,673,477	(63,673,477)	-	-
Operating revenue	B, G	-	62,758,584	(308,975)	62,449,609
Cost of sales	G	-	(33,857,800)	104,388	(33,753,412)
Operating expenses		(39,598,401)	39,598,401	-	-
Gross profit		24,075,076	4,825,708	(204,587)	28,696,197
Other income	B	-	-	240,383	240,383
Interest charges		(4,371,179)	4,371,179	-	-
Administrative expenses		-	(4,882,248)	-	(4,882,248)
Profit from operating activities		19,703,897	4,314,639	35,796	24,054,332
Gain on revaluation of assets		27,083,015	-	-	27,083,015
Finance income		-	56,540	-	56,540
Finance costs	C	-	(4,371,179)	(8,210,538)	(12,581,717)
Fair value changes to Class B limited partnership units	C	-	-	(23,336,000)	(23,336,000)
Profit (loss) and comprehensive income (loss) before income tax		46,786,912	-	(31,510,742)	15,276,170
Income tax expense	A, D	(559,798)	-	(4,474)	(564,272)
Profit (loss) and comprehensive income (loss) for the period		46,227,114	-	(31,515,216)	14,711,898

27 Explanation of transition to IFRS (cont.)

Consolidated statement of changes in equity

	Appendix	Unitholder capital	Share capital	Contributed surplus	Deficit	Total	Non-controlling interest	Total equity
Equity reported under previous GAAP - December 31, 2009		36,918,348	-	-	(6,048,483)	30,869,865	-	30,869,865
Investment property	B	-	-	-	2,084,296	2,084,296	-	2,084,296
Class B limited partnership units	C	-	-	-	(41,164,704)	(41,164,704)	-	(41,164,704)
Minority interest	C	-	-	-	(5,136,687)	(5,136,687)	-	(5,136,687)
Deferred taxes	D	-	-	-	(260,537)	(260,537)	-	(260,537)
Equity reported under IFRS - January 1, 2010		36,918,348	-	-	(50,526,115)	(13,607,767)	-	(13,607,767)

		Unitholder capital	Share capital	Contributed surplus	Deficit	Total	Non-controlling interest	Total equity
Equity reported under previous GAAP - December 31, 2010		-	68,033,010	4,893,001	15,705,966	88,631,977	8,059,081	96,691,058
Adjustments:								
Investment property	B	-	-	-	2,120,088	2,120,088	-	2,120,088
Class B limited partnership units	C, E	-	64,500,704	-	(64,500,704)	-	-	-
Deferred taxes	D	-	-	-	(265,011)	(265,011)	-	(265,011)
Equity reported under IFRS - December 31, 2010		-	132,533,714	4,893,001	(46,939,661)	90,487,054	8,059,081	98,546,135

27 Explanation of transition to IFRS (cont.)

Appendix to Note 27

A Recast figures

During the year-ended December 31, 2011, the Company identified an immaterial error related to the recognition and measurement of deferred income tax. Historically, the Company did not account for the tax effect on the temporary difference arising on goodwill deductible for tax purposes. Additionally, the Company did not consider the reduced tax rate applied to capital gain amounts. Nor did the Company account for the tax benefits of certain non-capital losses from a subsidiary. As a result, deferred income tax expense was understated for the year ended December 31, 2010 by $0.8 million and overstated for the year ended December 31, 2009 by $0.4 million.

The December 31, 2010 and January 1, 2010 comparative financial information contained within these consolidated financial statements has been adjusted to reflect the correction of this immaterial error. The adjustment results in changes from the originally filed financial statements as follows: an increase in deferred tax assets of $1.4 million in each of the years ended December 31, 2010 and December 31, 2009 and an offsetting increase in the deferred tax liabilities of $1.7 million and $1.0 million for the years ended December 31, 2010 and December 31, 2009 respectively. Corresponding net adjustments were made to equity for each of the years ended December 31, 2010 and December 31, 2009 . The adjustment has no impact on profit from operating activities, profit (loss) before taxes or cash flows from operating, investing or financing activities.

B Investment Property (Note 17)

Consistent with the Company's accounting policy, investment property has been recognized at fair value at the date of transition, under previous GAAP, the investment property was included in property, plant and equipment at cost. With the change to fair value, income earned by the property is reclassified from operating revenue to other income, and accumulated depreciation is reversed.

The impact arising from the change is summarized as follows:

	January 1, 2010	December 31, 2010
Consolidated statement of comprehensive income		
Operating revenue	-	(240,383)
Other income	-	240,383
	-	-
Consolidated statement of financial position		
Investment property		
Reclassification and fair value	2,820,000	2,820,000
Reduction in NBV of property, plant and equipment	(735,704)	(699,912)
	2,084,296	2,120,088
Related tax effect	(260,537)	(265,011)
Decrease in deficit	1,823,759	1,855,077

C Class B limited partnership units

Under previous GAAP, Class B limited partnership units were treated as a minority interest. In compliance with IFRS, the Class B limited partnership units are now considered to be long term liabilities. Furthermore, distributions to Class B limited partnership units are now considered to be interest expense. Distributions payable related to the Class B limited partnership units have been reclassified to trade and other payables. Consistent with the financial instruments classification as FVTPL, Class B limited partnership units were adjusted to fair value determined by the trading price of the Company's then Fund units. On December 31, 2010, the Class B limited partnership units were converted to common shares and reclassified to share capital.

27 Explanation of transition to IFRS (cont.)

The impact arising from the change is summarized as follows:

	January 1, 2010	December 31, 2010
Consolidated statement of comprehensive income		
Increase in fair value of Class B limited partnership units	-	23,336,000
Distributions to Class B limited partnership unitholders now interest expense	-	8,210,538
Decrease in profit	-	31,546,538
Consolidated statement of financial position		
Equity adjustments resulting from minority interest	(5,136,687)	-
Fair value changes in Class B limited partnership units	(41,164,704)	(64,500,704)
Increase in deficit	(46,301,391)	(64,500,704)

D Deferred income tax

Recognition of the investment property at fair value gives rise to deferred tax at a 25% income tax rate. The impact arising from the change is summarized as follows:

		January 1, 2010	December 31, 2010
Consolidated statement of comprehensive income			
Increase in deferred tax liability		-	(4,474)
Decrease in profit		-	(4,474)
Consolidated statement of financial position			
Investment property	B	(260,537)	(265,011)
Increase in deficit		(260,537)	(265,011)

E Share capital

The following changes decreased (increased) share capital as follows:

	January 1, 2010	December 31, 2010
Consolidated statement of financial position		
Class B limited partnership units, fair value adjustments	-	64,500,704
Increase in share capital	-	64,500,704

27 Explanation of transition to IFRS (cont.)

F Deficit

The following changes decreased (increased) the deficit to the company as follows:

		January 1, 2010	December 31, 2010
Investment property, net adjustment to fair value	B	1,823,759	1,855,077
Class B limited partnership units, fair value adjustments	C, E	(41,164,704)	(64,500,704)
Equity adjustments resulting from minority interest	C	(5,136,687)	-
Increase in deficit		(44,477,632)	(62,645,627)

G Functional presentation

Certain items in the condensed consolidated statement of comprehensive income such as interest, administration and amortization have been reclassified to conform with functional presentation required by IFRS.

Management Discussion and Analysis
for the twelve months ended December 31, 2011

To Our Shareholders

Management and Directors of Gamehost Inc. (“Gamehost”, the “Company”, the “Corporation”, "Our") are pleased to present annual results for the twelve months ended December 31, 2011 (the “Period”) and three months ended December 31, 2011 (the "Quarter").

Anyone hear a gun?

It's been a while since we've been able to say "another record Quarter", but we can say it again for Q4 2011, our biggest quarter ever! Total operating revenues for the Quarter grew by 6.4% to $19.0 million from $17.8 in the same quarter of 2010. Earnings before interest, taxes, depreciation and amortization (“EBITDA”) that is attributable to owners of the Company ("EBITDA to Owners") grew $0.6 million or 8.4% to $8.1 million for the Quarter compared to $7.4 million for the same quarter in 2010. EBITDA to Owners margin climbed by 0.8 percentage points to 42.6% from 41.8% in the Quarter compared to one year earlier. For the Period in year over year comparisons, revenue is up 15.3% to $72.0 million from $62.5 million, EBITDA to Owners is up 13.0% to $30.6 million from $27.1 million while EBITDA to Owners margins are down 1.1 percentage points to 42.3% from 43.4%. The year over year reduction in Period EBITDA to Owners margin percentage can be attributed to the May 2010 acquisition of an additional 51% interest in the Deerfoot Inn & Casino which has higher operating costs than do the Company's other properties. We're hoping this is the sound of the starting gun for a quick out of the blocks sprint through 2012.

Just what the doctor ordered

There's still a lot of ill health affecting the world's economies. Clear treatment plans for the European Union sovereign and financial credit markets have not yet emerged. A drug resistant bacteria continues to malady the United States economy, and unrest from the 'Arab spring' is affecting good circulation in middle eastern economies. Just a few of the names on the 'critical' list. Here in Alberta, there is significant optimism that things may be on the mend. So, forget about your winter holiday trip south. A trip west to Alberta might just be your best medicine.

Zero dilution

During the year $5.2 million of the Company's debentures were presented for conversion to 490879 common shares. Offsetting this increase to dividend paying shares, the Company repurchased for cancellation 495140 shares at an average price of $11.00 per share resulting in zero dilution of the Company's per share earnings. We will endeavor to continue a program of share repurchase equal to the rate of debenture conversions in the coming year.

We've got it too, tax pain

The Corporation, will make its first ever tax installments beginning January 2013. 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 one year deferral of current year taxes will be closed at the end of 2012. The accretive cash flow from the 2010 acquisition of a further 51% interest in Deerfoot Inn & Casino will ensure tax obligations can be met while maintaining the Company's $0.0733 per share regular monthly dividend rate.

Home fires

Management continued a program of facility refurbishment over the year, completing a number of projects in Grande Prairie and Calgary in order to maintain the high level of appearance and quality we know our customers appreciate.

Scheduled principal reductions on the Company's traditional debt together with debenture conversions continue to improve on already envious debt levels. The Company's total debt to EBITDA ratio sits at 2.4:1 at December 31, 2011.

During the year, and indeed since the onset of the 'Great Recession', management has worked diligently to keep costs in check. Repeatedly, over the course of this troubled period we made mention of the benefits of having to examine areas of cost that we had assumed were as efficient as they could be. Learning otherwise, we have made some permanent changes to our cost structure. Elimination of some administrative positions and offering and promoting fewer but higher quality live entertainment events to name a few examples.

At the date of writing, Gamehost shares are trading in a flat to moderately higher trend, at or near 52 week highs, which represents a 13.8% increase from the start of the 2011. We are optimistic that 2012 will continue to witness increased per capita spending by our customers and higher foot traffic through our doors. As it does, the home fires should burn brighter than ever before. We look forward again to days when we can report that we are truly 'on fire'!

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

March 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 twelve months ended December 31, 2011

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 February 29, 2012. This MD&A should be read in conjunction with the audited consolidated financial statements of Gamehost Inc. and accompanying notes for the twelve months ended December 31, 2011 (the "Period") and with the audited consolidated financial statements of Gamehost Inc. and accompanying notes for the year ended December 31, 2010.

This MD&A focuses on year over year comparative results for the three months ended December 31, 2011 (the "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") and EBITDA attributable to owners of the Company ("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.

Comparative results

Financial results are reported under IFRS. The transition to IFRS has had a significant impact on comparative earnings specifically as the new reporting standard relates to the recording of Class B limited partnership units. These units were 'puttable' to Fund Units prior to the Company's conversion to a corporation from the former income trust. Due to their puttable nature, IFRS requires that these units be treated as debt rather than their former minority interest and fair valued at each reporting period. Furthermore, cash distributions made to the Class B limited partnership units are considered interest payments and must be charged against income rather than the former treatment as an adjustment to equity under previous generally accepted accounting principles ("GAAP").

Comparative results are further impacted by the conversion from an income trust being the former Gamehost Income Fund (the "Fund") to an incorporated company (the "Conversion"). Components of equity and share capital are presented differently in the current period to reflect the Conversion.

Comparative results are also impacted by the acquisition of an additional 51% ownership of the Deerfoot (the "Acquisition"). The financial results include 100% of the Deerfoot assets, liabilities, revenues and expenses from the point the Company acquired controlling interest effective May 1, 2010. Resulting net income is reported proportionately to the shareholders and non-controlling interest.

As part of the transition to IFRS, the Company adopted the 'Function' format for presentation of its operating results. Under previous GAAP, presentation of results of operations allowed a hybrid of both the Function and Nature forms of presentation. Certain comparable items have been reclassified to conform to the new presentation format.

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 and disclosure controls and procedures include 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 or disclosure controls and procedures that occurred during the Quarter that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting. The effectiveness of Internal control over financial reporting has been evaluated and management has concluded that the Company's Internal control over financial reporting is effective. There is no “material weakness” relating to the design of the Fund's Internal control over financial reporting (a “material weakness” is defined as a deficiency or combination of deficiencies in Internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the reporting issuer's annual or interim financial statements will not be prevented or detected on a timely basis.

The effectiveness of disclosure controls and procedures has been evaluated. Management has concluded that the Company's disclosure controls and procedures are operating effectively.

Organizational structure

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

Shares

The Corporation had 21,103,292 Shares issued and outstanding at December 31, 2011 and 21,259,369 Shares issued and outstanding at February 29, 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 $49,772,000 face value debentures outstanding at December 31, 2011 and $48,032,000 face value debentures outstanding at February 29, 2012 which trade on the TSX under the symbol GH.DB.

Restructuring

On January 1, 2011, following the completion of the Conversion on December 31, 2010, Gamehost Trust (the 'Trust'), a subsidiary of Gamehost Income Fund, was wound up and dissolved such that all of its assets were transferred to, and all of its liabilities were assumed by, the Fund. Immediately following the dissolution of the Trust, the Fund was wound up and dissolved such that all of its assets were transferred to, and all of its liabilities were assumed by, the Company.

A number of amalgamations of subsidiaries of the Company were completed during the year 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.

Overall financial results and condition of Gamehost

Comparative financial results for the Period are significantly improved by the May 1, 2010 Acquisition of an additional 51% of the Deerfoot. Financial results for the Quarter include a $1.2 million or 6.4% increase in operating revenue compared to Q4 2010, a $0.6 million or 8.4% increase in EBITDA to Owners compared to Q4 2010 and a 0.8 percentage point increase in EBITDA to Owners margin to 42.6% as compared to in 41.8% in Q4 2010.

At the end of the Quarter, Gamehost had $184.3 million in total assets up $0.2 million from the start of the year. Cash balances of $17.7 million were up $3.2 million from the start of 2011. Drawings on the Company operating lines and principal reductions during the Period resulted in a net drawing of $1.6 million bringing the total demand loan balance to $26.9 million from $25.3 at the start of the year.

Quarterly performance summary

Quarterly performance	2011				2010			
	Q4 *	Q3 *	Q2	Q1	Q4	Q3	Q2	Q1
Operating Revenue	**18,958**	17,612	18,618	16,801	17,821	17,284	15,911	11,433
Cost of sales	**(10,455)**	(9,794)	(9,951)	(9,588)	(10,039)	(9,194)	(8,665)	(5,856)
Gross Profit	**8,503**	7,818	8,667	7,213	7,782	8,090	7,246	5,577
Other income	**68**	61	61	50	59	61	64	56
Administrative expenses	**(1,433)**	(1,289)	(1,434)	(1,467)	(1,495)	(1,451)	(1,328)	(608)
Profit from operating activities	**7,138**	6,590	7,294	5,796	6,346	6,700	5,982	5,025
Other gains	**2**	-	-	-	-	-	27,083	-
Finance income	**22**	21	20	19	20	11	23	2
Finance costs	**(1,239)**	(1,520)	(1,407)	(1,421)	(1,474)	(1,454)	(1,222)	(220)
Net change in fair value of Class B limited partnership units	**-**	-	-	-	(9,241)	(7,374)	(1,213)	(5,507)
Distributions to Class B limited partnership units	**-**	-	-	-	(2,053)	(2,053)	(2,053)	(2,053)
Net finance costs	**(1,217)**	(1,499)	(1,387)	(1,402)	(12,748)	(10,870)	(4,465)	(7,778)
Profit (loss) before income tax	**5,923**	5,091	5,907	4,394	(6,402)	(4,170)	28,600	(2,753)
Income tax (expense) recovery	**(2,985)**	(1,213)	(1,396)	293	(851)	(285)	540	32
Profit (loss)	**2,938**	3,878	4,511	4,687	(7,253)	(4,455)	29,140	(2,721)
Less Non-controlling interests	**(319)**	(271)	(329)	(235)	(280)	(306)	(184)	-
Profit (loss) attributable to owners of the Company	**2,619**	3,607	4,182	4,452	(7,533)	(4,761)	28,956	(2,721)
(in thousands of dollars unless stated otherwise)								
EBITDA to Owners	**8,070**	7,831	8,560	7,798	7,443	8,050	6,548	5,979
EBITDA to Owners %	**42.6%**	44.3%	45.8%	46.4%	41.8%	46.4%	41.0%	52.3%
Income (loss)/unit- basic and diluted	**0.123**	0.170	0.198	0.211	(0.357)	(0.199)	1.349	(0.132)

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 and table games. The hotel operations include two hotels catering to the casino players and mid range clients. The food and beverage operations are included within the casinos as a further compliment to our gaming operation. The hotels also contain a food and beverage component.

twelve months ended December 31, 2011	Gaming	Hotel	Food & Beverage	Corporate, other (1)	Total
Revenues	41,733	12,524	17,732	-	71,989
Other gains	-	-	-	2	2
Finance costs, net of finance income	2,744	2,502	340	(82)	5,504
Depreciation	1,132	873	357	2,658	5,020
Other expenses net of other income	19,312	6,293	12,705	1,841	40,151
Profit before income tax	18,545	2,856	4,330	(4,415)	21,316
Segment assets	120,268	46,203	13,223	4,655	184,349
Segment liabilities	42,525	18,705	13,155	16,089	90,474
Capital expenditures	126	81	33	74	314

twelve months ended December 31, 2010	Gaming	Hotel	Food & Beverage	Corporate, other (1)	Total
Revenues	37,470	9,367	15,613	-	62,450
Other gains	-	-	-	27,083	27,083
Finance costs, net of finance income	1,430	1,304	177	32,950	35,861
Depreciation	894	640	195	1,946	3,675
Other expenses net of other income	17,339	4,707	11,188	1,487	34,721
Profit before income tax	17,807	2,716	4,053	(9,300)	15,276
Segment assets	121,308	46,687	13,153	4,356	185,504
Segment liabilities	41,324	18,177	12,784	15,045	87,330
Capital expenditures	23,822	14,293	9,528	1	47,644

[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 thousands 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	Q4 (twelve months)			Q4 (three months)		
	2011	2010	+(-)	**2011**	2010	+(-)
Operating revenue	**71,989**	62,450	15.3%	**18,957**	17,821	6.4%

(in thousands of dollars unless stated otherwise)

Only Quarter over quarter results reflect comparable post-Acquisition 91% ownership in Deerfoot. The Acquisition of an additional 51% ownership interest was effective May 1, 2010.

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 mild weather boosted results.

All operating properties of the company performed well during the Quarter producing year over year revenue increases of 1.2% for Boomtown, 9.2% for Service Plus, 12.9% for Great Northern and 6.4% for Deerfoot indicating that each of the three distinct 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	Q4 (twelve months)			Q4 (three months)		
	2011	**2010**	**+(-)**	**2011**	2010	+(-)
Rooming	**12,064**	10,120	19.2%	**2,979**	2,790	6.8%
Occupancy	**68.6%**	67.9%	0.7%	**68.2%**	64.6%	3.6%
ADR	**$151.84**	$147.11	3.2%	**$150.21**	$147.77	1.7%

(in thousands of dollars unless stated otherwise)

Only Quarter over quarter results reflect comparable post-Acquisition 91% ownership in Deerfoot. The Acquisition of an additional 51% ownership interest was effective May 1, 2010.

At Service Plus, in year over year comparisons for the Quarter, revenues rose 9.1% from improved occupancy and ADR. Occupancy rose 5.4 percentage points to 77.2% from 71.8% while the ADR over the same comparative period climbed by $1.30.

At Deerfoot, in year over year comparisons for the Quarter, revenues rose 5.4% from improved occupancy and ADR. Occupancy rose 2.2 percentage points to 70.5% from 68.2% while the ADR over the same comparative period climbed by $3.75. 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 above 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	**Q4 (twelve months)**			**Q4 (three months)**		
	2011	**2010**	+(-)	**2011**	**2010**	+(-)
General and High Limit	**8,473**	7,828	8.2%	**2,264**	2,142	5.7%
Poker	**1,948**	1,722	13.1%	**496**	450	10.2%
Progressive Table Games	**79**	55	43.6%	**33**	10	230.0%
Total	**10,500**	9,605	9.3%	**2,793**	2,602	7.3%

(in thousands of dollars unless stated otherwise)

# of tables	**End of Period**		
	2011	**2010**	+(-)
All Others	**49**	50	(1)
Poker	**16**	16	0
Progressive Table Games	**2**	1	1
Total	**67**	67	0

Drop and Hold	**Q4 (twelve months)**			**Q4 (three months)**		
	2011	2010	+(-)	**2011**	2010	+(-)
Drop	**86,444**	90,531	(4.5%)	**22,421**	21,882	2.5%
Hold %	**17.5%**	17.7%	(0.2%)	**17.3%**	17.8%	(0.5%)

(in thousands of dollars unless stated otherwise)

Only Quarter over quarter results reflect comparable post-Acquisition 91% ownership in Deerfoot. The Acquisition of an additional 51% ownership interest was effective May 1, 2010.

At Boomtown, the current Quarter saw a 17.1% increase in Drop and a 0.8 percentage point increase in Hold % resulting in a 21.9% increase in Net revenue. Poker results which are much less significant in terms of overall table revenues were 4.8% higher in year over year comparisons for the Quarter.

At Great Northern, the current Quarter saw a 17.7% increase in Drop offset by a 1.0 percentage point decrease in Hold % resulting in a 11.4% increase in Net revenue. Poker results which are much less significant in terms of overall table revenues were 7.8% higher in year over year comparisons for the Quarter.

At Deerfoot, the current Quarter saw a 4.8% decrease in Drop and a 0.8 percentage point decrease in Hold % resulting in a 9.4% decrease in Net revenue. Deerfoot has had a difficult year in table results. Poker results which are much less significant in terms of overall table revenues were up 13.1 % 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	**Q4 (twelve months)**			**Q4 (three months)**		
	2011	2010	+(-)	**2011**	2010	+(-)
Cash Play	**2,257**	2,004	12.6%	**574**	535	7.3%
Machines [1]	**1,605**	1,605	-	**1,605**	1,605	-

(in millions of dollars unless stated otherwise)

[1] At the end of the Period / Quarter

Slot revenue	**Q4 (twelve months)**			**Q4 (three months)**		
	2011	2010	+(-)	**2011**	2010	+(-)
Net	**25,660**	22,729	12.9%	**6,489**	6,049	7.3%

(in thousands of dollars unless stated otherwise)

Only Quarter over quarter results reflect comparable post-Acquisition 91% ownership in Deerfoot. The Acquisition of an additional 51% ownership interest was effective May 1, 2010.

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

Boomtown, for the Quarter versus the comparable quarter one year earlier, saw a 4.1% increase in Cash Play resulting in a 0.6% increase in Net revenue. Machine Win/Day climbed $6.59 to $394.06 on 419 machines when compared to the same number of machines in Q4 2010.

Great Northern, for the Quarter versus the comparable quarter one year earlier, saw a 12.5% increase in Cash Play resulting in a 14.7% increase in Net revenue. Machine Win/Day climbed $38.70 to $281.52 on 419 machines when compared to the same number of machines in Q4 2010.

Deerfoot, for the Quarter versus the comparable quarter one year earlier, saw a 7.6% increase in Cash Play resulting in a 9.1% increase in Net revenue. Machine Win/Day climbed $21.52 to $257.59 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	Q4 (twelve months)			Q4 (three months)		
	2011	2010	+(-)	**2011**	2010	+(-)
Food & mix	**7,271**	5,505	32.1%	**2,123**	1,946	9.1%
Liquor	**10,392**	9,246	12.4%	**2,919**	2,813	3.8%
Total	**17,663**	14,751	19.7%	**5,042**	4,759	5.9%

(in thousands of dollars unless stated otherwise)

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F&B sales continue to climb on increased volume. Product sales pricing was held flat to the previous year. Experience has shown this category of consumer spending tends to lead growth in other areas of our business. Consumers first show increased confidence in spending at this level before beginning to increase spending on gaming entertainment and travel.

Boomtown saw F&B sales increase 1.3% during the Quarter from one year earlier. Beverage sales were up marginally by 0.5%. Food sales increased 16.1% over the same comparable period, though being commission based contribute less to the combined increase.

Great Northern saw F&B sales increase 9.9% during the Quarter from one year earlier. Beverage sales were up strongly by 8.7%. Food sales increased 13.0% over the same comparable period. Food sales are 3rd party operated and commission based at Great Northern.

Deerfoot reported a F&B sales increase of 6.7% during the Quarter from one year earlier. Beverage sales were up by 3.3% while food sales increased 9.0% over the same comparable period. Food sales are owned and operated by the Company at the Deerfoot and therefore contribute substantially to revenue.

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	Q4 (twelve months)			Q4 (three months)		
	2011	2010	+(-)	**2011**	2010	+(-)
Total	**6,103**	5,244	16.4%	**1,654**	1,621	2.0%

(in thousands of dollars unless stated otherwise)

Only Quarter over quarter results reflect comparable post-Acquisition 91% ownership in Deerfoot. The Acquisition of an additional 51% ownership interest was effective May 1, 2010.

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	Q4 (twelve months)			Q4 (three months)		
	2011	2010	+(-)	**2011**	2010	+(-)
Total	**39,788**	33,753	17.9%	**10,455**	10,039	4.1%
% of revenues	**55.3%**	54.0%	1.3%	**55.1%**	56.3%	(1.2%)

(in thousands of dollars unless stated otherwise)

Only Quarter over quarter results reflect comparable post-Acquisition 91% ownership in Deerfoot. The Acquisition of an additional 51% ownership interest was effective May 1, 2010.

Management has been successful in maintaining tight cost control at all properties during the Quarter. Improved revenues and economies of scale are reducing overall cost of sales as a percentage of total revenue.

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	Q4 (twelve months)			Q4 (three months)		
	2011	2010	+(-)	**2011**	**2010**	+(-)
Food & Mix	**2,513**	1,882	33.5%	**695**	623	11.6%
Liquor	**2,121**	1,875	13.1%	**587**	560	4.8%
Other	**239**	202	18.3%	**69**	66	4.5%
Total	**4,873**	3,959	23.1%	**1,351**	1,249	8.2%

(in thousands of dollars unless stated otherwise)

Cost of product %	Q4 (twelve months)			Q4 (three months)		
	2011	2010	+(-)	**2011**	**2010**	+(-)
Food & Mix	**34.6%**	34.2%	0.4%	**32.7%**	32.0%	0.7%
Liquor	**20.4%**	20.3%	0.1%	**20.1%**	19.9%	0.2%
Other	**44.8%**	46.2%	(1.4%)	**48.4%**	40.4%	8.0%

Only Quarter over quarter results reflect comparable post-Acquisition 91% ownership in Deerfoot. The Acquisition of an additional 51% ownership interest was effective May 1, 2010.

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 Boomtown experienced some inflationary pressure which contributed to slightly lower overall margins for the Quarter compared to the year earlier. Liquor costs at Great Northern were on par with the previous year. Both properties experienced a moderate shift to lower margin producing beverages.

Rising food costs at Deerfoot cut into overall food margins and a moderate shift to lower margin beverage products also weighed on overall product margins both for the Quarter and Period in year over year comparison.

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	Q4 (twelve months)			Q4 (three months)		
	2011	2010	+(-)	**2011**	2010	+(-)
Operating labour	**18,681**	15,913	17.4%	**4,828**	4,765	1.3%
% of revenues	**25.9%**	25.5%	0.4%	**25.5%**	26.7%	(1.2%)

(in thousands of dollars unless stated otherwise)

Only Quarter over quarter results reflect comparable post-Acquisition 91% ownership in Deerfoot. The Acquisition of an additional 51% ownership interest was effective May 1, 2010.

Operating labour costs as a percentage of revenue improved in the Quarter compared to Q4 2010. Improving revenue and economies of scale explain the improvement. In year over year comparison for the Period, poor Hold % on tables early in the year are to blame for a higher ratio on the year.

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	Q4 (twelve months)			Q4 (three months)		
	2011	2010	+(-)	**2011**	2010	+(-)
Total	**3,037**	2,726	11.4%	**716**	788	(9.1%)
% of revenues	**4.2%**	4.4%	(0.2%)	**3.8%**	4.4%	(0.6%)

(in thousands of dollars unless stated otherwise)

Only Quarter over quarter results reflect comparable post-Acquisition 91% ownership in Deerfoot. The Acquisition of an additional 51% ownership interest was effective May 1, 2010.

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	Q4 (twelve months)			Q4 (three months)		
	2011	2010	+(-)	**2011**	2010	+(-)
Total	**13,196**	11,156	18.3%	**3,559**	3,236	10.0%
% of revenues	**18.3%**	17.9%	0.4%	**18.8%**	18.2%	0.6%

(in thousands of dollars unless stated otherwise)

Only Quarter over quarter results reflect comparable post-Acquisition 91% ownership in Deerfoot. The Acquisition of an additional 51% ownership interest was effective May 1, 2010.

Refurbishment costs at facilities in Grande Prairie and Calgary together with increased entertainer expenses, property tax, electricity and general operating supplies at Deerfoot pushed up operating expenses as a percentage of revenue in the Quarter versus one year ago.

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	Q4 (twelve months)			Q4 (three months)		
	2011	2010	+(-)	**2011**	2010	+(-)
Total	**240**	240	0.0%	**68**	59	15.3%

(in thousands of dollars unless stated otherwise)

The Strip Mall is fully leased. A lease with a term expiring in December 2013 has been renewed. The second lease term expires in January 2015 and also has renewal options. Higher revenue for the Quarter compared to the year earlier is a result of higher recovered common area costs to the tenants.

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	Q4 (twelve months)			Q4 (three months)		
	2011	2010	+(-)	**2011**	2010	+(-)
Total	**5,623**	4,882	15.2%	**1,433**	1,495	(4.1%)

(in thousands of dollars unless stated otherwise)

The decrease in costs comparing the Quarter to the prior year reflect costs associated with the Acquisition and Conversion completed in 2010.

Net finance costs

Interest expense is recorded on the Company's demand debt, accrued interest on convertible debentures and amortization of the conversion privilege and issue costs of debentures.

Net finance costs	Q4 (twelve months)			Q4 (three months)		
	2011	2010	+(-)	**2011**	2010	+(-)
Total	**5,504**	35,861	(84.7%)	**1,217**	12,747	(90.5%)

(in thousands of dollars unless stated otherwise)

The conversion of Class B limited partnership units to common shares at December 31, 2010 eliminated further interest expense and adjustments to the fair value of Class B limited partnership units associated with these financial instruments into the current year.

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, timing differences on amortization of cumulative eligible capital and that allowed for tax purposes and non-capital losses resulting from amalgamation of certain subsidiaries. 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)	Q4 (twelve months)			Q4 (three months)		
	2011	2010	+(-)	**2011**	2010	+(-)
Provision for current income tax (deferred)	**4,665**	-	n/a	**1,051**	-	n/a
Taxes arising from changes in timing differences	**636**	564	12.8%	**1,934**	850	127.5%
Tax benefits of non-capital losses	**-**	-	n/a	**-**	-	n/a
	5,301	564	839.9%	**2,985**	851	250.8%

(in thousands of dollars unless stated otherwise)

The combined federal and provincial tax rate in Alberta for 2011 is 26.5%. The Corporation, however, will benefit from a one year tax deferral on current year income taxes. Accordingly, provision for current income taxes were calculated using the expected tax rate for 2012 of 25%.

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.

Reconciliation of EBITDA to Owners to net earnings

EBITDA to Owners to net earnings	Q4 (twelve months)			Q4 (three months)		
	2011	2010	+(-)	**2011**	2010	+(-)
EBITDA to Owners	**30,590**	27,079	13.0%	**8,070**	7,443	8.4%
EBITDA to Owners %	**42.3%**	43.4%	(1.1%)	**42.6%**	41.8%	0.8%
Add back:						
Amortization on property, plant and equipment	**(5,020)**	(3,675)	36.6%	**(1,274)**	(1,334)	(4.5%)
Gain on revaluation of assets	**2**	27,083	(100.0%)	**2**	-	n/a
Finance costs	**(5,587)**	(12,582)	(55.6%)	**(1,239)**	(3,527)	(64.9%)
Fair value changes to Class B limited partnership units	**-**	(23,336)	(100.0%)	**-**	(9,241)	(100.0%)
Income tax expense	**(5,301)**	(564)	839.9%	**(2,985)**	(851)	250.8%
EBITDA attributable to non-controlling interest	**1,331**	707	88.3%	**364**	257	41.6%
Total profit (loss)	**16,015**	14,712	8.9%	**2,938**	(7,253)	(140.5%)

(in thousands of dollars unless stated otherwise)

Facilities

Capital expenditures	Q4 (twelve months)			Q4 (three months)		
	2011	2010	+(-)	**2011**	2010	+(-)
Capital maintenance	**314**	248	26.6%	**72**	113	(36.3%)
Capital expansion	**-**	47,396	n/a	**-**	-	n/a
	314	47,644	(99.3%)	**72**	113	(36.3%)

(in thousands of dollars unless stated otherwise)

Financial condition

Liquidity

Cash provided by operating activities for the Quarter totaled $8.4 million compared to $7.7 million for Q4 2010. At the end of the Quarter cash balances totaled $17.7 million compared to $14.6 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 operations and other sources or uses of cash.

Gamehost has revolving credit lines totaling $6.0 million of which $2.0 million was available to be drawn at December 31, 2011. Available revolving credit is $3.0 million at February 29, 2012.

Gamehost's cash and cash equivalent 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, 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 dividends under the annual dividend policy and require 32% more cash than 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 originally stipulated that Gamehost Management Inc. was entitled to 2.0% of operational earnings before interest, taxes, depreciation and amortization of Gamehost. Amendments to this agreement were finalized during the Period. Effective May 1, 2010, the fee was reduced to 1.5% of EBITDA. The amendment has been included in financial results.

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 EBITDA of the 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	**1,390**	1,139	1,110	1,059	1,058	3,988

(in thousands 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 1,611 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		
at December 31, 2011		**108,356**	**19,400**	**311**	**523**	**1,611**	**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.

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.

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 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 become payable in 2013. Payment of these income taxes, including a large balloon payment for the deferred 2011 and 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

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

* 2010 distribution summary				
Month	**Date declared**	**Record date**	**Payment date**	**Distribution per Unit**
January	01/20/2010	01/31/2010	02/19/2010	0.0733
February	02/25/2010	02/28/2010	03/26/2010	0.0733
March	03/23/2010	03/31/2010	04/23/2010	0.0733
April	04/19/2010	04/30/2010	05/14/2010	0.0733
May	05/21/2010	06/02/2010	06/15/2010	0.0733
June	06/14/2010	06/30/2010	07/15/2010	0.0733
July	07/20/2010	07/31/2010	08/13/2010	0.0733
August	08/12/2010	08/31/2010	09/15/2010	0.0733
September	09/16/2010	09/30/2010	10/15/2010	0.0733
October	10/14/2010	10/31/2010	11/15/2010	0.0733
November	11/19/2010	11/30/2010	12/15/2010	0.0733
December	12/17/2010	12/31/2010	01/17/2011	0.0733
Total				0.8796

* In 2010 distributions were from Gamehost Income Fund and considered income distributions.

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.

Period ended	**Q4 (twelve months)**	
	2011	2010
Current tax expense (recovery):	4,665	-
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	636	564
	5,301	564
Profit for tax purposes	18,661	-
Company's domestic tax rate	26.5%	28.0%
Expected income tax expense at domestic tax rate	4,945	-
Origination and reversal of temporary differences	636	564
Changes in expected income tax resulting from:		
Tax deferrals resulting in a lower tax rate	(280)	-
	5,301	564

(in thousands of dollars unless stated otherwise)

On October 3, 2011, Canada's Minister of Finance tabled a detailed Notice of Ways and Motion which included measures to limit tax deferral opportunities for corporations with interests in partnerships. The Draft Legislation is 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 received Royal Assent on June 26, 2011 and eliminates a one year perpetual tax deferral for Gamehost at the end of 2012.

Capital resources

Gamehost

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 $4.0 million is drawn at December 31, 2011.

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.

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	**Maturity**	**December 31, 2011**	**December 31, 2010**
Face value			
Demand loan		11,274	12,598
Revolving credit lines		6,000	6,000
Deerfoot - demand loan		11,672	12,706
Debentures face value		49,772	55,000
		78,718	86,304
Carrying value			
Current liabilities			
Demand loan	2020	11,274	12,598
Revolving credit lines		4,000	-
Deerfoot - demand loan	2025	11,673	12,707
		26,947	25,305
Non-current liabilities			
[1] Debentures payable	2015	44,959	48,256
		71,906	73,561
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 thousands 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 9.4%.

[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 $11.46 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 $11.46 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 $26.9 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 $229,467 or $0.011/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 February, 2017 and the Deerfoot demand loan balance by January, 2021.

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.

The following are the undiscounted contractual maturities of financial liabilities, including estimated interest payments.

	Carrying amount	Contractual cash flows	1 year or less	1 to 5 years	More than 5 years
As at December 31, 2011					
Trade and other payables	4,300	4,300	4,300	-	-
Demand loans	22,947	22,947	2,399	10,046	10,502
Revolving credit facility	4,000	4,000	-	-	4,000
Debentures payable	49,772	11,148	3,111	8,037	-
	81,019	42,395	9,810	18,083	14,502
As at December 31, 2010					
Trade and other payables	5,114	5,114	5,114	-	-
Demand loans	25,305	25,305	2,265	9,859	13,180
Revolving credit facility	-	-	-	-	-
Debentures payable	55,000	15,756	3,438	12,318	-
	85,419	46,175	10,817	22,177	13,180
As at January 1, 2010					
Trade and other payables	2,882	2,882	2,882	-	-
Demand loans	13,249	13,249	1,909	9,680	1,660
Revolving credit facility	6,000	6,000	-	-	6,000
Debentures payable	4,001	4,001	-	-	4,001
	26,132	26,132	4,791	9,680	11,661

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 with one exception noted below.

Gamehost had related party transactions with the persons of David Will and Darcy Will and/or companies owned or controlled by David Will and/or Darcy Will collectively (the "Wills"). Both David Will and Darcy Will are key management personnel and directors of the Company as well as significant shareholders. Together, the Wills control 44.1% of the outstanding Shares of Gamehost.

- Gamehost recorded $1,443,151 ($1,215,530 - 2010) 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 $45,913 ($90,382 - 2010, $92,956 January 1, 2010) remained in accounts payable.

- Gamehost recorded $149,370 ($120,318 – 2010) of charter aircraft rental expenses for the Period which is included in administrative expenses. At the end of the Period, $nil ($14,533 – 2010, $11,548 - January 1, 2010) remained in accounts payable accounts. Travel to Gamehost's operational centers of Grande Prairie and Ft. McMurray is made more efficient via charter air services than can be accomplished through

- Gamehost recorded $63,540 ($63,540 – 2010) of parking lot rental expenses for the Period which is included in cost of sales. Great Northern Casino rents tractor trailer parking from the related party.

- Gamehost recorded $nil ($86,861 – 2010) in interest charges during the Period related to a promissory note $nil ($nil - 2010, $4,100,000 - January 1, 2010) which are included in finance costs. The promissory note was repaid in full in July 2010. The loan was unsecured with a fixed interest rate of 3.25%.

- Gamehost acquired $nil ($52.7 million – 2010, $nil - January 1, 2010) being a further 51% interest in the Deerfoot following approval by a committee of independent trustees (the "Independent Trustees") of Gamehost's Board.

Gamehost recorded $111,000 ($135,250 – 2010) in directors fees during the Period paid to other directors of Gamehost. At the end of the Period $1,500 ($35,000 - 2010, $29,000 - January 1, 2010) remained in accounts payable.

Gamehost recorded $10,780 ($29,482 – 2010) in professional and administrative fees during the Period paid to companies controlled by other directors of Gamehost.

Gamehost recorded $212,400 ($212,400 – 2010) in management services expenses paid to companies controlled by other officers of Gamehost.

Gamehost recorded $151,200 ($144,000 – 2010) in salaries and bonuses 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. The Corporation has convertible instruments that may be dilutive when conversion privileges are exercised. Common stock is valued at the original contributed capital amount as at the 2003 plan of arrangement forming the Fund plus fair value adjustments on Class B limited partnership units on conversion to common stock.

Business risks, opportunities and outlook

Economic outlook

Results from the Quarter and first couple of months in 2012 have been positive. As encouraging as these results appear, we remain tempered in our optimism given the many uncertainties on the global stage which can and do impact us despite our distance from their epicenter.

The state of mind of the gaming and entertainment consumer is highly correlated to the health of the energy sector in Alberta. Natural gas commodity pricing is trending toward lows not seen for ten years with no near term indicators of support. Natural gas exploration and development is grinding to a standstill. While this may be good for the costs of heating homes, it is not good for jobs or the provincial royalty coffers.

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 in the spring of 2012. 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. Our near proximity Deerfoot Inn & Casino is well situated for organic growth to materialize in part from this new development in the area.

In Grande Prairie, ground broke during the Quarter on a new $520 million Health and Education Centre. The site of the new hospital is adjacent to the rear of both our Great Northern Casino and Service Plus Inns & Suites hotel. Our operations anticipate benefits during the construction period which will not impact access to the properties. Longer term benefits from the hospital's operation should accrue to our properties being in such close proximity.

The combination of fragile revenue growth coupled with steady though moderate cost inflation poses the most significant risk to maintaining or growing profitability in the near term. While inflation is well within targets set by the Bank of Canada it takes constant vigilance in our local businesses to ensure that we are getting the best value for dollars spent. Labour costs are monitored daily and we continually seek out vendors providing the best value for required materials and services.

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.

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 compliment the Deerfoot. 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 agribition 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.

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.

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)

IFRS is mandatory for publically accountable enterprises for fiscal periods beginning on or after January 1, 2011. IFRS replaces guidance provided by previous GAAP for financial reporting.

These financial statements are the first consolidated annual financial statements prepared by the Company under IFRS.

The Company's accounting policies set out in the notes to the financial statements have been applied in preparing the consolidated annual financial statements for the twelve months ended December 31, 2011, the comparative information presented in these consolidated annual financial statements for both the twelve months ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 which is the Company's date of transition.

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported in financial statements formerly prepared under previous GAAP. The differences reported and their effects are detailed in note to the financial statements, which include a reconciliation of the Company's closing balance sheet at the end of 2009 under previous GAAP with its provisional opening balance sheet under IFRS on January 1, 2010. Reconciliations of total comprehensive income and equity from previous GAAP to IFRS for the year ended December 31, 2010 are presented in the notes to the financial statements.

IFRS 1 First-time Adoption of International Financial Reporting Standards sets out the requirements that the Company must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Company is required to establish its IFRS accounting policies for the year ending December 31, 2011, and apply these retrospectively to determine the IFRS opening statement of financial position at the Company's date of transition of January 1, 2010. To assist companies in the transition process, the Standard permits a number of specified exemptions from the general principle of retrospective restatement. The Company has elected certain specified exemptions from the general principal of retrospective application as follows:

i. The Company has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the Company's date of transition to IFRS.

ii. The Company has elected to apply the transitional provisions of IAS 23 prospectively from the Company's date of transition to IFRS. This exemption applies to capitalized borrowing costs included in all qualifying assets measured at cost in the opening IFRS statement of financial position.

The remaining optional exemptions under IFRS 1 are not applicable to the Company. All other mandatory exceptions in IFRS 1 were not applicable because there were no significant differences in management's application of previous GAAP in these areas.

Estimates made under IFRS at January 1, 2010 are consistent with estimates made for the same date under previous GAAP.

IFRS opening balance sheet adjustments

Investment property

Investment property is property held by the owner under a finance lease to earn rentals for income or capital appreciation or both. IFRS gives the option of measuring investment property using the cost model or the revaluation model. Previous GAAP does not have specific guidance for investment property. Gamehost has decided that the Strip Mall is an investment property. The book value of this property was removed from property plant and equipment and is shown separately as investment property. The adjustment to fair value under the revaluation model as determined by an independent appraisal performed in 2010 of $2,820,000 was applied retrospectively. The fair value of the property has not changed.

Class B limited partnership units

Gamehost determined that Class B limited partnership units disclosed on a comparative basis will be reported as debt instead of their previous equity classification due to their 'puttable' option to convert to units of the former Gamehost Income Fund. The debt classification was measured at the fair value of the Class B limited partnership units at December 31, 2009 and subject to adjustment to fair value at interim reporting periods. The Class B limited partnership units shown as debt have been increased to their fair value for the comparative period.

Deferred tax adjustments

The fair value adjustment to the investment property results in changes to amounts recorded to deferred tax.

New standards and interpretations not yet adopted

A number of new Standards, interpretations and amendments to existing Standards, are not yet effective for the period ended December 31, 2011, and have not been applied in preparing these consolidated financial statements. The following Standard, amendments to and interpretations of existing Standards have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2013:

i) 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.

ii) 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.

iii) 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.

iv) 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.

v) 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.

vi) 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 of 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.

vii) 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.

viii) 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.