



**Management Discussion and Analysis  
for the nine months ended September 30, 2014**

## To Our Shareholders

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Management and Directors of Gamehost Inc. (the "Company") are pleased to present results for the three months ended September 30, 2014 (the "Quarter") and the nine months ended September 30, 2014 (the "Period").

### Music to Our Ears

Total operating revenues for the Quarter rose \$1.0 million or 5.2% to \$20.2 million from \$19.2 million in the same quarter of 2013. Earnings before interest, taxes, depreciation and amortization ("EBITDA") that is attributable to shareholders of the Company ("EBITDA to Shareholders") climbed \$0.2 million or 2.3% to \$9.0 million versus \$8.8 in the same quarter one year earlier. EBITDA to Shareholders margin was lower by 150 basis points to 46.6% in year over year comparison. Table performance continued to carry the day with solid growth in activity and above average Hold percentages. Ticket sales from strong entertainment lineups during the Quarter rounded out the growth in top line revenues.

### Geographically Speaking

The Company's Grande Prairie properties continue to post impressive year over year growth. Top line revenues for our Service Plus hotel are up 27% on the Quarter and 28% for the Period. Great Northern Casino top line revenues are up 24% on the Quarter and 15% for the Period. Company's are spending big again on corporate Christmas party bookings again as we head into the final quarter of the year.

### Quiet on the Western Front

The Company was inactive during the Quarter in repurchasing shares under a normal course issuer bid that expires in April of 2015. The Company's shares reached new highs during the Quarter limiting opportunities. We will continue to monitor the price of the Company shares looking to capitalize on periods of weakness in the share price. Alternatively we have been applying surplus funds to revolving debt which we reduced by \$1.0 million during the Quarter and a further \$1.8 million prior to the end of October 2014.

### A Time for Remembrance

Along with the rest of the country we share the grief of the families and friends of fallen soldiers Patrice Vincent and Nathan Cirillo. Both incidents are terrible reminders of the debts of gratitude we owe to all who have stood for the freedom we enjoy in Canada, our home and native land.

31-Oct-14

On behalf of all management and Directors, sincerely,



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



Darcy J. Will  
Vice President and Secretary  
Gamehost Inc.

## Management's discussion and analysis

for the nine months ended September 30, 2014

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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. (the "Company") is prepared as at October 31, 2014. This MD&A should be read in conjunction with the interim condensed consolidated financial statements of the Company and accompanying notes for the nine months ended September 30, 2014 (the "Period") and with the audited consolidated financial statements of the Company and accompanying notes for the twelve months ended December 31, 2013.

This MD&A focuses on year over year comparative results for the three months ended September 30, 2014 (the "Quarter"). Readers are directed to prior MD&A for specific discussion of results of previous quarters. Previously issued financial statements and management discussion and other disclosures of the Company can be found on the Company website at [www.gamehost.ca](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-International Financial Reporting Standards ("IFRS") financial measures

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

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

#### Forward-looking statements

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

These factors and other risks and uncertainties are discussed in the Company's continuous disclosure documents filed with the Canadian securities regulatory authorities from time to time, and included in the "Risk Factors" section of the Company's most recent Annual Information Form. Continuous disclosure documents are on public 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**

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

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

## **Organizational structure**

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Gamehost Inc. is incorporated in Canada under the Business Companies Act (Alberta). The consolidated financial statements of the Company are comprised of the Company and its subsidiaries.

## **Shares**

The Company had 23.8 million Shares issued and outstanding at September 30, 2014 (23.6 million - December 31, 2013) and 23.8 million Shares issued and outstanding at October 31, 2014 which trade on the Toronto Stock Exchange ("TSX") under the symbol GH. The Company is authorized to issue any number of and any class of shares.

## **Debentures**

The Company had \$13.2 million face value debentures outstanding at September 30, 2014 (\$18.9 million - December 31, 2013) and \$13.1 million face value debentures outstanding at October 31, 2014 which trade on the TSX under the symbol GH.DB.

## **Address**

The head office of the Company is located at #104, 548 Laura Avenue, Red Deer County, Alberta, T4E 0A5. The registered office of the Company is located at 2800, 715 – 5th Avenue S.W., Calgary, Alberta T2P 2X6.

## Overview of Gamehost

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

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

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

It is the Company's intent to continue a policy of consistent and regular monthly 'eligible' dividends to shareholders of \$0.0733 per common share. Dividends are declared to be 'eligible' because the Company has not benefited from any preferential tax rates requiring it to pay ordinary or non-eligible dividends. Eligible dividends are taxed at lower marginal rates to the recipient. If and when economic conditions and the financial performance of the Company dictate that an increase to the dividend rate is prudent and would not jeopardize future sustainability of the regular dividend rate, an increase or special dividend may be considered by the Company's board of directors.

## Overall financial results and condition of the Company

Financial results for the Quarter include a \$1.0 million or 5.1% increase in year over year operating revenues. EBITDA to Shareholders climbed by \$0.2 million for a 2.3% increase year over year while EBITDA to Shareholders margins fell 150 basis points to 46.6%. Table performance and hotel occupancy were the key drivers in strong year over year results.

At the end of the Quarter, the Company had \$173.4 million in total assets down \$2.5 million from the start of the year. Cash balances of \$14.9 million were down \$0.1 million from the start of 2014. The Company paid down revolving lines during the Quarter by \$1.0 million and reduced demand debt by a further \$0.6 million through scheduled monthly payments for a net reduction in demand debt of \$1.6 million.

## Quarterly performance summary

Quarterly performance	2014			2013				2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Operating Revenue	20.2	21.0	20.5	19.8	19.2	19.4	19.1	19.8
Cost of sales	(10.6)	(11.1)	(10.9)	(11.1)	(9.9)	(10.2)	(10.2)	(10.9)
Gross Profit	9.6	9.9	9.6	8.7	9.3	9.2	8.9	8.9
Other income	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Administrative expenses	(1.3)	(1.3)	(1.5)	(1.3)	(1.2)	(1.3)	(1.3)	(1.2)
Profit from operating activities	8.4	8.7	8.2	7.5	8.2	8.0	7.7	7.8
Other (losses) gains	-	-	-	-	-	-	-	(0.1)
Finance costs net of finance income	(0.8)	(0.5)	(0.6)	-	(0.9)	(1.2)	(1.1)	(1.0)
Profit before income tax	7.6	8.2	7.6	7.5	7.3	6.8	6.6	6.7
Income tax expense	(3.4)	(1.7)	(1.9)	(2.1)	(1.5)	(1.2)	(1.9)	(0.8)
Profit	4.2	6.5	5.7	5.4	5.8	5.6	4.7	5.9
Less Non-controlling interests	(0.4)	(0.4)	(0.3)	(0.3)	(0.4)	(0.3)	(0.4)	(0.3)
Profit attributable to owners of the Company	3.8	6.1	5.4	5.1	5.4	5.3	4.3	5.6
Earnings per share								
Basic	\$ 0.16	\$ 0.26	\$ 0.23	\$ 0.22	\$ 0.23	\$ 0.23	\$ 0.19	\$ 0.25
EBITDA to Shareholders	9.0	9.3	8.9	8.2	8.8	8.7	8.3	8.6
EBITDA to Shareholders %	46.6%	46.5%	45.4%	43.4%	48.1%	47.0%	45.4%	45.5%

(in millions of dollars unless stated otherwise)

## Operating segments

The Company's reportable segments are strategic business units that offer different services. They are managed separately because of their unique operational and marketing requirements. Each segment complements the other segments. The Gaming segment includes three casinos offering slot, VLT, E-bingo, lottery and table games. The Hotel segment includes two hotels catering to mid-range clients. The Food and Beverage segment has operations that are located within the casinos and hotels as a complement to those segments.

nine months ended September 30, 2014	Gaming	Hotel	Food & Beverage	Corporate, other <sup>(1)</sup>	Total
Operating revenue and other income	36.4	11.2	14.2	0.2	62.0
Finance (costs), net of finance income	(1.0)	(0.7)	(0.4)	0.1	(2.1)
Depreciation	(1.1)	(1.2)	(0.6)	-	(2.9)
Other expenses	(15.5)	(5.1)	(9.7)	(3.4)	(33.7)
<b>Profit before income tax</b>	<b>18.8</b>	<b>4.2</b>	<b>3.5</b>	<b>(3.1)</b>	<b>23.3</b>
Segment assets	79.1	64.9	25.9	3.5	173.4
Segment liabilities	16.7	14.2	7.5	17.0	55.3
Capital expenditures	-	0.4	-	-	0.4
nine months ended September 30, 2013	Gaming	Hotel	Food & Beverage	Corporate, other <sup>(1)</sup>	Total
Operating revenue and other income	33.4	10.3	13.9	0.3	57.9
Finance (costs), net of finance income	(1.6)	(0.9)	(0.6)	-	(3.1)
Depreciation	(1.1)	(1.4)	(0.6)	-	(3.1)
Other expenses	(14.3)	(4.4)	(9.2)	(3.1)	(31.0)
<b>Profit before income tax</b>	<b>16.4</b>	<b>3.6</b>	<b>3.5</b>	<b>(2.8)</b>	<b>20.7</b>
Segment assets	79.8	66.5	26.5	4.0	176.8
Segment liabilities	19.5	15.1	8.5	15.5	58.6
Capital expenditures	0.3	0.1	0.6	-	1.0

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

(in millions of dollars unless stated otherwise)

## Operating revenue

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

Operating revenue	Q3 (nine months)			Q3 (three months)		
	2014	2013	+(-)	2014	2013	+(-)
Operating revenue	61.8	57.7	7.1%	20.2	19.2	5.2%

(in millions of dollars unless stated otherwise)

Solid growth in Grande Prairie and Calgary are making up for moderate declines in Fort McMurray.

## Room revenue

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

Rooming	Q3 (nine months)			Q3 (three months)		
	2014	2013	+(-)	2014	2013	+(-)
Rooming	10.8	10.0	8.0%	3.7	3.7	0.0%
Occupancy	81.2%	75.3%	5.9%	82.5%	81.8%	0.7%
ADR	\$154.78	\$153.24	\$1.54	\$156.70	\$154.47	\$2.23
% of operating revenue	17.5%	17.3%	0.2%	18.3%	19.3%	(1.0%)

(in millions of dollars unless stated otherwise)

Significant growth in Grande Prairie made up for declines in Calgary.

At Service Plus, in year over year comparisons for the Quarter, revenues climbed 27.1%. Occupancy increased to 91.7% from 74.4% a year earlier and ADR climbed by \$5.82. An across the board increase in room rates was implemented on September 1, 2014 in response to supply/demand pressures that have been increasing steadily throughout the year.

Deerfoot guest and meeting room revenue was off 9.7% for the Quarter from one year earlier in year over year comparison. ADR was higher by \$3.57 on rate increases made in the first quarter of the year. Occupancy was off 10.2 percentage points to 77.0% from 87.2%. One time business arising from the summer 2013 floods in Calgary explain the year over year decline.

## Table game revenue

Table play and table revenue sharing is regulated in Alberta by the AGLC. In general terms, 'Drop' is the total amount of money cashed to chips at most table games. 'Hold' is the amount kept by the table from the Drop. Hold % is the measure of the Hold to the Drop and can fluctuate significantly. Table Hold % should average in the 17% range where practised players are involved. Greater participation by inexperienced players can result in higher Hold percentages. Drop, Hold and Hold % are not always reliable indicators of table activity as demonstrated by the following examples:

*Example 1 – A player buys \$20,000 in chips at a table. The player plays one hand, loses \$2,000, and cashes out. The Drop is high at \$20,000, the Hold is good at \$2,000 considering the amount and duration of play. 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 considering the amount and duration of play. The Hold Percentage is high at 20%. The table was busy.*

The preceding examples demonstrate how variables can provide fluctuating results for Drop, Hold and Hold %. These statistics can be misleading. 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 depending on agreements with the AGLC. The operator's percentage of the Rake is the 'Net'. Financial statements of the Company report only the Net of the Hold or Rake.

Net table revenue	Q3 (nine months)			Q3 (three months)		
	2014	2013	+(-)	2014	2013	+(-)
General, progressive and high limit	9.7	7.7	26.0%	3.1	2.7	14.8%
Poker	2.1	1.6	31.3%	0.8	0.6	33.3%
Total	11.8	9.3	26.9%	3.9	3.3	18.2%
% of operating revenue	19.1%	16.1%	3.0%	19.3%	17.2%	2.1%

(in millions of dollars unless stated otherwise)

# of tables	End of Period		
	2014	2013	+(-)
All Others	43	42	1
Poker	16	16	-
Progressive Table Games	8	9	(1)
Total	67	67	-

Drop and Hold	Q3 (nine months)			Q3 (three months)		
	2014	2013	+(-)	2014	2013	+(-)
Drop	84.0	70.6	19.0%	29.7	23.9	24.3%
Hold %	20.5%	19.5%	1.0%	18.8%	20.3%	(1.5%)

(in millions of dollars unless stated otherwise)

Total table Drops were up sharply in year over year comparison for the Quarter while table Hold % declined but maintained levels above the long term expected average. The combined effect resulted in significantly higher Net revenue for the Quarter.

At Boomtown, the current Quarter table drop fell marginally from the one year ago quarter. This coupled with a 1.5 percentage point increase in Hold % to 25.0% from 23.5% resulted in a combined 3.9% increase in Net revenue year over year. Poker revenues declined by 5.2% in year over year comparisons on the Quarter.

Great Northern saw their table Drop rise 35.0% while Hold % rose 0.7 percentage points to 21.9% from 21.2%. The combined effect was a 39.5% increase in Net revenue year over year for the Quarter. Poker revenues were also up sharply by 84.7%

At Deerfoot, Drop climbed 30.5% while Hold % fell 2.5 percentage points to 16.6% from 19.1% in year over year comparison for the Quarter. The result was still a 13.3% improvement in Net revenue on the Quarter. High limit players are a significant contributor to the increased Drop. Poker was also up sharply by 27.0% in year over year comparison for the Quarter.

## Slot revenue

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

Slot statistics	Q3 (nine months)			Q3 (three months)		
	2014	2013	+(-)	2014	2013	+(-)
Cash Play	1,790.2	1,809.3	(1.1%)	605.1	605.1	0.0%
Machines <sup>1</sup>	1,641.0	1,636.0	5.0	1,641.0	1,636.0	5.0

(in millions of dollars unless stated otherwise)

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

Slot revenue	Q3 (nine months)			Q3 (three months)		
	2014	2013	+(-)	2014	2013	+(-)
Net	19.6	20.0	(2.0%)	6.6	6.6	0.0%
% of operating revenue	31.7%	34.7%	(3.0%)	32.7%	34.4%	(1.7%)

(in millions of dollars unless stated otherwise)

Total Company slot Cash Play and Net revenue for the Quarter were largely flat to the prior year quarter on mixed results at properties. We are encouraged by these results with now three consecutive quarters showing improvement to the previous quarter.

Boomtown Cash Play fell 6.5% while Net revenue fell 5.3% in year over year comparison for the Quarter. There were no changes to the number of slot machines at Boomtown during the Quarter.

Great Northern slots finally woke up to the increased activity the City has been experiencing in other hospitality revenue streams. Cash Play was up 10.8% while Net revenue climbed by 15.4% in year over year comparisons on the Quarter. There were no changes to the number of slot machines at Great Northern during the Quarter.

Deerfoot's Cash Play for the Quarter was flat to the comparable quarter one year earlier. Net revenue declined by 1.6% on higher jackpot payouts. There were no changes to the number of slot machines at Deerfoot during the Quarter.

## Food & beverage (“F&B”) revenue

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

F&B Revenue	Q3 (nine months)			Q3 (three months)		
	2014	2013	+(-)	2014	2013	+(-)
Food & mix	5.5	5.3	3.8%	1.6	1.6	0.0%
Liquor	8.3	8.3	0.0%	2.6	2.5	4.0%
<b>Total</b>	<b>13.8</b>	13.6	1.5%	<b>4.2</b>	4.1	2.4%
% of operating revenue	<b>22.3%</b>	23.6%	(1.3%)	<b>20.8%</b>	21.4%	(0.6%)

(in millions of dollars unless stated otherwise)

Moderate improvements in year over year comparison for the quarter have brought the Period comparable results back to a net flat result.

Boomtown combined F&B revenues were lower by 11.2% compared to the year earlier quarter. Stonecreek, a new commercial development in the suburban area of Timberlea has attracted a number of franchise F&B establishments to the city and increased the competitive landscape.

Great Northern Casino's combined F&B revenues for the Quarter were up 17.0% from the year ago quarter. Economic activity in the region has really ramped up with the entire city of Grande Prairie sharing in the spoils of higher consumer and corporate spending.

Deerfoot combined total F&B revenues were up 3.4% for the Quarter compared to the one year previous quarter. Liquor revenues were up 7.0% and food revenues were up just 0.8% over the same comparable periods. The disparity in liquor sales versus foods sales is reflective of the entertainment line ups for the Quarter which primarily drive liquor sales.

## Ancillary revenue

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

Ancillary revenue	Q3 (nine months)			Q3 (three months)		
	2014	2013	+(-)	2014	2013	+(-)
Total	5.8	4.8	20.8%	1.8	1.5	20.0%
% of operating revenue	<b>9.4%</b>	8.3%	1.1%	<b>8.9%</b>	7.8%	1.1%

(in millions of dollars unless stated otherwise)

Ticket sales from more frequent and higher quality entertainment lineups at both Great Northern and Deerfoot, and increases in VLT revenues drove ancillary revenues higher in year over year comparison for the Quarter.

## Cost of sales

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

Cost of sales	Q3 (nine months)			Q3 (three months)		
	2014	2013	+(-)	2014	2013	+(-)
Total	32.7	30.3	7.9%	10.6	9.9	7.1%
% of operating revenue	52.9%	52.5%	0.4%	52.5%	51.6%	0.9%

(in millions of dollars unless stated otherwise)

## Cost of sales - cost of product

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

Cost of product	Q3 (nine months)			Q3 (three months)		
	2014	2013	+(-)	2014	2013	+(-)
Food & Mix	1.8	1.9	(5.3%)	0.6	0.6	0.0%
Liquor	1.8	1.8	0.0%	0.6	0.5	20.0%
Other	0.2	0.1	100.0%	-	0.1	(100.0%)
Total	3.8	3.8	0.0%	1.2	1.2	0.0%
% of operating revenue	6.1%	6.6%	(0.5%)	5.9%	6.3%	(0.4%)

(in millions of dollars unless stated otherwise)

Cost of product %	Q3 (nine months)			Q3 (three months)		
	2014	2013	+(-)	2014	2013	+(-)
Food & Mix	32.7%	35.8%	(3.1%)	37.5%	37.5%	0.0%
Liquor	21.7%	21.7%	0.0%	23.1%	20.0%	3.1%
Other	45.9%	46.6%	(0.7%)	56.5%	59.6%	(3.1%)

Both Boomtown and Great Northern have commission based third party arrangements for food services and therefore food sales at these locations do not factor significantly into cost of product results. Deerfoot, on the other hand, operates all food services on property.

### Cost of sales - operating labour

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

Operating labour	Q3 (nine months)			Q3 (three months)		
	2014	2013	+(-)	2014	2013	+(-)
Operating labour	15.3	14.3	7.0%	5.0	4.7	6.4%
% of operating revenue	24.8%	24.8%	0.0%	24.8%	24.5%	0.3%

(in millions of dollars unless stated otherwise)

Excellent Hold % on tables kept operating labour as a percentage of operating revenue largely flat to the prior year quarter.

### Cost of sales - marketing and promotions

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

Marketing	Q3 (nine months)			Q3 (three months)		
	2014	2013	+(-)	2014	2013	+(-)
Total	2.3	2.3	0.0%	0.7	0.8	(12.5%)
% of operating revenue	3.7%	4.0%	(0.3%)	3.5%	4.2%	(0.7%)

(in millions of dollars unless stated otherwise)

### Cost of sales - other operating costs

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

Other operating costs	Q3 (nine months)			Q3 (three months)		
	2014	2013	+(-)	2014	2013	+(-)
Total	11.3	9.9	14.1%	3.7	3.2	15.6%
% of operating revenue	18.3%	17.2%	1.1%	18.3%	16.7%	1.6%

(in millions of dollars unless stated otherwise)

A significant entertainment line-up at Deerfoot and Great Northern during the Quarter compared to the year earlier and higher premises lease costs for Boomtown make up the bulk of the increase in other operating costs. Higher utility costs and credit card commissions also contributed to the increase.

## Other income

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

Other income	Q3 (nine months)			Q3 (three months)		
	2014	2013	+(-)	2014	2013	+(-)
Total	0.2	0.2	0.0%	0.1	0.1	0.0%

(in millions of dollars unless stated otherwise)

Management has negotiated a new five year lease with the existing tenant effective April 1, 2014. The lease carries a higher per square foot base rate, but on a smaller remodelled foot print. The balance of unleased space is being converted to needed administrative and storage space for Service Plus and Great Northern Casino. In conjunction with this new lease, the Company holds a promissory note in the amount of \$0.4 million for improvements made by the tenant. The loan is secured with a personal guarantee of the tenant and is repayable in monthly instalments over five years.

## Administrative expenses

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

Administrative expenses	Q3 (nine months)			Q3 (three months)		
	2014	2013	+(-)	2014	2013	+(-)
Total	3.9	3.8	2.6%	1.3	1.2	8.3%
% of operating revenue	6.3%	6.6%	(0.3%)	6.4%	6.3%	0.1%

(in millions of dollars unless stated otherwise)

During the Quarter, the Company renegotiated a management services contract with the Company's Chief Operating Office. Terms of the new contract resulted in an additional \$0.1 million in retroactive pay from January 1, 2014 to the end of the Quarter. Annual remuneration under the new contract rises from \$210,000 to \$350,000. Corporate travel cost were \$0.1 million higher than in the same quarter one year earlier. These two areas of expenditure were partially offset by reductions in other areas.

## Finance costs, net of finance (income)

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

Finance costs, net of finance (income)	Q3 (nine months)			Q3 (three months)		
	2014	2013	+(-)	2014	2013	+(-)
Total	2.1	3.1	(32.3%)	0.8	0.9	(11.1%)

(in millions of dollars unless stated otherwise)

\$2.0 million in debentures were converted to common shares during the Quarter and \$7.3 million over the last twelve months. This, together with scheduled demand debt principal reductions, resulted in interest savings to the comparative quarter a year ago.

## Income tax

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

Income tax	Q3 (nine months)			Q3 (three months)		
	2014	2013	+(-)	2014	2013	+(-)
	7.0	4.6	52.2%	3.4	1.5	126.7%

(in millions of dollars unless stated otherwise)

The combined federal and provincial tax rate in Alberta for 2014 is 25.0%.

Changes to tax legislation in 2011 limited a deferral of tax on income earned by a corporation through a partnership in circumstances where the partnership has a fiscal period that differs from the corporation's tax year. Transitional rules, however, allow the Company to pay deferred taxes from 2011 over a period of five years beginning in 2013. The Company will make a \$4.1 million payment of deferred taxes in February of 2015. The Company is making regular monthly tax instalments of \$0.5 million. The Quarter includes accounting adjustments.

## Reconciliation of EBITDA to Shareholders > Profit

EBITDA to Shareholders > Profit	Q3 (nine months)			Q3 (three months)		
	2014	2013	+(-)	2014	2013	+(-)
EBITDA to Shareholders	27.2	25.8	5.4%	9.0	8.8	2.3%
EBITDA to Shareholders %	46.2%	46.8%	(0.6%)	46.6%	48.1%	(1.5%)
Add back:						
Amortization on property, plant and equipment	(2.9)	(3.1)	(6.5%)	(0.9)	(1.0)	(10.0%)
Finance costs	(2.2)	(3.2)	(31.3%)	(0.8)	(0.9)	(11.1%)
Income tax expense	(7.0)	(4.6)	52.2%	(3.4)	(1.5)	126.7%
EBITDA attributable to non-controlling interest	1.2	1.2	0.0%	0.3	0.4	(25.0%)
Profit	16.3	16.1	1.2%	4.2	5.8	(27.6%)

(in millions of dollars unless stated otherwise)

## Facility enhancement

Capital expenditures	Q3 (nine months)			Q3 (three months)		
	2014	2013	+(-)	2014	2013	+(-)
Capital maintenance	0.4	0.7	(42.9%)	0.1	0.2	(50.0%)
Capital expansion	-	0.3	(100.0%)	-	0.3	(100.0%)
	0.4	1.0	(60.0%)	0.1	0.5	(80.0%)

(in millions of dollars unless stated otherwise)

Service Plus refurbishment is proceeding slowly as we accommodate high occupancy rates. Expenditures to date are approximately half of the anticipated at \$0.5 million.

## Financial condition

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### Liquidity

Net cash provided by operating activities totalled \$7.6 million compared to \$6.5 million for Q3 2013. At the end of the Quarter cash balances totalled \$14.9 million compared to \$15.0 million at the start of the year. Factors affecting the Company's ability to generate cash in the near and longer terms are listed in the section 'Forward looking statements'. These factors are discussed in more specific terms in the section 'Business risks, opportunities and outlook'. Management closely monitors the Company's ability to sustain current cash dividends with cash flow from operations and other sources or uses of cash.

The Company had revolving credit lines totalling \$10.5 million of which \$5.1 million was available to be drawn at the end of the Quarter.

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

The Company has a 91% Participating Interest in the operating activities of the Deerfoot and an 87.75% Contributing Interest Responsibility for any capital requirements of the Deerfoot that are provided by financing or can not be provided from operating cash flow.

### Working capital

Internal working capital requirements for the Company consists of cash floats for the operation of gaming tables, slot machines, VLT's, E-Bingo machines, 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 150% 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, the Company maintains one month's operating expenses, one month's interest cost on traditional debt facilities, one month's interest costs on Debentures and one month's dividends payable to the Common Shareholders less amounts due to related parties. Unused portions of revolving debt are considered working capital in the Company'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. The Company's objective is to maintain the highest relationship with suppliers and remits all payables within stated terms, typically 30 days, but will take advantage of all early payment discounts offered.

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

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

## Debentures

Debentures are redeemable at the holder's option. Converted Debentures increase the Company's pre-tax cash outlays to investors by 32% comparing the Company's interest obligation on Debentures to discretionary dividend payments.

## Commitments

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

The Company has certain other commitments for equipment, services and premises rent of which the future minimum payments are as follows:

<b>Commitments</b>						
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Thereafter</b>
Total	<b>0.3</b>	1.3	1.3	1.2	1.2	0.5

(in millions of dollars unless stated otherwise)

## Dividend policy and practice

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

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

## Dividend pay-out ratio

<b>Dividend pay-out ratio</b>	<b>Q3 (nine months)</b>			<b>Q3 (three months)</b>		
	<b>2014</b>	2013	+(-)	<b>2014</b>	2013	+(-)
EBITDA to Shareholders	<b>27.2</b>	25.8	5.4%	<b>9.0</b>	8.8	2.3%
Adjustments (excl NCI)						
Scheduled principal payments on demand debt	<b>(1.8)</b>	(1.8)	0.0%	<b>(0.6)</b>	(0.6)	0.0%
Interest expensed on demand debt	<b>(0.7)</b>	(0.6)	16.7%	<b>(0.3)</b>	(0.2)	50.0%
Interest expensed on debentures	<b>(0.8)</b>	(1.2)	(33.3%)	<b>(0.3)</b>	(0.3)	0.0%
Income tax expense	<b>(7.0)</b>	(4.6)	52.2%	<b>(3.4)</b>	(1.5)	126.7%
	<b>16.9</b>	17.6	(4.0%)	<b>4.4</b>	6.2	(29.0%)
Dividends declared	<b>15.6</b>	15.2	2.6%	<b>5.3</b>	5.1	3.9%
<sup>1</sup> Normalized pay-out ratio	<b>92.3%</b>	<b>86.4%</b>	5.9%	<b>120.5%</b>	<b>82.3%</b>	38.2%

(in millions of dollars unless stated otherwise)

<sup>1</sup> Share repurchases and capital expenditures funded by operating earnings are removed for the purposes of normalizing dividend pay-out ratios. Portions of these expenditures may be funded by drawing on revolving credit facilities where operating earnings are insufficient in the same period.

Productive capacity

The Company's assets include land, land improvements, buildings, leasehold improvements, and furniture, fixtures and equipment. At the end of the Quarter, productive capacity of the Company 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 Deerfoot and ancillary amenities for both facilities. Great Northern has a cafe and a segregated showroom while Boomtown has a cafe and an integrated stage/live entertainment area. Also included in productive capacity are the Company's interests in three gaming licenses, one each for Boomtown Casino, Great Northern Casino and Deerfoot Casino. Together these licenses provide a revenue stream for the Company from an equivalent 1,676 electronic gaming devices, 67 table/poker games and other ancillary equipment. The table below summarizes changes in productive capacity since the beginning of operations.

<b>Productive capacity</b>								
<b>Year</b>	<b>Event</b>	<b>Gaming Sq. Ft</b>	<b>Banquet sq. ft.</b>	<b>Guest rooms</b>	<b>F &amp; B seating</b>	<b>Electronic gaming devices</b>	<b>Tables</b>	<b>Lease/ retail sq. ft.</b>
2003	Inception of Fund	31,864		123	165	420	32	10,530
2003	Great Northern Casino Expansion	9,800	1,200		45	59		
	AGLC adds slot machines					20		
2004	AGLC adds slot machines					83		
2005	Deerfoot opening	24,000	8,000	75	140	252	13	
2006	Boomtown Casino expansion	11,000			40	193		
	AGLC adds slot machines					20		
2007	Deerfoot renovation	480			(20)	23		
2008	AGLC adds slot machines					16		
	Stampede Joint Venture	19,200	480		60	120	8	
	AGLC adds slot machines					3		
2009	AGLC adds slot machines					8		
	Stampede Joint Venture now discontinued operations	(19,200)	(480)		(60)	(120)	(8)	
2010	AGLC adds slot machines					60		
	AGLC adds VLT's					3		
	Acquisition of an additional interest in Deerfoot	31,212	10,200	113	153	448	20	
	Deerfoot table addition						2	
2011	AGLC adds VLT's					3		
2012	AGLC adds slot machines					1		
	AGLC adds VLT's					3		
2013	AGLC adds slot machines	400				30		
	AGLC adds bingo at Great Northern	870	(870)			80		
	AGLC adds VLT's at Great Northern					6		
	Great Northern Casino lounge/showroom expansion		2,600		55			
2014	AGLC adds slot machines					5		
	AGLC adds VLT's at Great Northern					20		
	AGLC removes bingo at Great Northern					(80)		
	Service Plus guestroom decommissioned for use as breakfast room commissary			(1)				
<b>at September 30, 2014</b>		<b>109,626</b>	<b>21,130</b>	<b>310</b>	<b>578</b>	<b>1,676</b>	<b>67</b>	<b>10,530</b>

### Productive capacity maintenance

Productive capacity maintenance costs for facilities of the Company are minimal. Maintaining the shine on our properties so that they continue to attract guests is largely one of regular refurbishment such as paint or new carpets. For the most part, maintenance costs are treated as operational expenses at the time they are incurred and as such are already included in the periodic cash provided by (used for) operating activities as reported in financial statements. Management may, however, undertake smaller capital projects to be paid from cash generated from operating activities. These capital costs, when funded from operating cash flow, would fall into the category of productive capacity maintenance for the purpose of determining cash available for dividend distribution.

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

Slot, VLT, E-bingo and Lottery equipment is owned and maintained by the AGLC. Tables are owned or leased and maintained by the Company. Productive capacity maintenance of both tables and electronic gaming devices are more significantly measured in terms of maintenance of the Company's charitable gaming operator licenses issued by the AGLC. Holders of these licenses must adhere to a strict set of terms and conditions. Furthermore, the three year licenses are subject to annual due diligence audits by the AGLC which are at expense to the Company. The Company's charitable gaming operator licenses have consistently received favourable results from these audits. Current licenses are valid to June 30, 2017, but the Company considers the licenses to have indefinite life.

Average annual capitalized costs for productive capacity maintenance are not expected to exceed \$0.8 million.

### Discretionary and other items

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

### Long-term unfunded contractual obligations

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

### Capital Strategy

Current debt instruments will be maintained or eliminated to the extent they allow for repayment. All of the Company's traditional bank debt instruments allow for additional payments without penalty. Debt maintenance includes regular amortized monthly principal payments, extra principal payments and intermittent payments on outstanding revolving debt instruments when surplus cash is available. Management's objective is to maintain a Total Debt to EBITDA ratio of 2 to 1 or less until such time as opportunities encourage a different strategy. The Company's Total Debt to EBITDA ratio at the end of the Period is 0.9 to 1.

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

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

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

### Financing restrictions on dividends caused by debt covenants

The Company has two demand loans secured by assets owned or leased by the Company. The first loan has two segments, requiring blended principal and interest payments on one segment which is scheduled to term out over 10 years and interest only payments on a revolving segment. The second loan requires blended principal and interest payments and is scheduled to term out over 15 years.

Debt facilities of the Company require the maintenance of certain financial covenants and conditions. Specifically, the Company must maintain a cash flow coverage ratio of not less than 1.25 to 1 and a debt to tangible net worth ratio of not greater than 3.0 to 1. The Company is in compliance with all covenants and conditions. At the end of the Period these ratios were 4.8 to 1 and 0.8 to 1 respectively.

### Income taxes

The Company is subject to income taxes. Transitional rules allow for the payment of taxes related to partnership income deferred from the 2011 fiscal year to be made over five years. At the end of the Quarter, deferred taxes on 2011 partnership income totalled \$2.2 million. Payment of 2014 income taxes, will be made from cash generated from operations and available revolving credit facilities if required. Current instalments of \$0.5 million per month are being made.

### Cash dividends

#### 2014 dividend summary

Month	per Share	Date			Net Shares o/s <sup>1</sup>	Net paid <sup>1</sup>
		Declared	Record	Payment		
January	0.0733	22-Jan-14	31-Jan-14	14-Feb-14	23,406,464	1.73
February	0.0733	24-Feb-14	28-Feb-14	14-Mar-14	23,454,442	1.73
March	0.0733	17-Mar-14	31-Mar-14	15-Apr-14	23,501,666	1.73
April	0.0733	16-Apr-14	30-Apr-14	15-May-14	23,517,459	1.73
May	0.0733	14-May-14	31-May-14	13-Jun-14	23,563,011	1.73
June	0.0733	18-Jun-14	30-Jun-14	15-Jul-14	23,599,385	1.73
July	0.0733	17-Jul-14	31-Jul-14	15-Aug-14	23,750,840	1.74
August	0.0733	12-Aug-14	31-Aug-14	15-Sep-14	23,770,180	1.74
September	0.0733	16-Sep-14	30-Sep-14	15-Oct-14	23,782,759	1.74
October	0.0733	15-Oct-14	31-Oct-14	14-Nov-14	23,790,644	-
<b>Total</b>	<b>0.7330</b>					<b>15.60</b>

**2013 dividend summary**

Month	per Share	Date			Net Shares o/s <sup>1</sup>	Net paid <sup>1</sup>
		Declared	Record	Payment		
January	0.0733	3-Jan-13	31-Jan-13	15-Feb-13	22,675,856	1.66
February	0.0733	14-Feb-13	28-Feb-13	15-Mar-13	22,886,275	1.68
March	0.0733	12-Mar-13	31-Mar-13	15-Apr-13	22,977,161	1.68
April	0.0733	9-Apr-13	30-Apr-13	15-May-13	23,022,716	1.69
May	0.0733	21-May-13	31-May-13	14-Jun-13	23,033,738	1.69
June	0.0733	17-Jun-13	30-Jun-13	15-Jul-13	23,173,716	1.70
July	0.0733	15-Jul-13	31-Jul-13	15-Aug-13	23,195,497	1.70
August	0.0733	13-Aug-13	31-Aug-13	13-Sep-13	23,274,742	1.71
September	0.0733	6-Sep-13	30-Sep-13	15-Oct-13	23,418,871	1.72
October	0.0733	15-Oct-13	31-Oct-13	15-Nov-13	23,477,555	1.72
November	0.0733	12-Nov-13	30-Nov-13	13-Dec-13	23,523,657	1.72
December	0.0733	19-Dec-13	31-Dec-13	15-Jan-14	23,566,567	1.73
<b>Total</b>	<b>0.8796</b>					<b>20.40</b>

(in millions of dollars unless stated otherwise)

<sup>1</sup> Total outstanding shares less shares to be cancelled from purchases made by the Company under normal course issuer bid (NCIB) where dividends were paid to the Company.

**Tax attributes of dividends to Shareholders**

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

**Income taxes**

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

**Current income tax**

nine months ended September 30	2014	2013
Current tax expense		
Current Year	7.8	5.2
Deferred tax expense		
Origination and reversal of temporary differences	(0.8)	(0.6)
	<b>7.0</b>	<b>4.6</b>

## Reconciliation of effective tax rate

Actual income tax expense differs from the expected income tax expense that would have been computed by applying the statutory income tax rate to earnings before income taxes for the following reasons:

nine months ended September 30	2014	2013
Profit attributable to shareholders	15.2	15.0
Total income tax expense	7.0	4.6
Profit excluding income tax	22.2	19.6
Income tax using Company's domestic tax rate	25%	25%
Expected income tax expense	5.6	4.9
Changes in income tax expense resulting from:		
Effect of changes in temporary differences	(0.8)	(0.6)
Other	2.3	0.3
Actual income tax expense	7.0	4.6

## Capital resources

The Company has a demand loan secured by its land and buildings. The Company is currently paying interest at a stipulated floor rate of 4.0%; Otherwise the rate on this loan is 1.0% above the lender's prime lending rate. In July 2014, the Company arranged for an increase of \$1.5 million to the revolving segment of this loan. The Company is making blended monthly principal and interest payments on a \$13.2 million segment of the loan amortized over 10 years. The remaining \$10.5 million segment of this loan is available on a revolving basis with interest only payments. \$4.8 million is drawn on the revolving segment of the loan at October 31, 2014.

The Company has 6.25% Convertible Unsecured Subordinated Debentures ("Debentures"). The Debentures have a maturity date of July 31, 2015 (the "Maturity Date"). Each Debenture is convertible into Shares at the option of the holder of a Debenture (a "Debentureholder") any time prior to the close of business on the Maturity Date of the Debentures at \$10.65 per Gamehost Inc. common Share (the "Conversion Price"). The Company may also call for redemption of the Debentures on the business day immediately preceding the date specified by Gamehost for redemption of the Debentures, at the Conversion Price, being a conversion rate of approximately 93.8967 Gamehost Inc. Shares per \$1,000 principal amount of Debentures, subject to adjustment in certain events. The Company'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 the Company's option to call for redemption provided proper notice is given. A portion of the proceeds from the Debenture issue were allocated to the conversion feature which is reported as equity rather than a non-current liability. At October 31, 2014, there were \$13.1 million in face value debentures outstanding.

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

	Maturity	September 30, 2014	December 31, 2013
Credit facilities available at face value			
Demand loan	2020	7.6	8.6
Revolving credit lines	2020	10.5	9.0
Deerfoot - demand loan and finance lease	2025/2015	8.7	9.6
Debentures face value	2015	13.2	18.9
		40.0	46.1
Carrying value of borrowed amounts			
Current liabilities			
Demand loan		7.6	8.6
Revolving credit lines		5.4	1.8
Deerfoot - demand loan and finance lease		8.7	9.6
		21.7	20.0
Non-current liabilities			
<sup>1</sup> Debentures and finance lease		12.8	18.1
		34.5	38.1
Interest rate			
<sup>2</sup> Demand Loan		4.00% (P +1.00%)	4.00% (P +1.00%)
<sup>2</sup> Revolving Credit Lines		4.00% (P +1.00%)	4.00% (P +1.00%)
<sup>2</sup> Deerfoot - demand loan		4.00% (P +1.00%)	4.00% (P +1.00%)
Finance lease		4.32%	4.32%
Debentures face value		6.25%	6.25%

(in millions of dollars unless stated otherwise)

<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 pay-out of the Debentures at maturity using a cost of capital of 8%. The face value of Debentures is further reduced by Debenture issuing costs which are the amounts incurred to secure the Debenture financing. Debenture issue costs and debenture conversion privileges are amortized to interest expense over the life of the Debentures. The effective interest rate for amortization of the debenture issue costs is 9.6%.

<sup>2</sup> Prime rate (P) at the end of the Year was 3.00%. All Prime based financing has a floor rate of 4.00%.

The Company provided an \$11.5 million unsecured limited liability guarantee to the lender of the Deerfoot to indemnify it in the event the Deerfoot does not perform its contractual obligations. At the end of the Period, the maximum potential liability under this guarantee is \$8.7 million. The Company has not recorded a liability with respect to this guarantee, as the Company does not expect to make any payments in excess of what is recorded on the Financial Statements for the aforementioned items. The Company has not charged a fee to Deerfoot in regards to this guarantee. No specific assets have been provided as security.

The Company may cause to be issued unlimited numbers of shares or other securities provided they do not rank ahead of the common shares of the Company 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, restricted cash, trade and other receivables, trade and other payables, loans and borrowings, finance leases and dividends payable approximate their carrying value due to the short-term maturities of these instruments.

### Interest rate risk

The Company's interest rate risk arises primarily from its variable rate debt in the aggregate amount of \$21.7 million. The Company 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 \$0.2 million or \$0.01/share on an annualized basis.

### Credit risk

Credit risk arises from cash held with banks and credit exposure to customers. The Company'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.

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

Carrying amounts of accounts receivable are reduced on an account specific basis when appropriate. Carrying amounts of accounts receivable are reduced by direct write-off to earnings in the period of loss recognition. At the end of the Period, past due accounts are insignificant.

### Liquidity risk

Liquidity risk arises from excess financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet on-going liquidity requirements.

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

The Company's lender has scheduled monthly blended payments that will amortize the demand loan balance by June, 2020 and Deerfoot demand loan balance by February, 2021.

The maturity date on the Company's debentures is the earlier of the holder's election to convert, the Company's call for redemption or the final maturity date of the debentures on July 31, 2015. Converted Debentures increase the Company's pre-tax cash outlays to investors by 32% comparing the Company's interest obligation on Debentures to discretionary dividend payments.

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

Following are the undiscounted contractual maturities of financial liabilities, including estimated interest payments:

As at September 30, 2014	Carrying amount	Contractual cash flows	1 year or less	2 to 5 years	More than 5 years
Trade and other payables	4.1	4.1	4.1	-	-
Finance lease	0.1	0.1	0.1	-	-
Demand loans	16.2	18.5	3.2	12.1	3.2
Revolving credit facility	5.4	6.7	-	5.6	1.1
Debentures payable	13.2	13.8	13.8	-	-
	39.0	43.2	21.2	17.7	4.3

### Industry risk

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

### Non-controlling interest

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

### Shareholder equity

The Company is authorized to issue an unlimited number of Shares of any class. The Company has convertible instruments that may be dilutive when conversion privileges are exercised. Common stock is valued at the original contributed capital amount as at the 2003 plan of arrangement forming the former Gamehost Income Fund plus fair value adjustments on former Class B limited partnership units that were converted to common stock plus Shares purchased by the Company for cancellation under normal course issuer bids and amortization of a conversion privilege on the Company's debentures.

## Related party transactions

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

The Wills are key management personnel, directors of the Company and significant shareholders. Together, the Wills control 38.3% of the outstanding common shares of the Company. The Company 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") as follows:

- The Company incurred \$1.2 million (\$1.2 million - 2013) in key management personnel compensation with the Wills for the Period which is included in administrative expenses. Compensation is in the form of short term employee benefits, director fees, management agreements and general partnership agreement. Management fees stipulated in management services agreements are based on a percentage of revenues and/or earnings before interest, taxes depreciation and amortization. \$Nil (\$0.1 million - 2013) remains in accounts payable at the end of the Period.

A management services agreement between the Company and the Wills stipulates that the Wills are entitled to 1.5% of gross operating profit before interest, taxes, depreciation, amortization and extraordinary items of the Company. These amounts are included in the above figures.

The management services company engaged to perform the services referred to above is also the general partner of Gamehost Limited Partnership. The partnership agreement stipulates that the general partner is entitled to 0.01% of all cash distributions of the partnership. These amounts are included in the above figures.

A management services agreement between Deerfoot and the Wills stipulates that the Wills are entitled to 1.5% of the gross revenues plus 2.0% of operational earnings before interest, taxes, depreciation, amortization and extraordinary items of Deerfoot. These amounts are included in the above figures.

- The Company incurred \$0.1 million (\$0.1 million – 2013) of charter aircraft rental expenses with Will Air Inc., a company controlled by the Wills, for the Period which is included in administrative expenses. Travel to the Company's operational centres of Grande Prairie and Ft. McMurray is made more efficient via charter air services than can be accomplished through commercial carriers.
- The Company incurred \$0.1 million (\$nil – 2013) of office rent expenses for the Period which is included in administrative expenses. The Company moved its corporate office to space leased from Darcy Co Holdings Ltd., a company wholly owned by Darcy Will. Deerfoot rents its head office space from DJ Will Holdings Limited, a company wholly owned by David Will.

The Company incurred \$0.1 million (\$0.1 million – 2013) of rental expenses for the Period which is included in cost of sales. The Company rents tractor trailer parking and storage space from Grande Gaming Inc., a company controlled by the Wills together with the Company's Chief Operating Officer ("COO").

The Company incurred \$0.1 million (\$0.1 million – 2013) in directors fees during the Period paid to other directors of the Company which is included in administrative expenses.

The Company incurred \$0.4 million (\$0.3 million – 2013) in key management personnel compensation paid to other officers or companies controlled by other officers of the Company which is included in administrative expenses. Included in these figures are fees paid under a management services agreement between the Company and the Company's COO for overseeing site operations of the Company. During the Quarter, the agreement was amended to increase the fixed annual remuneration from \$0.2 million to \$0.4 million. The amendment was retroactive to January 1, 2014 and is to be paid in equal monthly increments. \$0.1 million (\$nil - 2013) remains in accounts payable at the end of the Period.

## **Business risks, opportunities and outlook**

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### **General economic outlook**

Current world news headlines run in sharp contrast to our stated optimism for the Alberta economy as recent as last quarter. Time will tell how all these major world events translate to impact on our local Alberta economy. What is clear though is that the future, both globally and locally, has become less clear.

### **Local economic outlooks**

Oil prices have dropped sharply to levels not seen in three years. Further declines or sustained valuations at this lower level will eventually have an adverse impact on local Alberta economies that are highly dependant on the energy sector.

Activity in the Grande Prairie region continues at an elevated pace. As we move into the next fiscal year for the energy sector many companies will be re-evaluating future plans against the current economic backdrop. Many ongoing projects, however, will continue to support the local economy. Work continues on the \$621 million hospital, located adjacent to the casino. The superstructure is now 60% complete and a spring 2017 opening is still anticipated. Once operational, traffic and exposure for the Company's adjacent hotel and casino should increase. Furthermore, light industrial and residential infill around the new hotel is seeing increased activity.

Calgary, and specifically Calgary's SE quadrant, home to our Deerfoot Inn & Casino, continues to grow at an accelerated pace. The area is building up quickly around the new provincial hospital to the south and the recent completion of the SE leg of Calgary's ring road, which opened late in 2013, has framed an additional area of development to the east and north which should secure growth potential for the foreseeable future. Longer term plans to extend the city's light rail transit (LRT) and dedicated bus lanes (Green Line) would see a new LRT and bus station within short walking distance of the casino when constructed.

### **Government regulation**

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

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

The Board of the AGLC continues to support a moratorium on the licensing of new casino facilities and will not accept any new applications during this moratorium period. However, with a new premier in place and a government looking to clear a period of deficit performances many things are on the table for change in the Province's capital.

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

## Competition

Management is not aware of any gaming expansions that could have a material effect on the Company's operations. We detail below, however, some new and existing conditions that could have moderate impact on operations which we are monitoring.

There are seven casino licences issued in the Calgary region. The Company's Deerfoot Casino is located deep in the SE quadrant of the city with the nearest competitors 13 and 17 kilometres away. The Deerfoot has benefitted greatly from above average growth rates in the surrounding area from the build-up of residential, commercial and light industrial development. Deerfoot is in close proximity to the provinces \$1.3 billion South Health Campus and recent completion of the SE portion of Calgary's ring road is encouraging fill-in development on large tracts of land between the ring road, Health Campus and the Deerfoot property. The area has grown in attractiveness for additional hotel accommodation. A new Marriott branded hotel is currently under construction adjacent to the new South Health Campus with an expected opening of summer 2015. This new 225 room short and long-term stay property will serve the mid-scale luxury market with full service amenities including 5,000 square feet of banquet/meeting space.

The new Century Downs Racetrack - Casino (Racino), also in Calgary, is still anticipating a Q1 opening in 2015 with initial plans for 550 slot machines and capacity for 650. Located just north of the city limits, the casino will target the north and NW markets of the city that do not currently have a casino venue. Management does not feel the new Racino will have any impact on the Deerfoot due to the 30 minute travelling time between the two venues and two other city casinos located directly between.

The Great Northern Casino in Grande Prairie is the only full service casino in the city. Evergreen Park, the area's agribition and trade grounds are located 8.5 kilometres from the city centre. The park operates a small REC with off-track betting, 99 slot machines and VLT's. Great Northern Casino recently expanded its live showroom and food & beverage areas and can boast that they have the premier intimate live entertainment space in the city. Newly opened F&B outlet's in the city have attracted their own share of the marketplace in recent months at Great Northern's expense.

The Company's Service Plus hotel property operates in a highly competitive market, but continues to succeed on superior location and service. The property is directly across from the area's community college and a favoured choice of sports teams. Service Plus is also adjacent to the Gateway Power Centre big box shopping outlet and convenient for those travelling to Grande Prairie as their nearest major market city.

The Company's Boomtown Casino in Fort McMurray operates without any gaming related competition in the trading area. At present, gaming demand is well served by the Company's current capacity. More immediate and significant threats exist to the food and beverage segment of our business as the municipality open new commercial developments for franchise and independent operators.

## **International Financial Reporting Standards (IFRS)**

### Standards adopted in the Year

The Company has adopted the following new and revised Standards, along with any consequential amendments, effective January 1, 2014. Changes were made in accordance with applicable transitional provisions:

i) Amendment to IAS 32, Offsetting Financial Assets and Liabilities

On December 16, 2011 the IASB issued amendments to IAS 32 to clarify that an entity currently has a legally enforceable right to set-off if that right is: not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement.

The Company assessed the application of this amendment and determined that the amendment has no impact on the Company's financial statements.

ii) IAS 36, Impairment of Assets

In May 2013, the IASB issued amendments to IAS 36 which require disclosure of the recoverable amount of impaired assets and additional disclosures about the measurement of the impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount.

The Company assessed the application of this amendment and determined that the amendment has no impact on the Company's financial statements.

New Standards and interpretations not yet adopted

Standards, and amendments to standards and interpretations that are not yet effective for the year ended December 31, 2014 and have not been applied in preparing these interim condensed consolidated financial statements are described below. For those standards where earlier application is permitted, the Company expects to apply the changes at the effective date.

## i) IFRS 11, Amendment - Acquisition of an Interest in a Joint Operation

The objective of the proposed amendment is to improve comparability of reported financial information by providing guidance on how a joint operator accounts for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business. It would require a joint operator to account for such an acquisition by applying IFRS 3 Business Combinations and other standards, and disclosing the relevant information specified in those IFRSs for business combinations. The amendment is effective for annual periods beginning on or after January 1, 2016 with early adoption permitted. The amendment has no immediate impact, but would affect future applicable transactions.

## ii) IFRS 15, Revenue From Contracts With Customers

Joint IASB and Financial Accounting Standards Board intend to develop a new standard on revenue recognition to ensure consistent treatment for all transactions in all industries and capital markets. The standard will be effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. The new standard may change the timing of revenue recognized from any contracts with a number of discrete performance obligations (multiple-element arrangements), require separate line disclosure of credit losses, and require more extensive disclosures on annual and interim basis.

## iii) IFRS 9, Financial Instruments

In February 2014, the IASB announced that the effective date for IFRS 9 – Financial instruments will be annual periods beginning on or after January 1, 2018. IFRS 9 addresses the classification and measurement requirements of financial assets and liabilities, improves transparency in the disclosure of expected credit losses and improves the overall usefulness of financial statements for users by revising the current hedge accounting requirements.

**Additional information**

All required public disclosures including material documents, press releases, annual information form and financial statements of the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information about the Company can be found at [www.gamehost.ca](http://www.gamehost.ca).