



**2010 Annual Report**



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



## AUDITORS' REPORT

To the Shareholders of:  
Gamehost Inc.

### Report on the Financial Statements

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

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

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

### Auditors' Responsibility

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

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

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

### Opinion

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

*Kaywood Holmes & Partners LLP*

Red Deer, Alberta  
February 24, 2011

Chartered Accountants



**Consolidated Balance Sheets**

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

See accompanying notes to consolidated financial statements

On behalf of the Board:



David J. Will, Director



Darcy, J. Will, Director



**Consolidated Statements of Income and Comprehensive Income**

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

See accompanying notes to financial statements



**Consolidated Statements of Cash Flows**

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

See accompanying notes to financial statements



**Consolidated Statements of Changes in Equity**

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

See accompanying notes to financial statements

## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

#### 1. Organization Structure

##### The Corporation

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

##### The Fund

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

##### The Trust

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

##### The Limited Partnership

Gamehost Limited Partnership (the "Limited Partnership") is a limited partnership formed under the laws of the Province of Alberta. The Limited Partnership owns the assets and business operations of Gamehost. The Limited Partnership began operations of Gamehost effective June 1, 2003. The Limited Partnership is authorized to issue any number and any class of units provided none rank ahead of the common shares of the Corporation. The Trust owns all of the issued and outstanding Class A Limited Partnership Units ("Class A LP Units"). Effective December 31, 2010, all Class B Limited Partnership Units ("Class B LP Units") were exchanged for common shares of the Corporation.

##### The Manager

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

##### Common Shares

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





## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

## 2. Nature of Operations

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

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

## 3. Significant Accounting Policies

### Basis of preparation

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

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

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

### Principles of consolidation

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

### Joint venture

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

### Estimates

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

## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

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

#### Cash and cash equivalents

Cash and cash equivalents consist of floats, bank balances and credit card accounts. Bank balances are all in current accounts and earn interest at a rate of bank prime less 1.65%.

#### Inventories

Inventories are recorded at the lower of cost or net realizable value, cost being determined by using the first-in first-out method. Inventories are limited to high turnover food, beverage and concession items, uniforms and playing cards.

#### Property, plant and equipment

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

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

#### Licenses

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

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

#### Goodwill

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

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

#### Long-lived assets

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

## Notes to Consolidated Financial Statements

twelve months ended December 31, 2010

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

#### Revenue recognition

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

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

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

#### Financial instruments

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

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

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

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

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

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

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

## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

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

#### Earnings per share

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

### 3. Adoption of New Accounting Standards

#### Currently Adopted Changes

##### Business combinations

Effective January 1, 2010 Gamehost adopted CICA Handbook Sections 1582, “Business Combinations”, 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”. Sections 1601 and 1582 were adopted with prospective application while Section 1602 was adopted with retrospective application. These sections replace the former Section 1581, “Business Combinations”, and Section 1600, “Consolidated Financial Statements”, and establish a new section for accounting for a non-controlling interest in a subsidiary.

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

#### Future Accounting Changes

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

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

### 5. Capital Disclosure

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

## Notes to Consolidated Financial Statements

twelve months ended December 31, 2010

### 5. Capital Disclosure (cont.)

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

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

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

### 6. Financial Instruments

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

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

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

## Notes to Consolidated Financial Statements

twelve months ended December 31, 2010

### 6. Financial Instruments (cont.)

#### Fair value

The fair value of cash and cash equivalents, restricted cash, accounts receivable, revolving credit lines, accounts payable and accrued liabilities, demand loans and unitholder distributions approximate their carrying value due to the short-term maturities of these instruments.

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

#### Foreign Exchange Risk

Gamehost has no material foreign currency risk.

#### Interest Rate Risk

Gamehost's interest rate risk arises primarily from its variable rate debt in the aggregate amount of \$25.3 million. Gamehost is paying interest at a stipulated floor rate of 4.0% on traditional bank demand debt and revolving debt; otherwise the rate on these debt instruments is 1.0% above the bank prime lending rate. A 1% increase in interest rates would have an unfavourable impact on earnings of \$253,000 or \$0.012/share on an annualized basis.

#### Credit Risk

Credit risk arises from cash and cash equivalents held with banks and credit exposure to customers. Gamehost's day to day commercial banking is primarily with AAA rated Canadian financial institutions. Day to day commercial banking is not concentrated with a single financial institution.

Gamehost, in the normal course of operations, monitors the financial condition of its customers. Gamehost does not have significant exposure to any individual customer or counterparty.

Carrying amounts of accounts receivable are reduced on an account specific basis when appropriate. Gamehost does not currently carry an allowance for doubtful accounts. Carrying amounts of accounts receivable are reduced by direct write-off to earnings in the period of loss recognition.

#### Liquidity Risk

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

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

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

## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

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

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

Contractual commitments of Gamehost are reported in Note 17.

#### 7. Restricted Cash

Restricted cash consists of progressive jackpot funds. Progressive jackpots are divided into two pots. The first and larger of the two is reserved for the eventual winner of the jackpot. The second is used to seed the next pot after a jackpot is won. The progressive jackpot funds are not available for use in general operations. Included in accounts payable is \$37,984 (2009 - \$67,700) relating to progressive jackpots.

#### 8. Property, Plant and Equipment

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

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

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

## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

## 9. Income Taxes

### Income taxes

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

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

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

### Future income taxes

Future tax is estimated based on assets and liabilities at the end of the year and the expected combined Federal and Alberta tax rate of 25% for 2012 when the Corporation first anticipates taxes payable.

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

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

## 10. Loans

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

Security for the loan includes:

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

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



## Notes to Consolidated Financial Statements

twelve months ended December 31, 2010

### 10. Loans (cont.)

Gamehost has a 91% Participating Interest Responsibility in the debt facilities of the Deerfoot. The Deerfoot has a \$24.0 million demand loan secured by its land and buildings. The loan has an interest rate floor of 4.0%; otherwise, the interest on this loan remains at 1.0% above the CWB Prime Lending Rate. \$2.0 million of this loan is advanced on a revolving basis. Gamehost's portion of the total outstanding balance of this loan is \$11.6 million. The Deerfoot is compliant with all covenants.

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

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

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



## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

#### 10. Loans (cont.)

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

Face value of debentures	\$	55,000,000
Less: equity component		<u>4,893,002</u>
PV of future interest payments and debenture payout		50,106,998
Less: debenture issue costs		<u>2,652,055</u>
Initial carrying value of debentures		47,454,943
Amortization of debenture issue costs		<u>801,264</u>
Debentures payable	\$	48,256,207

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

#### 11. Related Party Transactions

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

Gamehost had related party transactions with the persons of David Will and Darcy Will and/or companies owned or controlled by David Will and/or Darcy Will collectively (the "Wills"). Both David Will and Darcy Will are Directors of Gamehost and significant shareholders. Together, the Wills control 44.1% of the outstanding Shares of Gamehost. Transactions with the Wills include the following:

- Gamehost recorded \$1,169,029 (\$839,007 - 2009) of management services expenses for the Period which are included in human resources expenses. Management fees stipulated in management services agreements are based on a percentage of revenues and/or earnings before interest, taxes depreciation and amortization. At the end of the Period \$85,382 (\$67,770 - 2009) remained in accounts payable. As Chief Executive Officer and Vice President, David Will and Darcy Will, respectively do not take any salary for their management of Gamehost, but are compensated through management services agreements.
- Gamehost recorded \$120,318 (\$30,678 – 2009) of charter aircraft rental expenses for the Period which is included in operating expenses. At the end of the Period, \$14,533 (\$11,785 – 2009) remained in accounts payable accounts. Travel to Gamehost's operational centers of Grande Prairie and Ft. McMurray is made more efficient via charter air services than can be accomplished through commercial carriers.

## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

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

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

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

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

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

#### 12. Class B LP unitholders

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

Class B LP Unitholders				
	December 31, 2010		December 31, 2009	
	Units	\$'s	Units	\$'s
Balance at beginning of period	9,334,400	\$ 25,977,980	10,334,400	\$ 32,955,463
Unit class conversions	-	-	(1,000,000)	(3,193,434)
Debt conversion privilege		2,163,833		-
Class B LP unitholders earnings allocation		20,447,245		4,426,491
Distributions to Class B LP unitholders		(8,210,533)		(8,210,540)
Class B LP Unit conversion to Shares	(9,334,400)	(40,378,525)		-
Balance at end of period	-	\$ -	9,334,400	\$ 25,977,980



## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

### 13. Non-Controlling Interest

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

### 14. Unitholder's Equity

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

<b>Unitholder's Equity</b>				
	<b>December 31, 2010</b>		<b>December 31, 2009</b>	
	<b>Units</b>	<b>\$'s</b>	<b>Units</b>	<b>\$'s</b>
Balance at beginning of period	11,773,153	\$ 30,439,635	10,773,153	\$ 32,018,886
Unit class conversions	-	-	1,000,000	3,193,434
Debenture conversion privilege		2,729,168		-
Net earnings		25,789,396		5,582,979
Distributions to Fund unitholders		(10,355,668)		(10,355,664)
Fund unit conversion to Shares	(11,773,153)	(48,602,531)		-
Balance at end of period	-	\$ -	11,773,153	\$ 30,439,635

### 15. Shareholder's Equity

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

### 16. Corporate conversion

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

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



## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

## 17. Commitments

### Deerfoot

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

### Management Agreements

On June 1, 2003, Gamehost entered into a management services agreement with Gamehost Management Inc. The management agreement stipulates that Gamehost Management Inc. is entitled to 2.0% of operational earnings before interest, taxes, depreciation and amortization. This agreement was amended effective May 1, 2010 to reduce the fee to 1.5% of earnings before interest, taxes, depreciation and amortization with the intent that the Acquisition should have no impact on management fees except where performance of the Deerfoot changes.

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

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

### Other Commitments

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

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

## 18. Guarantees

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

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



## Notes to Consolidated Financial Statements

### twelve months ended December 31, 2010

#### 19. Business Acquisition

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

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

The assets and liabilities acquired are as follows:

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

#### 20. Unitholder Distribution Payable

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

#### 21. Subsequent Events

##### Regular monthly dividends

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

## **Notes to Consolidated Financial Statements**

**twelve months ended December 31, 2010**

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

#### Debenture redemptions

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

#### Organization Structure Changes

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

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

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



**Management Discussion and Analysis**  
**for the twelve and three months ended December 31, 2010**





## To Our Shareholders

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Management and Directors of Gamehost Inc. (“Gamehost”, the “Company”, the “Corporation”) are pleased to present results for the twelve months ended December 31, 2010 (the “Period”) and three months ended December 31, 2010 (the “Quarter”).

### Fresh New Start

Effective December 31, 2010, Gamehost Income Fund converted to a high yielding dividend paying corporation, Gamehost Inc. (the “Conversion”). All issued and outstanding units of the former Fund were exchanged for Shares.

Effective May 1, 2010, Gamehost acquired (the “Acquisition”) an additional 51% of the Deerfoot Inn & Casino (the “Deerfoot”). Gamehost now owns a 91% controlling interest in the Deerfoot. The change in ownership position required Gamehost to change the method used to report results of the Deerfoot. Gamehost’s Financial Statements and Management Discussion and Analysis (“MD&A”) report 100% of the Deerfoot results from the effective date of the Acquisition compared to a proportionate 40% interest prior. A single line entry representing the non-controlling interest (NCI) of 9% of equity and net operating results are recorded on the balance sheet and income statement respectively reducing the net post-Acquisition results from the Deerfoot to the Company’s ownership of 91%.

### Deerfoot Boost

Quarterly operational revenue for the Company inclusive of a NCI totaled \$18.2 million compared to \$11.8 million for the same quarter in 2009, a 54% increase. Annual operational revenue for the Company inclusive of a NCI totaled \$63.7 million compared to \$48.1 million for 2009, a 32% increase.

Earnings for the Quarter before interest, taxes, depreciation and amortization (“EBITDA”) of the Company excluding NCI gained \$2.5 million to \$7.4 million compared to \$4.9 million for the same quarter in 2009, a 49.8% increase. For the Period, EBITDA of the Company excluding NCI gained \$5.3 million to \$26.9 million compared to \$21.6 million for 2009. The Acquisition is the major factor in the overall year over year increase. A three percentage point decline in EBITDA margin to 40.6% in the Quarter versus the third quarter is explained by the cyclical effect of the holiday season’s strong banquet sales which have higher operating costs than other revenue streams. Costs related to the Company’s transition to new reporting standards (“IFRS”) and Conversion costs contributed to lower margins for the Quarter. Lower overall ongoing EBITDA margin percentages should be expected and are attributable to the Deerfoot’s higher operating costs as compared to the Company’s other properties. Otherwise, the Company has managed margins across all properties tightly by keeping costs in line with flatter sales. All individual properties reported flat to improved EBITDA margin percentages for the Period. With costs trimmed and Conversion costs behind us, watch for higher margins as revenues improve in 2011.

### Healthcare Headlines

On July 20, 2010, Alberta’s Premier, Ed Stelmach announced the provincial government was moving ahead with a new 200 bed acute-care hospital for the City of Grande Prairie. The site for this \$520 million hospital, to begin construction in 2011, is located directly behind and adjacent to the Company’s Service Plus hotel and Great Northern Casino. This project is expected to boost guest room sales and casino traffic during construction and following completion of the project. The new hospital will also spawn additional commercial and residential development in the immediate area also to the Company’s benefit. The province plans to break ground in April 2011. Our Service Plus hotel will bid on the contract to house construction crews.



Work continues on the \$1.25 billion South Health Campus in Calgary, located south of the Deerfoot. This project, like the one in Grande Prairie, will increase the market area for the Deerfoot substantially as it is built out and ancillary development follows. The project is slated for a late 2012 opening. Some additional business volume has materialized from the project and is expected to pick up as the project moves from its present infrastructure phase, which is being largely handled by local contractors, to the fixturing phase which should involve more out of province contracting.

### Grossed Up Not Out

The Acquisition and Conversion provided an effective response to the end of the otherwise favoured tax status of the trust model at the end of this calendar year. The Acquisition has boosted cash flows which will offset corporate taxes as they become payable. The Conversion together with the Acquisition and an improving economy set the stage for sustained distributions at their current rate of \$0.0733 per unit for the foreseeable future. Cash distributions in 2011 will be treated for shareholder tax purposes as eligible dividend income. Eligible dividends, following a gross up calculation receive an enhanced dividend tax credit. Shareholders, therefore, will benefit from a more favourable tax rate as a result.

### Climbing the Charts

Over the course of the past calendar year investors have benefited from a 32% appreciation in their stock valuation. Together with regular monthly cash distributions of \$0.0733 per Fund Unit each month, the annualized return on investment rises to 44%. Shares of the Company reached the debenture strike price of \$10.65 per common share in January of this year. As a result we have witnessed a number of debenture conversions since that point.

We look forward to continued improvements in operating results as we move into a new year with a new corporate structure.

February 24, 2011

On behalf of all management and Directors, sincerely,



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



Darcy J. Will  
Vice President and Secretary  
Gamehost Management Inc.



## **Management's Discussion and Analysis** for the twelve and three months ended December 31, 2010

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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") is dated February 24, 2011.

Financial Statements of the Company for the twelve months ended December 31, 2010 (the "Period") and three months ended December 31, 2010 (the "Quarter") have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and include the operating results of the Company, its subsidiaries and a joint venture.

Certain prior year figures have been reclassified to conform to the current year presentation. All figures are reported in Canadian dollars.

This MD&A focuses on year over year comparative results for the Quarter. When significant, this MD&A will elaborate on quarterly results compared to the immediately preceding quarter and year over year results for the Period. 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](http://www.gamehost.ca) or SEDAR at [www.sedar.com](http://www.sedar.com).

## Caution to the Reader

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### Use of Non-GAAP Financial Measures

This MD&A makes reference to financial measures that do not have any standardized meaning prescribed by GAAP. Specifically, the MD&A may reference earnings before interest, taxes, depreciation and amortization (“EBITDA”) or “Standardized Distributable Cash” which are both non-GAAP financial measures.

EBITDA is a commonly used measure of financial performance by the broader financial community. Management believes that EBITDA provides information to the reader on the Company’s performance in generating cash from normal operations before any financing costs associated with generating those earnings. The Company’s means of financing can change over time at the discretion of management. As such, EBITDA can assist the reader in assessing not only the Company’s performance in generating cash, but also the Company’s ability to meet current or future financing obligations. There is no standardized meaning prescribed by GAAP for EBITDA. Comparing EBITDA of the Company to EBITDA reported by other issuers can be misleading. EBITDA should not be relied upon as a sole measure of performance. Reconciliation between EBITDA and net earnings as defined by GAAP can be found on page 43 of this MD&A.

This MD&A is in all material respects in accordance with the recommendations provided in Canadian Institute of Chartered Accountants (CICA) publication “*Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosure*”. A reconciliation of Standardized Distributable Cash to cash from operating activities as reported on the Consolidated Statements of Cash Flow can be found on page 51 of this MD&A.

Industry specific terms 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

Comparative results are impacted by the conversion from an income trust 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 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 NCI.

## Forward-looking Statements

This MD&A contains forward-looking information. Forward-looking information contained in this MD&A will be limited to statements rather than figures and may contain words 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 reflect 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 and Opportunities 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](http://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, intentions 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 (ICFR)

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

There has been no change in the Company’s internal control over financial reporting that occurred during the Quarter that has materially affected, or is reasonably likely to materially affect, the issuer’s internal control over financial reporting. The effectiveness of ICFR has been evaluated and management has concluded that the Company’s ICFR is effective. There is no “material weakness” relating to the design of the Fund’s ICFR (a “material weakness” is defined to mean a deficiency or combination of deficiencies or combination of deficiencies in ICFR 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 (DC&P) has been evaluated. Management has concluded that the Company’s DC&P are operating effectively.

## Organizational Structure

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### The Corporation

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

### The Fund

Gamehost Income Fund (the “Fund”) was an unincorporated open-ended limited purpose trust established under the laws of the Province of Alberta and was governed by a trust agreement dated April 9, 2003 (the “Fund Agreement”). The Fund exchanged all issued and outstanding Fund Units for common shares (“Shares”) of the Corporation on December 31, 2010. On January 1, 2011, the Fund was wound up and dissolved (See “Conversion to a Corporation”).

### The Trust

Gamehost Trust (the “Trust”) was an unincorporated open-ended limited purpose trust established under the laws of the Province of Alberta and was governed by a trust agreement dated April 10, 2003 (the “Trust Agreement”). All of the issued and outstanding units of the Trust were owned by the Fund. The Trustees of the Trust were the Trustees of the Fund. On January 1, 2011, the Trust was wound up and dissolved (See “Conversion to a Corporation”).

### The Limited Partnership

Gamehost Limited Partnership (the “Limited Partnership”) is a limited partnership formed under the laws of the Province of Alberta. The Limited Partnership owns the assets and business operations of the Company. The Limited Partnership began operations of the Corporation effective June 1, 2003. The Limited Partnership is authorized to issue any number and any class of units provided none rank ahead of the Shares of the Corporation. All of the issued outstanding units of the Limited Partnership are owned by the Corporation.

### The Manager

The general partner of the Limited Partnership is Gamehost Management Inc. (the “Manager”). Pursuant to a management agreement (the “Management Agreement”) between the Limited Partnership and the Manager, the administration and management of the Fund was delegated to the Manager. Coinciding with the terminations of the Fund and the Trust, the administration and management of the Company will be delegated to the Manager.

### Shares

The Corporation has 21,107,553 Shares issued and outstanding 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.



## Convertible Debentures

The Corporation assumed all of the obligations of the Fund at Conversion, including \$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. The Corporation may also call for redemption of the Debentures on the business day immediately preceding the date specified by the Corporation for redemption of the Debentures, at a conversion price of \$10.65 per Gamehost Inc. common share, being a conversion rate of approximately 93.8967 Gamehost Inc. shares per \$1,000 principal amount of Debentures, subject to adjustment in certain events. Conversion of all of the Debentures will result in the issue of an additional 5,164,319 Shares. The Corporation at its option may call for redemption 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 the Company’s option to call for redemption provided proper notice is given.

## Conversion to a Corporation

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

On January 1, 2011, following the completion of the Conversion, the Trust, a subsidiary of 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 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 Corporation.

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

The head office of the Corporation is located at 400, 4406 – 50<sup>th</sup> Avenue, Red Deer, Alberta, T4N 3Z5. The registered office of the Corporation is located at 2800, 715 – 5<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 2X6.





## Overview of Gamehost

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

Gaming operations of Gamehost are controlled by the Alberta Gaming and Liquor Commission. Operations include Company owned table games and government owned slot machines, video lottery terminals and lottery ticket outlets. Hotel operations of Gamehost include full and limited service hotels and banquet and convention services. Food, beverages and entertainment are offered at each of 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 intent of Gamehost to pay steady dividends to shareholders by way of regular monthly cash dividends. Gamehost intends to be a high dividend yielding corporation.

## Overall Financial Results and Condition of Gamehost

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The financial results are significantly improved by the increased ownership position in the Deerfoot. Otherwise, sales and EBITDA are largely flat for the year.

At the end of the Quarter, continuing operations of Gamehost, exclusive of NCI, had \$178.1 million in total assets up from \$84.9 million at the start of the year. Cash and cash equivalent balances of \$14.6 million were \$4.6 million more than the start of 2010. The total payout ratio on Standardized Distributable Cash was 93% for the Quarter. Since inception of Gamehost, the total payout ratio totals 103%.

Diligent cost controls at all properties allowed Gamehost to post EBITDA of 42% for the year.

Gamehost, at its inception as an income trust in June 2003, wholly owned and operated two casinos, a hotel and a strip mall. In 2005, the Deerfoot, a casino hotel conference center opened. Gamehost was originally a 40% owner of Deerfoot. In early 2006, Gamehost completed an expansion of Boomtown Casino effectively doubling its size. In 2008 Gamehost opened the Stampede Casino which was adversely impacted by the global recession and ceased operations in August of 2009. In 2010 Gamehost purchased an additional 51% of the profitable Deerfoot increasing ownership to 91%. At the end of 2010, Gamehost converted from an income trust to a corporation in response to changing tax legislation affecting income trusts. Gamehost ends 2010 with 108,356 square feet of entertainment space, 1608 slot machines, 67 table games and 311 hotel rooms.





Select Annual Information		2010	2009	2008
	Revenue - Continuing operations	63,673	48,082	53,349
	Gain on revaluation of assets	27,083	-	-
	Less: Expenses	43,750	33,445	30,908
	Less: Non-Controlling Interest	770	-	-
<sup>3</sup>	Net income - Continuing operations	46,236	14,637	22,441
<sup>3</sup>	Net (loss) - Discontinued operations	-	(4,628)	(986)
<sup>3</sup>	Net Income	46,236	10,009	21,455
<sup>2,3</sup>	Net income /unit - Continuing operations	\$ 2.191	\$ 0.693	\$ 1.063
<sup>2,3</sup>	Net (loss) /unit - Discontinued operations	\$ -	\$ (0.219)	\$ (0.047)
<sup>2,3</sup>	Net income /unit	\$ 2.191	\$ 0.474	\$ 1.016
<sup>3,4</sup>	Diluted net income /unit - Continuing operations	\$ 1.965	\$ 0.693	\$ 1.063
<sup>3,4</sup>	Diluted net (loss) /unit - Discontinued operations	\$ -	\$ (0.219)	\$ (0.047)
<sup>3,4</sup>	Diluted net income /unit	\$ 1.965	\$ 0.474	\$ 1.016
<sup>1,3</sup>	EBITDA - Continuing operations	26,890	21,616	25,314
<sup>1,3</sup>	EBITDA margin - Continuing operations	42.2%	45.0%	47.5%
<sup>1,3</sup>	EBITDA (loss) - Discontinued operations	-	(79)	(371)
<sup>1,3</sup>	EBITDA	26,890	21,537	24,943
<sup>1,2,3</sup>	EBITDA /unit - Continuing operations	\$ 1.274	\$ 1.024	\$ 1.199
<sup>1,2,3</sup>	EBITDA (loss) /unit - Discontinued operations	\$ -	\$ (0.004)	\$ (0.018)
<sup>1,2,3</sup>	EBITDA /unit	\$ 1.274	\$ 1.020	\$ 1.182
<sup>1,3,4</sup>	Diluted EBITDA /unit - Continuing operations	\$ 1.085	\$ 1.024	\$ 1.199
<sup>1,3,4</sup>	Diluted EBITDA (loss) /unit - Discontinued operations	\$ -	\$ (0.004)	\$ (0.018)
<sup>1,3,4</sup>	Diluted EBITDA /unit	\$ 1.085	\$ 1.020	\$ 1.182
<sup>5</sup>	Total assets - Continuing operations	178,124	84,937	89,694
<sup>5</sup>	Total assets - Discontinued operations	-	-	12,518
<sup>5</sup>	Total assets	178,124	84,937	102,212
<sup>5</sup>	Long term liabilities- Continuing operations	53,679	1,524	1,801
<sup>5</sup>	Long term liabilities - Discontinued operations	-	-	53
<sup>5</sup>	Total long term liabilities	53,679	1,524	1,854
	Total distributions/unit	0.8796	0.8796	1.0271

(in thousands of dollars unless stated otherwise)

<sup>1</sup> EBITDA is not a defined measure under Canadian GAAP. Excludes non-controlling interest<sup>2</sup> Basic<sup>3</sup> All unit classes, excludes non-controlling interest<sup>4</sup> Weighted average of fully dilutive<sup>5</sup> Excludes non-controlling interest

## Quarterly Performance Summary

Quarterly Performance					2010				2009			
Continuing operations (before minority interest)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	18,180	17,573	16,203	11,717	11,788	11,316	12,105	12,873				
Gain on revaluation of assets	-	-	27,083	-	-	-	-	-				
Expenses	13,367	12,040	11,392	6,951	7,154	13,532	5,619	7,140				
Income (Loss)	4,813	5,533	31,895	4,766	4,634	(2,216)	6,486	5,734				
All unit holders	4,532	5,228	31,710	4,766	4,634	(2,216)	6,486	5,734				
Non-controlling Interest	280	305	184	-	-	-	-	-				
Discontinued operations	4,813	5,533	31,895	4,766	4,634	(2,216)	6,486	5,734				
	-	-	-	-	-	1,543	(5,863)	(308)				
Income (Loss)/Unit - Basic	4,813	5,533	31,895	4,766	4,634	(673)	623	5,425				
Continuing operations	\$ 0.215	\$ 0.248	\$ 1.502	\$ 0.226	\$ 0.220	\$(0.105)	\$ 0.307	\$ 0.272				
Discontinued operations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.073	\$(0.278)	\$(0.015)				
	\$ 0.215	\$ 0.248	\$ 1.502	\$ 0.226	\$ 0.220	\$(0.032)	\$ 0.030	\$ 0.257				
Income (Loss)/Unit - Weighted average and fully diluted												
Continuing operations	\$ 0.205	\$ 0.232	\$ 1.278	\$ 0.226	\$ 0.220	\$(0.105)	\$ 0.307	\$ 0.272				
Discontinued operations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.073	\$(0.278)	\$(0.015)				
	\$ 0.205	\$ 0.232	\$ 1.278	\$ 0.226	\$ 0.220	\$(0.032)	\$ 0.030	\$ 0.257				
EBITDA												
Continuing operations	7,373	7,662	6,402	5,453	4,922	4,924	5,387	6,383				
Continuing operations margin %	40.6%	43.6%	39.5%	46.5%	41.8%	43.5%	44.5%	49.6%				
Discontinued operations	-	-	-	-	-	15	(52)	(43)				
	7,373	7,662	6,402	5,453	4,922	4,939	5,335	6,340				
EBITDA/unit - Basic												
Continuing operations	\$ 0.349	\$ 0.363	\$ 0.303	\$ 0.258	\$ 0.233	\$ 0.233	\$ 0.255	\$ 0.302				
Discontinued operations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.001	\$(0.002)	\$(0.002)				
	\$ 0.349	\$ 0.363	\$ 0.303	\$ 0.258	\$ 0.233	\$ 0.234	\$ 0.253	\$ 0.300				
EBITDA/unit - Weighted average diluted												
Continuing operations	\$ 0.281	\$ 0.292	\$ 0.252	\$ 0.258	\$ 0.233	\$ 0.233	\$ 0.255	\$ 0.302				
Discontinued operations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.001	\$(0.002)	\$(0.002)				
	\$ 0.281	\$ 0.292	\$ 0.252	\$ 0.258	\$ 0.233	\$ 0.234	\$ 0.253	\$ 0.300				

EBITDA is not a defined measure under Canadian GAAP. See Caution to Reader under MD&A

Revenues increased over the prior quarter due to Christmas Party bookings. Margins were reduced due to higher travel costs, utilities and a one-time wage adjustment.



## Revenues

### Total Revenue

Total Revenue	Q4 (twelve months)			Q4 (three months)			vs. previous quarter	
	2010	2009	+(-)	2010	2009	+(-)	Q3 2010	+(-)
Total Revenue	<b>63,673.5</b>	48,082.2	32.4%	<b>18,180.1</b>	11,788.4	54.2%	17,573.0	3.5%

(in thousands of dollars unless stated otherwise)

### Hotel Rooming Revenue

Hotel Rooming 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.

Hotel - Rooming	Q4 (twelve months)			Q4 (three months)			vs. previous quarter	
	2010	2009	+(-)	2010	2009	+(-)	Q3 2010	+(-)
Rooming	<b>10,120.2</b>	6,453.6	56.8%	<b>2,789.8</b>	1,443.1	93.3%	3,107.2	(10.2%)
Occupancy	<b>67.9%</b>	60.9%	7.1%	<b>64.6%</b>	55.5%	9.1%	71.8%	(7.2%)
ADR	<b>\$147.11</b>	\$146.60	0.4%	<b>\$147.77</b>	\$142.96	3.4%	\$150.09	(1.5%)

(in thousands of dollars unless stated otherwise)

Results include 100% of the Deerfoot beginning May 1, 2010 compared to Gamehost's reported 40% proportionate interest in revenues prior to May 1, 2010.

The fourth quarter is cyclically a lower revenue producer of rooming revenue due to low occupancies in the weeks leading up to and following Christmas.

At Service Plus, occupancy rose 10 percentage points year over year for the Quarter while ADR's remained below those of the year earlier by \$6.10 per room. Net results produced a 15% increase in net rooming revenue for the Quarter. Oil and gas activity in the region continued to rise in the final quarter of the year. Provincial infrastructure upgrades, including a hospital are in the works in Grande Prairie.

Room revenue was 7.8% higher at the Deerfoot year over year for the Quarter. However, occupancy and ADR were down in 2010 for the Period as compared to 2009. The property has room to recover in 2011. Activity in the area, including the construction of the largest hospital in Alberta will add thousands of jobs to the area as well foot traffic to the Deerfoot in the months and years to come.

### Table Game Revenue

Table play and table revenue sharing is regulated in Alberta by the Alberta Gaming and Liquor Commission. 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 Percentage is the measure of Hold to the Drop and can fluctuate significantly, but should average +/- 17%. Drop, Hold and Hold Percentage are not always reliable indicators of table activity.

*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.*



Consequently, it can be seen 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 Alberta Gaming and Liquor Commission. The operator's percentage of the Rake is the 'Net'. Financial statements of Gamehost report only the Net of the Hold or Rake.

Table Net Revenue	Q4 (twelve months)			Q4 (three months)			vs. previous quarter	
	2010	2009	+(-)	2010	2009	+(-)	Q3 2010	+(-)
General and High Limit	7,827.5	6,619.6	18.2%	2,142.5	1,453.4	47.4%	2,313.3	(7.4%)
Poker	1,722.3	1,278.1	34.8%	450.0	311.1	44.6%	506.0	(11.1%)
Caribbean Stud	55.3	64.3	(13.9%)	9.6	11.2	(14.8%)	11.0	(13.1%)
	9,605.1	7,962.0	20.6%	2,602.1	1,775.8	46.5%	2,830.4	(8.1%)

(in thousands of dollars unless stated otherwise)

Table Drop and Hold	Q4 (twelve months)			Q4 (three months)			vs. previous quarter	
	2010	2009	+(-)	2010	2009	+(-)	Q3 2010	+(-)
Drop	81,438.5	57,663.2	41.2%	23,080.6	14,398.1	60.3%	21,915.0	5.3%
Hold %	17.1%	19.7%	(2.6%)	16.8%	17.1%	(0.3%)	19.2%	(2.4%)

(in thousands of dollars unless stated otherwise)

# of Tables	end of Period			vs. previous quarter	
	2010	2009	+(-)	Q3 2010	+(-)
All Others	50.0	34.8	15.2	50.0	-
Poker	16.0	9.2	6.8	14.0	2.0
Caribbean Stud	1.0	1.0	-	1.0	-
	67.0	45.0	22.0	65.0	2.0

Results include 100% of the Deerfoot beginning May 1, 2010 compared to Gamehost's reported 40% proportionate interest in revenues, Table Drop and number of gaming tables prior to May 1, 2010.

Combined table activity is down this Quarter from the same quarter a year earlier. Gamehost's increased ownership in the Deerfoot offsets this decrease. Tables overall have improved slightly in drop from the prior year, however the Hold Percentage and Holds are lower.

Year over year for the Quarter, Boomtown's Drop increased 1.6% while Hold Percentage decreased 4.4 percentage points resulting in a 21.6% reduction in table revenues at the property. Poker revenues improved by 2.6% year over year for the Quarter.

Great Northern reported a year over year 1.4% increase in Drop for the Quarter with a corresponding 0.7 percentage point decrease in Hold Percentage resulting in a 1.9% reduction in table revenues at the property. Poker revenues were lower by 24.8% from the previous quarter reflecting changing preferences of gamblers in Grand Prairie.

Deerfoot Drop was up 0.6% for the Quarter compared to the prior year with Hold Percentage decreasing by 2.7 percentage points resulting in a 13.6% decrease in table revenues. Poker revenues were down 11.5% for the Quarter. The property added 2 poker tables during the Quarter.

## Slot Revenue

In Alberta, slot machine odds are regulated by the Alberta Gaming and Liquor Commission (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 revenue, therefore, is determined by the above arrangements as well as the number of hours each machine operates and how much money is played on a machine (‘Cash Play’) during hours of operation.

Slot Revenue	Q4 (twelve months)			Q4 (three months)			vs. previous quarter	
	2010	2009	+(-)	2010	2009	+(-)	Q3 2010	+(-)
Revenue	<b>22,729.0</b>	18,779.1	21.0%	<b>6,049.2</b>	4,516.2	33.9%	6,225.4	(2.8%)

(in thousands of dollars unless stated otherwise)

Slot Statistics	Q4 (twelve months)			Q4 (three months)			vs. previous quarter	
	2010	2009	+(-)	2010	2009	+(-)	Q3 2010	+(-)
Cash Play	<b>2,003.6</b>	1,648.6	21.5%	<b>534.6</b>	394.8	35.4%	546.2	(2.1%)
Machines <sup>1</sup>	<b>1,605.0</b>	1,096.8	508.2	<b>1,144.8</b>	1,096.8	48.0	1,144.8	-%

(in millions of dollars unless stated otherwise)

<sup>1</sup> At the end of the Period or Quarter

Results include 100% of the Deerfoot beginning May 1, 2010 compared to Gamehost’s reported 40% proportionate interest in revenues, Cash Play and number of slot machines prior to May 1, 2010.

Cash Play is affected by weather at the Casinos. November was seasonably cold and snowy, which impacted casino traffic and ultimately profit.

Boomtown Cash Play declined 3.0% and slot revenue declined 1.1% for the Quarter as compared to the previous quarter of this year. Camp jobs in the region are filling up as the oil sands industry ramps up again.

Slot activity increased slightly at Great Northern Casino increasing 0.5% measured year over year for the Quarter with revenues up 1.6%.

Deerfoot Cash Play increased by 4.2% and revenues increased by 1.1% in the year over year quarterly comparison

## Food & Beverage (“F&B”) Revenue

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

F&B Revenue	Q4 (twelve months)			Q4 (three months)			vs. previous quarter	
	2010	2009	+(-)	2010	2009	+(-)	Q3 2010	+(-)
Food & mix	<b>6,363.7</b>	3,558.1	78.9%	<b>2,209.5</b>	1,052.8	109.9%	1,647.8	34.1%
Liquor	<b>9,246.0</b>	7,164.4	29.1%	<b>2,813.0</b>	1,976.7	42.3%	2,328.2	20.8%
	<b>15,609.7</b>	10,722.5	45.6%	<b>5,022.5</b>	3,029.5	65.8%	3,976.1	26.3%

(in thousands of dollars unless stated otherwise)

Results include 100% of the Deerfoot beginning May 1, 2010 compared to Gamehost's reported 40% proportionate interest in revenues prior to May 1, 2010.

Year over year comparative results by property for food and beverage are mixed from flat to higher on both an annual and quarterly basis. As expected, revenues were higher for the Quarter compared to the previous quarter at each property due to Christmas parties and special events held at the casinos.

Boomtown earns food commissions from on-site premises leased to a third party. Food to liquor sales at the facility are weighted approximately 5/95. Food sales increased 3.2% over the same quarter last year. Liquor sales are down 2.9% for the Quarter over last year. Weather in Fort McMurray this Quarter was unusually cold with heavy snow falls that deterred crowds. The timing of Christmas resulted in Oilfield crews heading home earlier in December 2010 than December 2009.

Great Northern earns food commissions from on-site premises leased to a third party. Food to liquor sales at the facility are weighted approximately 30/70. Year over year food sales increased 8.4% for the Quarter and liquor sales are up 13.9% over the same time frame. Each quarter in 2010 reported growth in these areas for the property. Gamehost is optimistic that this will also translate into additional gaming revenue in 2011.

The Deerfoot owns and operates all F&B operations at the facility. Food to liquor sales at the facility are weighted 60/40. Year over year food sales were largely flat for the Quarter, but liquor sales rose 7.7% over the same comparative period.

## Lease and Rental Revenue

Lease and rental revenue is derived predominantly from two leases in the Strip Mall as well as lease and rental revenues generated within the casinos from 3<sup>rd</sup> party providers of on-premise food services.

Lease & Rental Revenue	Q4 (twelve months)			Q4 (three months)			vs. previous quarter	
	2010	2009	+(-)	2010	2009	+(-)	Q3 2010	+(-)
<b>Total</b>	<b>392.1</b>	372.9	5.1%	<b>96.4</b>	101.5	(5.1%)	98.9	(2.5%)

(in thousands of dollars unless stated otherwise)

The Strip Mall is fully leased and early in the initial terms of all signed leases. Comparative results for 2009 were reduced by initial rent incentives.



## Other Revenue

Other revenue includes the more significant items of automated teller (ATM) fees, 3 Video Lottery Terminals (VLT's) and lottery ticket sales, entertainment ticket sales, interest on bank balances, cigarette sales, equipment rentals, movie rentals and other room charges to hotel guests.

Other Revenue	Q4 (twelve months)			Q4 (three months)			vs. previous quarter	
	2010	2009	+(-)	2010	2009	+(-)	Q3 2010	+(-)
<b>Total</b>	<b>5,217.4</b>	3,792.3	37.6%	<b>1,620.2</b>	922.3	75.7%	1,335.0	21.4%

(in thousands of dollars unless stated otherwise)

Results include 100% of the Deerfoot beginning May 1, 2010 compared to Gamehost's reported 40% proportionate interest in revenues prior to May 1, 2010.

Other revenue is cyclically highest in the fourth quarter of each year because of ticket sales and vendor rebates received in December.

## Expenses

### Total Expenses

Total Expenses	Q4 (twelve months)			Q4 (three months)			vs. previous quarter	
	2010	2009	+(-)	2010	2009	+(-)	Q3 2010	+(-)
<b>Total</b>	<b>43,750.1</b>	33,445.2	30.8%	<b>13,367.5</b>	7,154.3	86.8%	12,039.9	11.0%
<b>% of Revenues</b>	<b>68.7%</b>	69.6%	(0.8%)	<b>73.5%</b>	60.7%	12.8%	68.5%	5.0%

(in thousands of dollars unless stated otherwise)

Results include 100% of the Deerfoot beginning May 1, 2010 compared to Gamehost's reported 40% proportionate interest in expenses prior to May 1, 2010.

Deerfoot has significantly higher operating costs than Gamehost's other operations. As a consequence, the acquisition of a further 51% interest in the Deerfoot is expected to raise the overall percentage of total expenses as a percentage of revenue. Management's focus on tight cost control at all properties during the year helped to offset this reality.

### Cost of Sales

Cost of sales, will for the most part, follow the performance of F&B revenue. Other cost of sales are made up of mostly room service charges in the hotel for such items as long distance telephone, movie rentals, laundry etc. Their corresponding revenues are included in Other Revenue. Cost of sales 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 sales percentage will be experienced for sales falling into the Other category due to the dissimilar nature of the products included.

Cost of Sales	Q4 (twelve months)			Q4 (three months)			vs. previous quarter	
	2010	2009	+(-)	2010	2009	+(-)	Q3 2010	+(-)
<b>Food &amp; Mix</b>	<b>2,740.0</b>	1,697.0	61.5%	<b>887.0</b>	499.4	77.6%	711.9	24.6%
<b>Liquor</b>	<b>1,874.9</b>	1,517.3	23.6%	<b>560.3</b>	407.8	37.4%	473.2	18.4%
<b>Other</b>	<b>201.9</b>	117.9	71.2%	<b>66.1</b>	26.1	152.9%	62.7	5.3%
<b>Total</b>	<b>4,816.8</b>	3,332.3	44.6%	<b>1,513.3</b>	933.4	62.1%	1,247.8	21.3%

(in thousands of dollars unless stated otherwise)

Cost of Sales %	Q4 (twelve months)			Q4 (three months)			vs. previous quarter	
	2010	2009	+(-)	2010	2009	+(-)	Q3 2010	+(-)
<b>Food &amp; Mix</b>	<b>43.1%</b>	47.7%	(4.6%)	<b>40.1%</b>	47.4%	(7.3%)	43.2%	(3.1%)
<b>Liquor</b>	<b>20.3%</b>	21.2%	(0.9%)	<b>19.9%</b>	20.6%	(0.7%)	20.3%	(0.4%)
<b>Other</b>	<b>46.2%</b>	53.0%	(6.8%)	<b>40.4%</b>	47.3%	(6.9%)	57.8%	(17.4%)

Results include 100% of the Deerfoot beginning May 1, 2010 compared to Gamehost's reported 40% proportionate interest in expenses prior to May 1, 2010.

As expected, cost of sales percentages improved on overall food and mix sales with the acquisition of a further 51% of the Deerfoot's non-commission based food operations.

## Human Resources

General administrative salaries and bonuses, Trustee and management fees, benefit costs, payroll taxes and other miscellaneous human resource costs are all combined under this heading.

Human Resources	Q4 (twelve months)			Q4 (three months)			vs. previous quarter	
	2010	2009	+(-)	2010	2009	+(-)	Q3 2010	+(-)
<b>Operations</b>	<b>15,912.6</b>	11,101.1	43.3%	<b>4,765.0</b>	2,725.2	74.8%	4,426.5	7.6%
<i>% of Revenues</i>	<i>25.0%</i>	<i>23.1%</i>	<i>1.9%</i>	<i>26.2%</i>	<i>23.1%</i>	<i>3.1%</i>	<i>25.2%</i>	<i>1.0%</i>
<b>General admin</b>	<b>473.6</b>	468.8	1.0%	<b>118.6</b>	116.0	2.3%	109.6	8.3%
<b>Trustee fees</b>	<b>181.8</b>	162.0	12.2%	<b>47.0</b>	45.0	4.4%	44.8	5.0%
<b>General &amp; admin</b>	<b>655.4</b>	630.8	3.9%	<b>165.6</b>	161.0	2.9%	154.3	7.3%
<i>% of Revenues</i>	<i>1.0%</i>	<i>1.3%</i>	<i>(0.3%)</i>	<i>0.9%</i>	<i>1.4%</i>	<i>(0.5%)</i>	<i>0.9%</i>	<i>-%</i>
<b>Management fees</b>	<b>1,381.4</b>	1,008.3	37.0%	<b>374.6</b>	217.6	72.2%	398.7	(6.0%)
<i>% of Revenues</i>	<i>2.2%</i>	<i>2.1%</i>	<i>0.1%</i>	<i>2.1%</i>	<i>1.8%</i>	<i>0.2%</i>	<i>2.3%</i>	<i>(0.2%)</i>
<b>Total</b>	<b>17,949.3</b>	12,740.2	40.9%	<b>5,305.3</b>	3,103.8	70.9%	4,979.5	6.5%
<b>% of Revenues</b>	<b>28.2%</b>	26.5%	1.7%	<b>29.2%</b>	26.3%	2.9%	28.3%	0.8%

Results include 100% of the Deerfoot beginning May 1, 2010 compared to Gamehost's reported 40% proportionate interest in expenses prior to May 1, 2010.

Deerfoot has a higher labour to revenue ratio than Gamehost's other properties due to its more complex operations. Overall human resource costs as a percentage of revenue has risen as a result.



## Marketing and Promotions

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

Marketing	Q4 (twelve months)			Q4 (three months)			vs. previous quarter	
	2010	2009	+(-)	2010	2009	+(-)	Q3 2010	+(-)
<b>Total</b>	<b>2,767.8</b>	2,119.7	30.6%	<b>793.0</b>	577.0	37.4%	711.5	11.5%
<b>% of Revenues</b>	<b>4.3%</b>	4.4%	(0.1%)	<b>4.4%</b>	4.9%	(0.5%)	4.0%	0.3%

(in thousands of dollars unless stated otherwise)

Results include 100% of the Deerfoot beginning May 1, 2010 compared to Gamehost's reported 40% proportionate interest in expenses prior to May 1, 2010.

Marketing and promotional spending by property have been reduced. More focused and targeted efforts have been initiated.

The Deerfoot, having the largest promotion budget, made the largest contribution to these expense reductions. Overall spending was reduced to 6.0% of Deerfoot revenue from 7.7% the year prior. Market share in the competitive Calgary market has improved with the modified promotion efforts.

Marketing and promotional spending was higher during the Quarter as a result of Christmas banquet season and numerous entertainment promotions.

## Operating Costs

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

Operating Costs	Q4 (twelve months)			Q4 (three months)			vs. previous quarter	
	2010	2009	+(-)	2010	2009	+(-)	Q3 2010	+(-)
<b>Total</b>	<b>7,522.2</b>	5,972.3	26.0%	<b>2,201.9</b>	1,599.6	37.7%	1,972.8	11.6%
<b>% of Revenues</b>	<b>11.8%</b>	12.4%	(0.6%)	<b>12.1%</b>	13.6%	(1.5%)	11.2%	0.9%

(in thousands of dollars unless stated otherwise)

Results include 100% of the Deerfoot beginning May 1, 2010 compared to Gamehost's reported 40% proportionate interest in expenses prior to May 1, 2010.

Quarter four is a higher cost quarter because of increased utility usage and the frequency of promotional entertainment. Operating costs typically improve in the next three quarters.

With the exception of the Deerfoot, whose results were slightly higher, all other properties experienced stable or lower operating expenses as a percentage of overall revenues.

## General and Administrative

General and administrative expenditures include professional fees, insurance, property and business taxes, corporate travel and other less significant expenses.

General & Administration	Q4 (twelve months)			Q4 (three months)			vs. previous quarter	
	2010	2009	+(-)	2010	2009	+(-)	Q3 2010	+(-)
<b>Total</b>	<b>2,831.0</b>	2,302.0	23.0%	<b>666.1</b>	652.2	2.1%	599.8	11.1%
<b>% of Revenues</b>	<b>4.4%</b>	4.8%	(0.3%)	<b>3.7%</b>	5.5%	(1.9%)	3.4%	0.3%

(in thousands of dollars unless stated otherwise)

One-time expenses including third party accounting services related to IFRS and legal fees related to the Acquisition and Conversion pushed costs higher for the Quarter.

## Interest

Interest expense is recorded on demand debt held by Gamehost Limited Partnership and the Deerfoot accrued interest on convertible debentures and amortized Debenture issue costs.

Interest	Q4 (twelve months)			Q4 (three months)			vs. previous quarter	
	2010	2009	+(-)	2010	2009	+(-)	Q3 2010	+(-)
<b>Total</b>	<b>4,371.2</b>	813.9	437.1%	<b>1,474.1</b>	229.2	543.1%	1,454.4	1.4%
<b>% of Revenues</b>	<b>6.9%</b>	1.7%	5.2%	<b>8.1%</b>	1.9%	6.2%	8.3%	(0.2%)

(in thousands of dollars unless stated otherwise)

Results include 100% of the Deerfoot beginning May 1, 2010 compared to Gamehost's reported 40% proportionate share prior to May 1, 2010 including the additional ownership of the Deerfoot's interest bearing debt facilities.

On April 16, 2010, Gamehost issued \$55 million in convertible debentures at 6.25% to acquire a further 51% interest in the Deerfoot. Interest on the Debentures is accrued monthly and paid semi-annually on July 31<sup>st</sup> and January 31<sup>st</sup> of each year.

Of the recorded interest for the Quarter, \$0.8 million represents non-cash interest for amortization of Debenture issue costs.

## Future Tax

Future tax expenses are a non-cash charge. Future taxes are estimates only.

Future Tax (recovery)	Q4 (twelve months)			Q4 (three months)			vs. previous quarter	
	2010	2009	+(-)	2010	2009	+(-)	Q3 2010	+(-)
<b>Total</b>	<b>(219.5)</b>	(276.8)	(20.7%)	<b>70.7</b>	39.9	77.2%	(284.5)	(124.8%)
<b>% of Revenues</b>	<b>(0.3%)</b>	(0.6%)	0.2%	<b>0.4%</b>	0.3%	0.1%	(1.6%)	2.0%

(in thousands of dollars unless stated otherwise)

Future taxes are recalculated quarterly based on additions and disposals from asset pools. The Acquisition of an additional 51% interest in the Deerfoot resulted in an adjustment to the future tax estimate during the Period.



## Reconciliation of EBITDA to Net Earnings

EBITDA to Net Earnings	Q4 (twelve months)			Q4 (three months)			vs. previous quarter	
	2010	2009	+(-)	2010	2009	+(-)	Q3 2010	+(-)
EBITDA	<b>26,890.2</b>	21,615.7	24.4%	<b>7,372.8</b>	4,922.4	49.8%	7,661.8	(3.8%)
EBITDA %	<b>42.2%</b>	45.0%	(2.7%)	<b>40.6%</b>	41.8%	(1.2%)	43.6%	(3.0%)
Add back:								
Gain on revaluation of assets	<b>27,083.0</b>	-	n/a	-	-	n/a	-	n/a
Amortization on property, plant and equipment	<b>(3,711.3)</b>	(1,890.6)	96.3%	<b>(1,343.1)</b>	(468.3)	186.8%	(1,358.5)	(1.1%)
Interest charges	<b>(4,371.2)</b>	(813.9)	437.1%	<b>(1,474.1)</b>	(229.2)	543.1%	(1,454.4)	1.4%
Future income tax expense	<b>219.5</b>	276.8	(20.7%)	<b>(70.7)</b>	(39.9)	77.2%	284.5	(124.8%)
Financing charges	-	(4,551.0)	(100.0%)	-	449.0	(100.0%)	-	n/a
Non-controlling interest	<b>896.2</b>	-	n/a	<b>327.6</b>	-	n/a	352.5	(7.1%)
Discontinued operations	-	(4,627.6)	(100.0%)	-	-	n/a	-	n/a
Net and comprehensive income (loss)	<b>47,006.4</b>	10,009.5	369.6%	<b>4,812.5</b>	4,634.1	3.9%	5,486.0	(12.3%)

## Facilities

Capital Expenditures	Q4 (twelve months)			Q4 (three months)			vs. previous quarter	
	2010	2009	+(-)	2010	2009	+(-)	Q3 2010	+(-)
Maintenance	<b>248.0</b>	400.0	(38.0%)	<b>112.6</b>	86.6	30.0%	70.7	59.2%
Expansion	<b>52,684.4</b>	-	n/a	-	-	n/a	-	n/a
Dispositions	-	(11.9)	(100.0%)	-	-	n/a	-	n/a
	<b>52,932.4</b>	388.1	13538.9%	<b>112.6</b>	86.6	30.0%	70.7	59.2%
Discontinued operations	-	(12,388.9)	(100.0%)	-	-	n/a	-	n/a
	<b>52,932.4</b>	(12,000.8)	(541.1%)	<b>112.6</b>	86.6	30.0%	70.7	59.2%

(in thousands of dollars unless stated otherwise)

Capital expenditures for 2009 include \$11,424,000 of non-cash items written off as they relate to discontinued operations. Gamehost acquired a further 51% interest in the Deerfoot for a net cash consideration of \$55.6 million.

## Financial Condition

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### Liquidity

Cash provided by operating activities of continuing operations for the Quarter totaled \$7.2 million compared to \$5.0 million in the prior year. At the end of the Quarter cash and cash equivalent balances totaled \$14.6 million compared to \$10.0 million at December 31, 2009. 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 and Outlook'. Management closely monitors Gamehost's ability to sustain current cash distributions with cash flow from operations and other sources or uses of cash.

Gamehost has revolving credit lines totaling \$8.0 million of which \$8.0 million is available to be drawn.

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

Working capital, by definition, is current assets minus current liabilities. The Company's demand debt held by Gamehost Limited Partnership and the 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 machinery, 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. Alberta Gaming and Liquor Commission require all casinos to maintain a Minimum Continuing Net Working Capital Position ("MCNWCP").

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

### *Debenture redemptions*

Debentures are redeemable at the holder's discretion. Converted Debentures increase total cash distributions under the annual dividend policy and require 33% more cash than unconverted Debentures.

### *Fund's Liability for Tax*

The Gamehost Trust Agreement provides that a sufficient amount of the Fund's net income and net realized capital gains shall be distributed each year to Unitholders in order to eliminate the Fund's liability for income tax under Part I of the Tax Act. Where such amount of net income and net realized gains of the Fund in a taxation year exceeds the cash available for distribution in the year, such excess net income and net realized capital gains will be distributed to Unitholders in the form of additional Fund Units. Unitholders are generally required to include an amount equal to the fair market value of those Fund Units in their taxable income, in circumstances when they do not directly receive a cash distribution. Upon the Fund becoming subject to the new tax on distributions pursuant to the Specified Investment Flow through ("SIFT") Tax Legislation (discussed below), the Fund will no longer be able to eliminate the Fund's liability for tax under Part I of the Tax Act.

### *SIFT Tax Legislation*

On October 31, 2006, the Minister of Finance (Canada) first announced amendments to the Tax Act (subsequently enacted into legislation on June 22, 2007) to create a new tax regime (the “SIFT Tax Legislation”) for certain publicly traded income trusts. The SIFT Tax Legislation applies to trusts that are resident in Canada for purposes of the Tax Act, that hold one or more “non-portfolio properties”, and the trust units of which are listed on a stock exchange or other public market (a “SIFT”). A SIFT effectively is subject to tax on its income from non-portfolio properties and taxable capital gains from dispositions of non-portfolio properties paid, or made payable, to unitholders at a rate comparable to the combined federal and provincial corporate income tax rate. In general terms, a trust that existed on October 31, 2006 and to which the SIFT Tax Legislation otherwise would apply (i.e. the Fund), should not become a SIFT until the earlier of January 1, 2011 or the first day after December 15, 2006 that the trust exceeds “normal growth” determined by reference to guidelines first issued on December 15, 2006 by the Minister of Finance (Canada) and amended on December 4, 2008 (the “Guidelines”). The Guidelines provide that a trust should not be considered to exceed “normal growth” if the trust does not issue new equity (including Debentures or other equity substitutes) that certain specified “safe harbour” amounts based on the market capitalization of the trust on October 31, 2006. While these safe harbours are such that it is unlikely they alone would affect the Fund’s ability to raise the capital required to maintain and grow the Fund’s existing operations in the ordinary course during the transition period, they could adversely affect the cost of raising capital and the Fund’s ability to undertake more significant acquisitions. Provided that the Fund does not issue new equity (including debt that is convertible into equity) in an amount greater than the “safe-harbour” determined by reference to the market capitalization of the Fund on October 31, 2006, the Fund should not be considered to exceed “normal growth” as set forth in the Guidelines. Had the Fund become a SIFT, the Fund expected that the SIFT Tax Legislation would result in adverse tax consequences to the Fund and certain Unitholders and would have affected the level of the Fund’s cash distributions. In particular, management of the Fund believed that the SIFT Tax Legislation would have reduced the net amounts the Fund has available to distribute to Unitholders to the extent of any tax payable by the Fund on non-portfolio earnings after the time the Fund were to become a SIFT.

### *Response to the SIFT Tax Legislation*

#### *1. Acquisition of a further 51% interest in the Deerfoot*

Gamehost completed the Acquisition following overwhelming unitholder support and all required regulatory consents on May 4, 2010. Gamehost now holds, via the Limited Partnership, a 91% interest in the Deerfoot. The total consideration for the Acquisition was \$52,684,429.

Cash	4,494,980
Property, plant and equipment	39,117,000
Other assets	978,209
Licenses	9,690,000
Goodwill	10,391,582
Future income tax	(4,118,582)
Other liabilities	(7,868,760)
Total purchase price	<u>52,684,429</u>

Gamehost funded the Acquisition by way of a Debenture offering which closed on April 16, 2010 and by drawing down on its credit facilities. Gamehost entered into an agreement with a syndicate of underwriters led by Scotia Capital Inc., pursuant to which the underwriters agreed to purchase, on a bought deal basis, Debentures in the aggregate principal amount of \$55 million. The Debentures have a maturity date of July 31, 2015. Debentures will bear interest at a rate of 6.25% per annum, payable semi-annually in arrears on July 31 and January 31 each year, and will be convertible at the option of the holder into Gamehost Inc. Shares at a conversion rate of approximately 93.8967 Gamehost Inc. Shares per \$1,000 principal amount of Debentures, which is equal to a conversion price of \$10.65 per Gamehost Inc. Common Share.

## *2. Arrangement to Convert to a Corporation*

The purpose of the Arrangement was to convert the Fund to a corporation; Gamehost Inc. Gamehost Inc. owns the Fund and carries on the existing businesses of the Fund. Gamehost Inc. has the same board of directors as the Fund and the same management as the Manager.

The Arrangement was primarily motivated by the taxes and limitations imposed on SIFTs by the SIFT Rules. The Arrangement provided for an effective and efficient method of converting from a SIFT to a corporation consistent with the SIFT Rules. Gamehost expects that Gamehost Inc. will make monthly 'eligible dividend' payments to holders of Gamehost Inc. Shares of \$0.0733 per Gamehost Inc. Common Share (i.e., \$0.8796 per Gamehost Inc. Common Share on an annualized basis). On the payment of monthly dividends by Gamehost Inc., Canadian taxable shareholders of Gamehost Inc. will receive an enhanced dividend tax credit compared to the tax treatment of Gamehost's current monthly cash distributions to Canadian taxable Gamehost Unitholders as other income. The exchange of Fund Units and Class B LP Units for Gamehost Inc. Shares pursuant to the transaction is tax deferred for unitholders based on the current rules for SIFT conversions. Gamehost's Conversion may result in greater access to capital and the removal of the "normal growth" and "undue expansion restrictions" in the SIFT Rules that limited the Fund's ability to consider certain strategic acquisitions. Remaining as a public income trust would have diminished Gamehost's ability to raise capital in the future.

## 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. There were no requests for capital made by the Deerfoot during the Quarter and no capital was contributed during the Quarter.

On June 1, 2003 the 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. This agreement was amended effective May 1, 2010 to reduce the fee to 1.5% of EBITDA of the Company with the intent that the Acquisition should have no impact on management fees except where performance of the Deerfoot changes.

On April 26, 2005 the Deerfoot entered into a management services agreement with 1016312 Alberta Ltd. The management agreement stipulates that 1016312 Alberta Ltd is entitled to 1.5% of the gross revenues plus 2.0% of EBITDA of the Deerfoot.

On January 1, 2007 Gamehost entered into a management services agreement with 1508956 Alberta Ltd. The management agreement stipulates that 1508956 Alberta Ltd. is 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 Quarter these commitments were;

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



## Standardized Distributable Cash

Standardized Distributable Cash is not a defined term under Canadian GAAP, and its application and interpretation vary widely from issuer to issuer. Gamehost originally defined a calculation of distributable cash in its information circular dated April 22, 2003. In this document, distributable cash is calculated as net income determined in accordance with Canadian GAAP, subject to certain adjustments as set out in the Declaration of Trust, including:

- a) Adding the following items: amortization on property, plant & equipment, future income tax expense and losses on dispositions of assets; and
- b) Deducting the following items: future income tax credits, gains on dispositions of assets and capital maintenance expenditures.

Other adjustments may be made to distributable cash as determined by a majority of the Directors at their discretion.

The Canadian Standards Association (the “CSA”) proposed amendments to National Policy 41-201 regarding the disclosure of distributable cash. Similarly, the Canadian Institute of Chartered Accountants (the “CICA”) in July 2007 issued an interpretive release titled Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities. For both of these governing bodies, the intent is to improve on current and varied industry reporting practices. Gamehost has adopted the reporting methodology outlined in the CICA’s July 2007 interpretive release for reporting distributable cash from operations.

### Distribution policy and practice

The board of directors of Gamehost is responsible for determining the dividend policy of Gamehost from time to time. As an ABCA corporation, 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).

Concurrent with the completion of the Conversion, the monthly distribution policy of the Fund was replaced with a dividend policy adopted by the Corporation that is designed to provide for 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 have retained the right to modify such dividend policy from time to time in its discretion.

### Productive capacity

Gamehost’s assets are in 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 all 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. Together these licenses provide a revenue stream for Gamehost from an equivalent 1,608 electronic gaming devices, 67 table games and other ancillary equipment. The table below summarizes changes in productive capacity since the beginning of operations.



Year	Event	Gaming/ Entertainment Sq ft	Banquet/ Convention 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 the Deerfoot	31,212	10,200	113	153	448	20	
	Deerfoot table addition						2	
	Year ended December 31, 2010	108,356	19,400	311	523	1,608	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 and beds. 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 distributable cash from operations.

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



Gaming operations of Gamehost require minimal capital outlay by Gamehost. Slot machines are owned and maintained by the Alberta Gaming and Liquor Commission. 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 Alberta Gaming and Liquor Commission. 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 Alberta Liquor and Gaming Commission. Maintaining these licenses requires a nominal fee to cover the cost of Alberta Gaming and Liquor Commission's due diligence investigation which is expensed.

Gamehost's charitable gaming operator licenses have consistently received favourable results from these audits.

Normal annual capitalized costs for productive capacity maintenance following the Acquisition are typically \$600,000. A major refurbishment of the Deerfoot is planned which will result in higher than normal expenditures in 2011.

#### Discretionary and other items

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

#### 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 cleanup, 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 payments when surplus cash is available and intermittent payments/advances on revolving debt instruments. Surplus cash is routinely used to reduce revolving balances for the purpose of minimizing interest expenses throughout the year.

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 to the extent that the mix of debt to equity would be accretive to distributions of Gamehost.

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

#### Financing restrictions on distributions caused by debt covenants

The Limited Partnership 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 Partnership require the maintenance of certain financial covenants. The Limited Partnership 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.

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

### Working Capital

Working capital, by definition, is current assets minus current liabilities. Gamehost’s demand debt held by Gamehost Limited Partnership and the Deerfoot 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 Shareholder 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.

Alberta Gaming and Liquor Commission require 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. Gamehost’s internal working capital requirements typically exceed that of MCNWCP.

### Standardized Distributable Cash

Standardized Distributable Cash is defined as periodic cash flows from operating activities as reported in the GAAP financial statements, including the effect of changes in non-cash working capital and any operating cash flows provided from or used in discontinued operations, less adjustments for: total GAAP reported capital expenditures; and restrictions on distributions arising from compliance with financial covenants restrictive at the date of calculation of Standardized Distributable Cash.

Standardized Distributable Cash	Q4 (twelve months)		Q4 (three months)		Since Inception
	2010	2009	2010	2009	June 2003
Cash provided by (used by) operating activities:					
Continuing operations	\$ 25,250	\$ 16,705	\$ 7,159	\$ 4,954	\$ 147,066
Discontinued operations	-	(232)	-	-	(706)
	\$ 25,250	\$ 16,473	\$ 7,159	\$ 4,954	\$ 146,360
Adjustment for non-controlling interest	(675)	-	(245)	-	(675)
Cash provided by (used by) operations	\$ 24,575	\$ 16,473	\$ 6,914	\$ 4,954	\$ 145,685
Capital expenditures from operating cash flow:					
Continuing operations	(594)	(566)	(113)	(267)	(6,093)
Discontinued operations	-	(11)	-	-	(11)
	(594)	(577)	(113)	(267)	(6,104)
Financing (restrictions) caused by debt covenants:					
Continuing operations	(4,346)	(2,084)	(1,426)	(494)	(8,897)
Discontinued operations	-	(181)	-	-	(298)
	(4,346)	(2,265)	(1,426)	(494)	(9,195)
Standardized Distributable Cash					
Continuing operations	\$ 19,635	\$ 14,056	\$ 5,376	\$ 4,193	\$ 131,401
Discontinued operations	\$ -	\$ (424)	\$ -	\$ -	(1,015)
	\$ 19,635	\$ 13,631	\$ 5,376	\$ 4,193	\$ 130,386
Standardized Distributable Cash/unit					
Continuing operations	\$ 0.9302	\$ 0.6659	\$ 0.2547	\$ 0.1986	\$ 6.2253
Discontinued operations	\$ -	\$ (0.0201)	\$ -	\$ -	\$ (0.0481)
	\$ 0.9302	\$ 0.6458	\$ 0.2547	\$ 0.1986	\$ 6.1772
Cash distributions paid	\$ 18,566	\$ 18,566	\$ 4,642	\$ 4,642	\$ 134,834
Cash distributions paid/unit	\$ 0.8796	\$ 0.8796	\$ 0.2199	\$ 0.2199	\$ 13.5913
Payout ratio					
Continuing operations	94.6%	132.1%	86.3%	110.7%	102.6%
Total operations	94.6%	136.2%	86.3%	110.7%	103.4%

Cash distributions**2011 Dividend Summary**

Month	Date Declared	Record Date	Payment Date	Dividend per Share
January	01/13/2011	01/27/2011	02/15/2011	\$0.0733
February	02/14/2011	02/24/2011	03/15/2011	\$0.0733
March	03/08/2011	03/31/2011	04/15/2011	\$0.0733

**2010 Distribution Summary**

Month	Date Declared	Record Date	Payment Date	Distribution per Unit
January	20-Jan-10	27-Jan-10	19-Feb-10	\$0.0733
February	25-Feb-10	05-Mar-10	26-Mar-10	\$0.0733
March	23-Mar-10	06-Apr-10	23-Apr-10	\$0.0733
April	19-Apr-10	30-Apr-10	14-May-10	\$0.0733
May	21-May-10	02-Jun-10	15-Jun-10	\$0.0733
June	14-Jun-10	30-Jun-10	15-Jul-10	\$0.0733
July	20-Jul-10	31-Jul-10	13-Aug-10	\$0.0733
August	12-Aug-10	31-Aug-10	15-Sep-10	\$0.0733
September	16-Sep-10	30-Sep-10	15-Oct-10	\$0.0733
October	14-Oct-10	31-Oct-10	15-Nov-10	\$0.0733
November	19-Nov-10	30-Nov-10	15-Dec-10	\$0.0733
December	17-Dec-10	31-Dec-10	17-Jan-11	\$0.0733
Total				\$0.8796

**2009 Distribution Summary**

Month	Date Declared	Record Date	Payment Date	Distribution per Unit
January	15-Jan-09	31-Jan-09	13-Feb-09	\$0.0733
February	10-Feb-09	28-Feb-09	13-Mar-09	\$0.0733
March	12-Mar-09	31-Mar-09	15-Apr-09	\$0.0733
April	08-Apr-09	30-Apr-09	15-May-09	\$0.0733
May	14-May-09	31-May-09	15-Jun-09	\$0.0733
June	11-Jun-09	30-Jun-09	15-Jul-09	\$0.0733
July	16-Jul-09	31-Jul-09	14-Aug-09	\$0.0733
August	14-Aug-09	31-Aug-09	15-Sep-09	\$0.0733
September	25-Sep-09	30-Sep-09	06-Oct-09	\$0.0733
October	21-Oct-09	31-Oct-09	16-Nov-09	\$0.0733
November	25-Nov-09	30-Nov-09	04-Dec-09	\$0.0733
December	18-Dec-09	31-Dec-09	21-Jan-10	\$0.0733
Total				\$0.8796

Tax attributes of distributions to Unitholders

Former unitholders can expect their distributions to be mostly taxable as income. A small percentage of the unitholder's distributions may be return of capital for tax purposes. Any return of capital reported represents the excess of distributions from Gamehost over that required to eliminate the taxable position of the Fund. Return of capital is considered a partial return of the unitholder's original investment and reduces the cost base of their investment. Tax implications manifest on the return of capital portion when a unitholder sells their investment and capital gains or losses are realized on the sale of the investment.



<b>Tax Attributes</b>	<b>Income</b>	<b>Return of Capital</b>	<b>Total</b>
<b>2010</b>	83.71%	16.29%	100.00%
<b>2009</b>	89.65%	10.35%	100.00%
<b>2008</b>	93.17%	6.83%	100.00%
<b>2007</b>	98.04%	1.96%	100.00%
<b>2006</b>	97.25%	2.75%	100.00%
<b>2005</b>	89.61%	10.39%	100.00%
<b>2004</b>	95.25%	4.75%	100.00%
<b>2003</b>	73.12%	26.88%	100.00%

#### 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 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).

#### Future Income tax

Future tax is estimated based on assets and liabilities at the end of the year and the expected combined Federal and Alberta tax rate of 25.0% for 2012 when taxable income will first arise. Temporary differences and carry-forwards which give rise to future income tax assets and liabilities at the end of the Quarter are as follows:

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

Early in 2011, a wholly owned subsidiary of Gamehost, holding losses stemming from discontinued operations of \$5.5 million, amalgamated with Gamehost Inc. As a result, Gamehost recorded a deferred tax asset approximating \$1.4 million in the next fiscal period.

## Capital Resources

#### Limited Partnership

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

The Limited Partnership issued \$55.0 million in Debentures on April 16, 2010. The Debentures have a coupon rate of 6.25% per annum with semi-annual interest payments in arrears due on July 31 and Jan 31 of each year. The Debentures have a conversion privilege to Fund Units any time prior to maturity date of July 31, 2015 at a price of \$10.65 per Fund Unit approximating 93.8967 Fund Units per \$1,000 principal amount of Debentures.

## Deerfoot

The Deerfoot has a \$24.0 million 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 CWB Prime Lending Rate. The Deerfoot is making blended monthly principal and interest payments on a \$22.0 million segment of the loan amortized over 15 years. \$2.0 million of this loan is available on a revolving basis.

Credit Facilities	December 31, 2010
Authorized Maximum Loan amounts	
Demand loan	13,238,327
Revolving credit lines	6,000,000
Deerfoot - demand loan	22,000,000
Deerfoot - demand loan, revolving	2,000,000
Demand promissory note	-
Debentures face value	55,000,000
Continuing Operations	98,238,327
Outstanding balance	
Demand loan	12,598,093
Revolving credit lines	-
Deerfoot - demand loan	12,706,428
Deerfoot - demand loan, revolving	-
Demand promissory note	-
<sup>1</sup> Debentures payable	48,256,207
Continuing Operations	73,560,728
Interest rate	
Demand loan	4.00% (P +1.00%)
Revolving credit lines	4.00% (P +1.00%)
Deerfoot - demand loan	4.00% (P +1.00%)
Deerfoot - demand loan, revolving	4.00% (P +1.00%)
Demand promissory note	3.25%
Debentures face value	6.25%

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

<sup>2</sup> 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 Limited Partnership 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**

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### Fair value

The fair value of cash and cash equivalents, restricted cash, accounts receivable, revolving credit lines, accounts payable and accrued liabilities, demand loans and unitholder distributions approximate their carrying value due to the short-term maturities of these instruments.

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

### Foreign Exchange Risk

Gamehost has no material foreign currency risk.

### Interest Rate Risk

Gamehost's interest rate risk arises primarily from its variable rate debt in the aggregate amount of \$25.3 million. Gamehost is paying interest at a stipulated floor rate of 4.0% on traditional bank demand debt and revolving debt; otherwise the rate on these debt instruments is 1.0% above the bank prime lending rate. A 1.0% increase in interest rates would have an unfavourable impact on earnings of \$253,000 or \$0.012/share on an annualized basis.

### Credit Risk

Credit risk arises from cash and cash equivalents held with banks and credit exposure to customers. Gamehost's day to day commercial banking is with AAA rated Canadian financial institutions. Day to day commercial banking is not concentrated with a single financial institution.

Gamehost, in the normal course of operations, monitors the financial condition of its customers. Gamehost does not have significant exposure to any individual customer or counterparty.

Carrying amounts of accounts receivable are reduced on an account specific basis when appropriate. Gamehost does not currently carry an allowance for doubtful accounts. Carrying amounts of accounts receivable are reduced by direct write-off to earnings in the period of loss recognition. At the end of the Quarter, 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. Gamehost achieves this by maintaining a conservative distribution policy. Gamehost's payout ratio on Standardized Distributable Cash for the end of the Period and Quarter was 93% and 86% respectively.

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

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

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 distribution over the interest liability on Debentures.



Alberta Gaming and Liquor Commission require 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. Gamehost’s internal working capital requirements typically exceed that of MCNWCP.

#### Industry risk

Service Plus in Grande Prairie derives 55.0% of its business from the energy sector. As a result, Gamehost is exposed to 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. The comparatives do not include Discontinued Operations. Related party balances are unsecured and non-interest bearing with no specific terms of repayment with one exception noted below.

Gamehost had related party transactions with the persons of David Will and Darcy Will and/or companies owned or controlled by David Will and/or Darcy Will collectively (the “Wills”). Both David Will and Darcy Will are Directors of Gamehost and significant shareholders. Together, the Wills control 44.1% of the outstanding shares of Gamehost. Transactions with the Wills include the following:

- Gamehost recorded \$1,169,029 (\$839,007 - 2009) of management services expenses for the Period which are included in human resources expenses. Management fees stipulated in management services agreements are based on a percentage of revenues and/or earnings before interest, taxes depreciation and amortization. At the end of the Period \$85,382 (\$67,770 - 2009) remained in accounts payable. As Chief Executive Officer and Vice President, David Will and Darcy Will, respectively do not take any salary for their management of Gamehost, but are compensated through management services agreements. Management fees are higher year over year due to the Acquisition.
- Gamehost recorded \$120,318 (\$30,678 – 2009) of charter aircraft rental expenses for the Period which is included in operating expenses. At the end of the Period, \$14,533 (\$11,785 – 2009) remained in accounts payable accounts. Travel to Gamehost’s operational centers of Grande Prairie and Ft. McMurray is made more efficient via charter air services than can be accomplished through commercial carriers.
- Gamehost recorded \$46,500 (\$47,500 – 2009) in Trustee fees during the Period which are included in human resources expenses. At the end of the Period \$5,000 (\$5,000 – 2009) remained in accounts payable.
- Gamehost recorded \$86,861 (\$43,089 – 2009) in interest charges during the Period which are included in interest expense. At the end of the Period \$nil (\$11,044 – 2009) remained in accounts payable. Interest charges arose from \$nil (\$4,001,000 – 2009) in outstanding amounts on promissory notes during the Period. The promissory note was repaid in full July 2010. The loan was unsecured with a fixed interest rate of 3.25%. Loan proceeds were used to honour obligations under a guarantee Gamehost provided to the lender of the now discontinued operations.
- Gamehost acquired a further 51% interest in the Deerfoot on April 30, 2010 for total consideration of \$52.7 million following approval by a committee of independent trustees (the “Independent Trustees”) of Gamehost’s Board.



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

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

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

## Outstanding Share Data

### Unitholder's Equity

As a result of the conversion to a corporation, outstanding Fund Units were exchanged for Shares on a one for one basis. The weighted average of equivalent shares outstanding for the Quarter is equal to the shares issued. Gamehost issued \$55 million in Debentures that would be dilutive during the Period. Otherwise, Gamehost did not have any options, warrants, rights or convertible instruments that would be potentially dilutive during the Quarter.

Unitholders' Equity	twelve months ended December 31		three months ended December 31	
	2010	2009	2010	2009
Balance at beginning of period	\$ 30,439,635	\$ 32,018,886	\$ 48,663,557	\$ 30,443,794
Unit class conversions	-	3,193,434	-	-
Debenture conversion privilege	2,729,168	-	-	-
Net earnings	25,789,396	5,582,979	2,527,892	2,584,756
Distributions to unitholders	(10,355,668)	(10,355,664)	(2,588,918)	(2,588,915)
Unit conversion to Shares	(48,602,531)	-	(48,602,531)	-
Balance at end of period	\$ -	\$ 30,439,635	\$ -	\$ 30,439,635

### Non-Controlling Interest

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

### Class B LP Unitholders

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

Class B LP Unitholders	twelve months ended December 31		three months ended December 31	
	2010	2009	2010	2009
Balance at beginning of period	\$ 25,977,980	\$ 32,955,463	\$ 40,426,901	\$ 25,981,280
Unit class conversions	-	(3,193,434)	-	-
Debenture conversion privilege	2,163,833	-	-	-
Earnings allocations to Class B LP unitholders	20,447,245	4,426,491	2,004,254	2,049,336
Distributions to Class B LP unitholders	(8,210,533)	(8,210,540)	(2,052,630)	(2,052,636)
Unit conversion to Shares	(40,378,525)	-	(40,378,525)	-
Balance at end of period	\$ -	\$ 25,977,980	\$ -	\$ 25,977,980

### Shareholder Equity

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

Shareholders' Equity	twelve months ended December 31		three months ended December 31	
	2010	2009	2010	2009
Balance at beginning of period	\$ -	\$ -	\$ -	\$ -
Conversion to Shares				
Contributed capital	70,358,510	-	70,358,510	-
Retained earnings	150,889,389	-	150,889,389	-
Organizational costs	(2,325,493)	-	(2,325,493)	-
Debenture conversion privilege	4,893,002	-	4,893,002	-
Cumulative distributions	(134,834,352)	-	(134,834,352)	-
	88,891,056	-	88,981,056	-
Net current earnings	-	-	-	-
Dividends	-	-	-	-
Balance at end of period	\$ 88,891,056	\$ -	\$ 88,981,056	\$ -

Common stock is valued at the original contributed capital amount as at the 2003 plan of arrangement forming the Fund.

## Business Risks, Opportunities and Outlook

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### Economic Outlook

Following a period in excess of two years of declining or mixed operating results, we have experienced a Quarter of stable revenues and cost control gains across the properties. The recession was officially declared over and the gaming industry is on the road to a recovery.

Alberta's economy fell short of expectations in 2010; however the Alberta economy is expected to improve in 2011. The oil industry has improved on global demand in developing nations and moderate growth is predicted. Natural gas and drilling are recovering slowly from the recession. A four year downward trend in rig activity should turn around in 2011. In Calgary and area, employment is expected to increase 1.3%. Oil patch workers may see bonuses and profit sharing benefits in 2011, something not seen since 2010.

Construction of a new 200 bed acute care facility in Grande Prairie will begin in 2011. This hospital will be located behind the Service Plus property giving us the opportunity to service the traffic generated by the hospital. The South Health Campus in Calgary is currently under construction with the initial phase expected to be completed in 2012. The first phase will include 298 beds and 12 outpatient clinics. This property is located near the Deerfoot Inn & Casino.

Alberta infrastructure projects including planned health care facilities in Calgary and Grande Prairie as well as a recovering oil and gas sector leave us optimistic about the coming year.

Gamehost stands to see long term benefits from the cost savings gained this year. Top line growth will add directly to Gamehost's bottom line. Returns to pre-recession level revenues should translate to even higher profit margins than were produced pre-recession. We will continue to be the margin producing gaming operator in this industry.

The Alberta and Canadian gaming industry continues to present very high barriers to entry. Very few growth opportunities at attractive investment levels existed during the pre-recessionary period. Acquisition opportunities may now exist where they did not previously.

### Government Regulation

The Federal Government has jurisdiction over provincial governments 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.

The Alberta and Canadian gaming industries are highly regulated by provincial governments. 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 both their provincial counterparts and the competing Alberta First Nations operators.

## Public Interest

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.

## Alberta Charitable Casino Operators Association

Gamehost continues to support the efforts of the Alberta Charitable Casino Operators Association (“ACCOA”). ACCOA is lobbying the Alberta government to consider eliminating the uneven playing field between traditional casino operators and First Nations casino operators. The Government has heard the concerns of ACCOA as well as those of charitable groups supported by traditional casino operators.

## Negative Media

Recent media coverage of examples of the gaming Industry not adequately monitoring Voluntary Self-Exclusion Programs (VSE's) designed to deny access to problem gamblers have potential to damage the image of the gaming industry in general and could impact economic benefits. While there are no plans to change laws in Alberta, the Ontario Lottery and Gaming Corp. has unveiled a facial recognition program in 27 of its casinos in Ontario.

An explosion at CNRL's Horizon Oil Sand Facility in Fort McMurray in January 2011 again brought the oil sands into the media. Negative media about the safety and environmental concerns of the oil sands industry impact public perception of Fort McMurray and indirectly that of the Boomtown Casino.

FINTRAC (Financial Transactions and Reports Analysis Centre of Canada) is a federal agency that tracks money laundering and terrorist financing, fined B.C. Lottery Corp \$670,000 in 2010 for violations of the federal Proceeds of Crime and Terrorist Financing Act. Gamehost Inc. is in compliance with FINTRAC regulations and adheres to money laundering detection practices.

## Competition

Gamehost's Deerfoot is a unique offering in Calgary's hotel convention market and surrounding competition has had minimal impact on the facility.

In April 2009 a limited service hotel opened one block to the north of Gamehost's Deerfoot. The limited service hotel is owned and operated by related parties, the Wills. The limited service property augments the services provided by the Deerfoot by offering more budget conscious patrons with guest room options in the underserved area. Over the long term the limited service hotel is expected to be a net benefit to the Deerfoot by allowing the Deerfoot to attract larger conventions and by increasing foot traffic through the facilities casino and eating establishments.

Of 13 competing properties in Grande Prairie, Gamehost's Service Plus hotel property continues to garner an overweight share of the market due to a long serving management team delivering consistently superior service from a superior location.

Competition to the Deerfoot in Calgary remains the near proximity of First Nations gaming that can offer smoking to an otherwise smoke free gaming environment.

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

## International Financial Reporting Standards (IFRS)

All publically accountable enterprises will be required to report under IFRS for fiscal periods beginning on or after January 1, 2011. IFRS will replace guidance provided by Canadian generally accepted accounting principles (“GAAP”) for financial reporting. A detailed IFRS conversion plan is evolving to achieve full compliance with the new reporting standards effective January 1, 2011.

Management will endeavor to prepare readers of the Company's disclosures for what may be in certain cases be significant changes in the reporting of the Company's financial results. Throughout interim reporting periods in 2010, MD&A has provided a high level status reports outlining progress towards full conversion in the form outlined below. Furthermore, as decisions regarding policy change are made and their impact quantified, specifics will be disclosed in the body of the MD&A at those points in the MD&A where it is relevant. Effort will be made to provide the IFRS relevance to the presented Canadian GAAP as it becomes known.

Any communications about Gamehost's conversion plan for IFRS reflects the expectations of changeover decisions based on consideration and understanding of available information. Notwithstanding, circumstances may occur that require Gamehost to change accounting policies between the time of communicating these expectations and the changeover date.

### International Financial Reporting Standards (IFRS) - Conversion Plan

#### Phase 1 - Project Planning and IFRS Scoping

##### Project Management

Management has assigned a Project Team to ensure a successful transition to IFRS consisting of a Steering Committee, consultants, auditors, members of the Audit Committee and accounting staff. Management has engaged a third party consultant to provide guidance and support throughout the conversion period.

##### Training, Development and Communication

Training of management's members of the Project Team is ongoing as the project progresses. Training for members of the Audit Committee is complete. The Audit Committee and Board of Directors have received and approved most position papers and decisions recommended by management. The Audit Committee and Board of Directors have received quarterly updates and more frequently as needed. Shareholders (formerly Unitholders) have received quarterly updates through the MD&A.

##### Business Impacts

IFRS transition will require changes to our Internal Control over Financial Reporting. Financial statement preparation includes comparative figures reported under IFRs. No information technology system modifications will be required.

#### Phase 2 - Impact Assessment and Adjustments

##### Transitional Reporting

IFRS 1 *First-time Adoption of International Financial Reporting Standards* sets out the requirements that Gamehost must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. Gamehost 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 at Gamehost'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 which significantly ease the burden for first-time adopters. Gamehost has elected certain specified exemptions from the general principal of retrospective application as follows:

- i. Gamehost has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to Gamehost's date of transition to IFRS.
- ii. Gamehost has elected to apply the transitional provisions of IAS 23 prospectively from Gamehost'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 Gamehost. All other mandatory exemptions in IFRS 1 were not applicable because there were no significant differences in management's application of Canadian GAAP in these areas.

### Accounting/Policy Changes

An initial scoping document was created to identify conflicts between GAAP and IFRS. This document was distributed to the members of the Project Team and Auditors for review. Significant accounting policies have been drafted and are awaiting Board and Auditor approval. The disclosure of certain accounting policies have changed in that the disclosure is more comprehensive in the areas of financial instruments, impairment, business combinations and income taxes.

IAS 36 provides guidance on the impairment of assets. IFRS uses a one-step approach for both testing and measurement of impairment, on asset component carrying values compared directly with the higher of fair value less costs to sell and value in use determined by discounted future cash flows. Under IFRS, impairment charges must be recognized if the recoverable amount, measured as the higher of the estimated fair value less costs to sell or the value-in-use is less than the carrying value. Value-in-use is defined as the present value of estimate future cash flows expected to arise from the planned use of an asset and from its disposal at the end of its life. GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying value with undiscounted future cash flows to determine whether impairment exists; and only if step one indicates impairment may exist performing step 2 by comparing asset carrying values with fair values. Under GAAP, impairment was recognized when the estimated fair value of undiscounted future cash flows from an asset is less than its carrying value. Initial IFRS impairment testing does not indicate any impairment.

### IFRS Opening Balance Sheet Adjustments

Gamehost has quantified the measurement differences between GAAP and IFRS as at January 1, 2010 in order to prepare the opening balance sheet. The differences have been presented to the Audit Committee and Auditors and we are awaiting comment. Anticipated opening measurement differences to date are summarized below:

#### 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. GAAP does not have specific guidance for investment property. Gamehost has decided that the multi-tenant property is an investment property. This book value of this property was removed from Property Plant and Equipment is shown separately as Investment Property. The value of this property will be increased by \$2,820,000 to reach the fair value as determined by an independent appraisal performed in 2010 under the revaluation model.

## Class B LP unitholders

Gamehost determined that Class B LP Units disclosed on a comparative basis will be reported as debt instead of their previous equity classification. This debt classification is measured at the fair value of the Class B LP Units at December 31, 2009 and subject to adjustment at interim reporting periods. The Class B LP Units shown as debt have been increased by \$41,164,704 to reach fair value.

## Deferred Tax Adjustments

The fair value adjustment to the investment property and the debt classification and fair value of the Class B trust units impact our deferred tax entry. This entry is currently being quantified.

## Phase 3 - IFRS Differences Subsequent to Transition

Gamehost is working to quantify IFRS differences by quarter for the upcoming Interim Financial Statement comparative disclosures subsequent to January 1, 2010. Potential adjustments relate to changes in fair value of the investment property and Class B LP Units and the liability portion of the Debenture.

## Phase 4 - Monitoring & IFRS Policy Updates

Regular information updates from the Canadian Institute of Chartered Accountants as well as software purchased to assist in the transition to IFRS will allow us to monitor changes in IFRS policies that affect Gamehost. As changes to IFRS are implemented, we will report the information required in our Financial Statements and MD&A and adjust our accounting policies as required.

## 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](http://www.sedar.com). Additional information about Gamehost can be found at [www.gamehost.ca](http://www.gamehost.ca).

