



**First Quarter  
Report to Unit holders  
for the three month period ended March 31, 2007**

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## Organizational Structure

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### The Fund

Gamehost Income Fund (the "Fund") is an unincorporated open-ended limited purpose trust established under the laws of the Province of Alberta and is governed by a trust agreement dated April 9, 2003 (the "Fund Agreement").

### The Trust

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

### 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 Fund. These assets were acquired from Service Plus Hospitality Ltd., Will Inns Ltd. and Boomtown Casino Ltd. pursuant to a Plan of Arrangement (the "Plan of Arrangement") under the Business Corporations Act (Alberta) (the "ABCA"). The Limited Partnership began operations of the Fund effective June 1, 2003.

### 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 Fund and the Manager, the administration and management of the Fund was delegated to the Manager.

### Units

An unlimited number of Fund Units and Special Voting Units may be created and issued pursuant to the Fund Agreement. The Limited Partnership is authorized to issue unlimited numbers of both Class A units ("A Units") and Class B Limited Partnership units ("B Units"). The A Units are held by, and can only be issued to, the Trust. All B Units are held by the remaining partners of the Limited Partnership. There are 3,591,051 A Units and 3,444,800 B Units of the Limited Partnership issued and outstanding. B Units are exchangeable, on a one-for-one basis, for Fund Units. Holders of Fund Units and holders of B Units have equal voting rights.

## Overview

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The Fund's activities are currently confined to the Province of Alberta, Canada. Operations include the Boomtown Casino in Ft. McMurray, the Great Northern Casino in Grande Prairie and Service Plus Inns & Suites ("Service Plus"), a limited service hotel, also located in Grande Prairie. As a complement to the hotel, the Fund owns a retail complex (the "Strip Mall") that leases space to separate liquor store, pub and full service restaurant operations. The Fund is also a 40% joint venture partner in Deerfoot Inn & Casino Inc., (the "Deerfoot Joint Venture"), in Calgary.

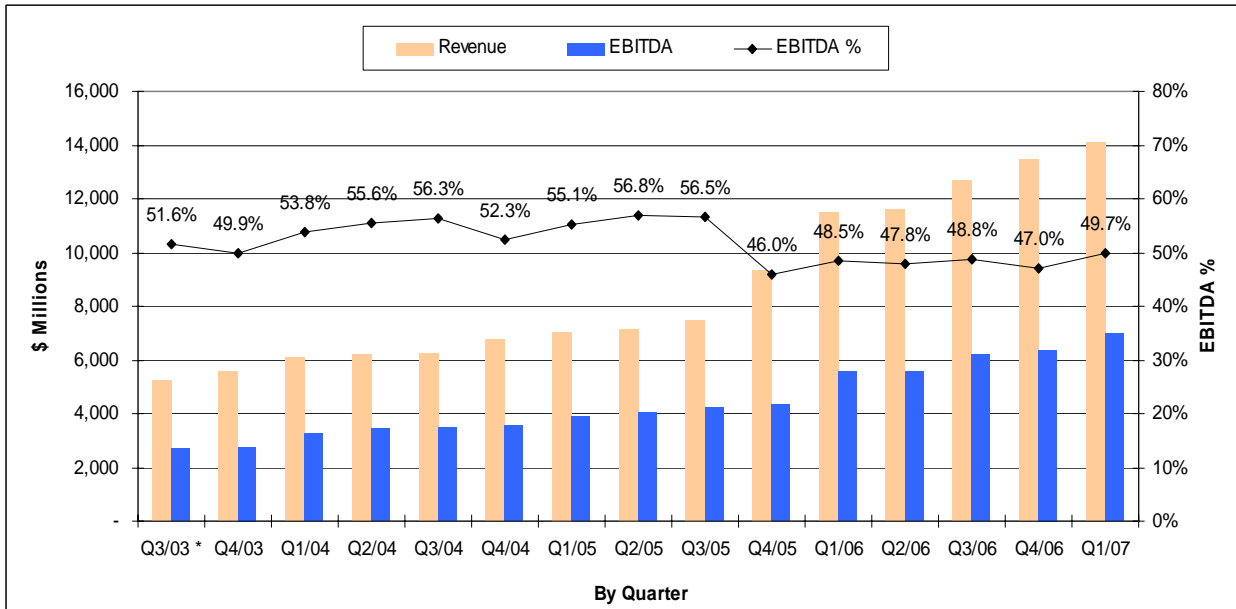
Management believes in a combined entertainment and hospitality model. The model targets the entertainment seeker and social occasional gamer. Clean, inviting venues that deliver live entertainment, lounging and dining, rest and relaxation together with gaming are situated in community based locales.

It is the intent and practice of the Fund to distribute taxable income of the Fund to unitholders by way of cash distributions on a monthly basis.

## To Our Unit Holders

### Don't Worry....

The arrival of spring should soon be enough to make most people happy. At Gamehost we can do one better. Results for the first interim reporting period in 2007 are in and they're enough to make even an investor smile. All assets performed above management expectations for the three months ended March 31, 2007 (the "Period"). And so, we are again pleased to share the results of another record quarter with you. .... be happy!



(\* Initial 4 month quarter x ¾)

### Going Up?

Revenues are up from \$11.5 million in Q1 2006 and \$13.5 million in Q4 2006 to \$14.1 million for the Period, another consecutive quarterly record for the Fund. Even more impressive were the results for earnings before interest, taxes, depreciation and amortization ("EBITDA") and EBITDA margins. EBITDA totaled \$7.0 million for the Period. This is up \$1.4 million or 25.5% from Q1 2006 and up \$0.7 million or 13.6% from Q4 2006. The EBITDA margin for the Period was 49.7% up significantly by 1.2% and 2.7% year over year and quarter over quarter respectively. Catch a lift on our elevator!

### The Big One

Historically the strongest growth quarter, the 2007 version of Q1 did not disappoint. Total revenues were up 22.3% year over year and 4.4% quarter over quarter. Northern properties benefited from a continuation of the high activity levels in the energy and construction sectors as well as above average population growth. Mid March marked the beginning of spring breakup in Alberta together with road bans and weight restrictions for trucking. The seasonal affect of this results in a drop in occupancy at our Grande Prairie hotel and an increase in activity at our northern casinos. The 2006 expansion of Boomtown Casino in Ft. McMurray is now showing real signs of traction. Mega projects either underway or nearing startup in the oil sands rich area has bolstered the number of construction personal in the

community. An additional 31 slot machines were added at the Deerfoot Joint Venture during the Period to meet growing demand. Our Deerfoot Joint Venture property in Calgary continues to benefit from promotional efforts which are growing market awareness. The Deerfoot Joint Venture facility is quickly becoming the destination of choice in the cities fast growing southeast. A varied lineup of entertainment events intended to attract a wide range of entertainment seekers continues to attract new patrons. The recent launch of loyalty programs are proving successful in encouraging what their name suggests.

### **Rest Assured**

Trustees of the Fund approved a 33% hike in the Fund's regular monthly distributions on February 16, 2007. Effective the February 2007 distribution period, regular monthly distributions were raised to \$0.20 per unit from \$0.15 per unit. This decision marks the third distribution increase since inception of the Fund. Some investors in the trust sector are concerned about real or potential declines in their trust investment cash distributions. Draft guidance on the reporting of distributable cash from operations from operations issued by the Canadian Institute of Chartered Accountants ("CICA") has been adopted by the Fund for this reporting Period. This guidance is intended to remove some of the trust sectors inconsistencies and shortcomings in the reporting of distributable cash from operations from operations and the sustainability of cash distributions. Please take the time to review this improved reporting in the Management, Discussion and Analysis for this Period and find out why Gamehost investors need not be concerned.

### **Bird's of a Feather**

On April 3, 2007, Gateway Casinos Income Fund (GCI.UN) announced it had entered into a support agreement providing for the sale of all of their outstanding units to New World Gaming Partners Ltd. The announcement created a thermal that sent the trading values of all publicly traded gaming companies in Canada higher. Prior to this announcement, units of the Fund were trading just under \$37 per unit, today they are at \$41 per unit. We think the higher price for the Fund's units more closely reflects the value of the Fund. We like the view from up here, hope you do as well.

### **On the Horizon**

Three separate projects will add hotel room capacity in Grande Prairie during Q2 2007 and early Q3 2007. Knowing this day would ultimately arrive, rate increases implemented during 2006 were strategically less dramatic than our competitors. Our reputation for fair business dealings with a loyal customer base should ensure we retain more than our share of this market as these projects come on line. Furthermore, the Service Plus property has a strategically advantageous location in the city with easy highway access, proximity to the regional college, retail shopping and gaming facilities. Even so, some erosion in occupancy could materialize. Impact should be minimal as the Service Plus property contributes 10% of total revenues and 12% of total EBITDA of the Fund.

We received confirmation from the Alberta Gaming and Liquor Commission that all slot equipment at the Deerfoot Joint Venture will switch to Ticket In/Ticket Out technology in mid July 2007. This is good news for the property as there are operating and cost efficiencies to be gained by the conversion. The AGLC is in the middle of a program to convert all slot equipment in the province to the coin-less system. Firm dates for conversion of the Fund's other properties have not been provided.

### **We're Fun!**

We've boasted a bit. Time now to get back to what we do best, growing a loyal clientele by providing the highest quality entertainment, dining and rest experience possible in our community based markets. Stop in for yourself sometime and see what we mean when we say, "We're fun!"



April 18, 2007

On behalf of all Management and Trustees, Sincerely,



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



Darcy J. Will  
Vice President  
Gamehost Management Inc.

## Management's Discussion and Analysis for the three month period ended March 31, 2007

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This discussion should be read in conjunction with the reported consolidated interim financial statements for Gamehost Income Fund (the "Fund") for the three month period ended March 31, 2007 (the "Period"). Consolidated interim financial statements for the Period have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP).

Management's discussion and analysis ("MD&A") focuses on year over year comparative results for the Period and comparison of the Period to results in the immediately preceding quarter. Readers are directed to management discussion and analysis contained in prior reports for specific results of previous quarters.

### Caution to the Reader

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Period and quarterly figures and comparisons contained in this MD&A have not been independently audited or reviewed by the Fund's external auditors.

This MD&A may make reference to non-Generally Accepted Accounting Principles ("GAAP") such as earnings before interest, taxes, depreciation and amortization ("EBITDA"). EBITDA is a non-GAAP measure and is provided for information only. EBITDA calculations should not be relied upon as a sole measure of performance.

References to distributable cash from operations may be found throughout this MD&A. Distributable cash from operations is a non-GAAP measure and its application and interpretation vary widely. The Fund has begun to adopt guidelines from an Interpretive Release issued by the CICA for this reporting period. As these guidelines are better understood and adopted by the trust sector, company comparisons of distributable cash from operations will improve. This report will introduce readers to new terminology and discussion surrounding the measure of distributable cash from operations. Some quantitative measures may fall short of the final understanding of the guidelines. The reader should be aware that any measurement of distributable cash from operations in this report may not be comparable to those reported by other companies.

This management discussion and analysis may contain forward-looking statements. Forward-looking statements may contain words such as "anticipates", "believes", "could", "expects", "indicates", "plans" or other similar expressions that suggest future outcomes or events. Use of these statements reflect reasonable assumptions made on the basis of management's current beliefs with information known by management at the time of writing. Many factors could cause actual results to differ from the results discussed in forward-looking statements. Actual results may not be consistent with these forward-looking statements.

### Disclosure Controls

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Disclosure controls and procedures have been designed to provide the Manager with reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to the Manager by others within those entities, particularly during the period in which the annual filings are being prepared.

Certifying officers of the Manager have evaluated those controls and procedures and concluded that they are operating effectively. All material information relating to the Fund and its consolidated subsidiaries has been made known to the Manager during the preparation of the annual financial statements and that information has been included in the reported results for the Period.

## Internal Controls

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Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Fund. The Fund'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 Fund, (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 Fund's management and directors and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Fund's assets that could have a material effect on the financial statements.

During the Period there have been no significant changes in internal control that has materially affected, or is reasonably likely to materially affect internal control over financial reporting.

## Quarterly Performance Summary

Quarterly Performance	2007	2006				2005		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Total revenue</b>	<b>\$14,083</b>	\$13,485	\$12,673	\$11,624	\$11,512	\$9,374	\$7,514	\$7,150
<b>Expenses</b>	<b>\$7,079</b>	\$7,144	\$6,486	\$6,071	\$5,930	\$5,133	\$3,270	\$3,092
<b>EBITDA</b>	<b>\$7,004</b>	\$6,341	\$6,186	\$5,553	\$5,581	\$4,241	\$4,244	\$4,059
<b>EBITDA %</b>	<b>49.7%</b>	47.0%	48.8%	47.8%	48.5%	45.2%	56.5%	56.8%
<b>Net earnings</b>	<b>\$6,186</b>	\$5,445	\$5,264	\$4,593	\$4,708	\$3,858	\$4,009	\$3,824
<b>Net earnings per unit <sup>1</sup></b>	<b>\$0.879</b>	\$0.774	\$0.748	\$0.653	\$0.669	\$0.548	\$0.570	\$0.543

(in thousands of dollars unless stated otherwise)

<sup>1</sup> Basic and fully diluted

Management believes that in Q1 2007 certain assets of the Fund reached thresholds that are significant in producing the real operating and cost efficiencies that come with higher revenues. This is most evident in the higher EBITDA margins recorded during the Period.

## Revenues

Total Revenue	Q1 (three months)			vs. previous quarter	
	2007	2006	+(-)	Q4 2006	+(-)
	<b>14,083.3</b>	11,511.6	22.3%	13,485.1	4.4%

(in thousands of dollars unless stated otherwise)

Q1 2007 marked the fourteenth consecutive quarter in which total revenues exceed the previous quarter. The Deerfoot Joint Venture, Boomtown Casino and Service Plus hotel each contributed to the favourable result. Great Northern Casino narrowly missed its previously posted high. Revenues at the Deerfoot Joint Venture were higher year over year and quarter over quarter by 51% and 4% respectively. Revenues at Boomtown Casino were higher year over year and quarter over quarter by 23% and 8% respectively. Revenues at Service Plus were higher year over year and quarter over quarter by 22% and 9% respectively. The Great northern Casino, hampered by foul winter weather gained just 1% in revenue compared with Q1 2006 and fell 3% from the previous quarter.

## Hotel Rooming Revenue

Hotel Rooming includes both guest and meeting room sales at hotels. Occupancy and Average Daily Rate (“ADR”) are calculated on guest room sales only.

Hotel - Rooming	Q1 (three months)			vs. previous quarter	
	2007	2006	+(-)	Q4 2006	+(-)
<b>Rooming</b>	<b>2,237.3</b>	1,650.0	35.6%	2,030.4	10.2%
<b>Occupancy</b>	<b>83.2%</b>	75.9%	7.3%	76.0%	7.2%
<b>Average Rate</b>	<b>\$146.24</b>	\$119.56	22.3%	\$142.54	2.6%

(in thousands of dollars unless stated otherwise)

Guest room stays at both the Deerfoot Joint Venture and Service Plus were exceptionally strong. For Service Plus, results were consistent with the same period one year earlier at near capacity. The Deerfoot Joint Venture posted very strong gains from Q1 2006 and maintained the same strong occupancy levels recorded in Q4 2006. These results are remarkable given a number of price increases during the previous fiscal period. Overall results are a barometer for the economy in general in Alberta which is sustaining high levels of corporate, vacation and sporting team travel.

In Grande Prairie, Alberta spring breakup arrived in mid-March. As usual, it had an immediate effect on occupancy, but not before the property could post near record occupancy results and record revenue generation for the Period.

The Deerfoot Joint Venture is positioned as a premier property in Calgary's south east quadrant and has been successful in delivering a higher ADR than all other properties in this market area while matching or exceeding those same other properties in terms of occupancy.

### Table Game Revenue

Table play and revenue sharing is regulated in Alberta by the Alberta Gaming and Liquor Commission. In general terms, Drop is the total amount of money anted and bet by players at most table games. Hold is the amount won from the drop at each table. Hold as a percentage of the drop will fluctuate. The hold is shared in varying percentages between charities and the casino operator dependant on the size and location of the casino. 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 25%/75% by the charity and casino operator respectively. Financial statements of the Fund report only the net table win being the operator's portion of the hold or rake.

Table Game Revenue	Q1 (three months)			vs. previous quarter	
	2007	2006	+(-)	Q4 2006	+(-)
All Others	1,754.8	1,580.6	11.0%	1,523.7	15.2%
Poker	276.9	206.6	34.0%	276.0	0.3%
Caribbean Stud	52.1	61.9	(15.8%)	55.5	(6.1%)
	2,083.8	1,849.1	12.7%	1,855.2	12.3%

(in thousands of dollars unless stated otherwise)

Tables (# of)	at the end of Q1			vs. previous quarter	
	2007	2006	+(-)	Q4 2006	+(-)
All Others	33.0	33.0	0.0	33.0	0.0
Poker	9.2	9.2	0.0	9.2	0.0
Caribbean Stud	2.4	2.4	0.0	2.4	0.0
	44.6	44.6	0.0	44.6	0.0

(in thousands of dollars unless stated otherwise)

Fractional table figures result through the proportionate consolidation of the Deerfoot Joint Venture tables.

Table activity at all three casinos was strong during the Period. Total table drop was 23% higher than Q1 2006 and 7% higher than Q4 2006. The Deerfoot Joint Venture and Boomtown Casino set records for table drop during the Period and Great Northern Casino was only slightly off their previous highest levels. The northern casinos of Boomtown in Ft. McMurray and Great Northern in Grande Prairie, both experienced improvements in table staffing. This allowed for full table operations on most days which has not been the case in past quarters.

It is typical for hold percentages to fluctuate. Both northern casinos held lower percentages of the table drop than in Q1 2006 and Q4 2007 yet still produced higher net revenues due to the increased table drops.

The Deerfoot Joint Venture recorded their highest average hold percentages since the facility opened which added favourably to overall table revenue.

## Slot Machine 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 slot 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. Slot machine revenue, therefore, is determined by the above arrangements as well as the numbers of hours the machines operate and how much money is played on the machines (‘Drop’) during hours of operation.

Slot Machine	Q1 (three months)			vs. previous quarter	
	2007	2006	+(-)	Q4 2006	+(-)
Revenue	5,485.8	4,722.6	16.2%	5,238.6	4.7%
Machines <sup>1</sup>	1,050.4	1,031.0	9.4	1,046.4	4.0

(in thousands of dollars unless stated otherwise)

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

Overall slot drops were higher than Q1 2006 by 15% and higher than Q4 2006 by 3%. Both the Deerfoot Joint Venture and Boomtown Casinos recorded sharp increases in slot drops of 53% and 20% respectively versus Q1 2006 and 3% and 9% versus Q4 2006. Great Northern slot drops, on the other hand, were lower than Q1 2006 by 4% and lower than Q4 2006 by 3% due to severe winter weather in the Grande Prairie area.

The Deerfoot Joint Venture received 10 additional slot machines at the end of February 2007 bringing their total machine count up to 631 slot machines.

## Food & Beverage (“F&B”) Revenue

The Fund earns F&B revenue under numerous arrangements. The Deerfoot Joint Venture is the Fund’s only property that owns and operates the entire F&B operations on premises. All other properties have individual operating arrangements that combine Fund owned and operated liquor sales with 3<sup>rd</sup> party arrangements for food and concession services. Where food operations are run by a 3<sup>rd</sup> party, the Fund earns a commission on those sales.

F&B Revenue	Q1 (three months)			vs. previous quarter	
	2007	2006	+(-)	Q4 2006	+(-)
Food	956.3	728.5	31.3%	1,087.8	(12.1%)
Liquor	2,122.7	1,604.6	32.3%	2,098.9	1.1%
	3,079.0	2,333.1	32.0%	3,186.7	(3.4%)

(in thousands of dollars unless stated otherwise)

F&B Margins	Q1 (three months)			vs. previous quarter	
	2007	2006	+(-)	Q4 2006	+(-)
Food	52.0%	42.9%	9.1%	52.8%	(0.8%)
Liquor	78.5%	74.7%	3.8%	78.1%	0.4%
Total	70.2%	64.8%	5.4%	69.5%	0.7%

Management is extremely pleased with overall food and beverage sales for the Period. Up sharply from the same quarter one year earlier, all three casino properties made significant contributions to the year over year increase. There are no F&B sales at the Fund’s other properties.

Q4 is the Fund's strongest quarter for food sales as it includes the busy Christmas banquet season. The Deerfoot Joint Venture contributes in excess of 85% of all food revenues to the Funds total food sales. Year over year food sales growth for the Deerfoot Joint Venture, Boomtown Casino and Great Northern Casino totaled 41%, 48% and 11% respectively. The Boomtown Casino does not have banquet room facilities.

Liquor sales have less volatility. The recent expansion of the Boomtown Casino including the lounge and entertainment areas attracted liquor sales growth on a quarter over quarter basis totaling 8%. Both the Deerfoot Joint Venture and Great Northern Casinos recorded liquor sales declines when compared to Q4 2006 which included the busy Christmas banquet season. Quarter over quarter comparisons respectively were -3% and -4%.

### Lease and Rental Revenue

Lease and rental revenue is derived predominantly from three 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. All three tenants at the Strip Mall are in their final renewal terms of their leases which expire in either 2008 or 2009.

Lease & Rental	Q1 (three months)			vs. previous quarter	
	2007	2006	+(-)	Q4 2006	+(-)
<b>Total</b>	<b>79.7</b>	76.8	3.7%	76.5	4.1%

(in thousands of dollars unless stated otherwise)

Minor year over year and quarter over quarter revenue increases are the result of adjusted common area cost estimates for 2007. These costs are passed onto the lessee in their monthly lease payments which combine base rent with common area cost estimates.

### Other Revenue

Other revenue includes lottery ticket sales, movie rentals, automated teller fees, cigarette sales, ticket revenue and other miscellaneous service revenues at casinos and hotels.

Other	Q1 (three months)			vs. previous quarter	
	2007	2006	+(-)	Q4 2006	+(-)
<b>Total</b>	<b>1,117.7</b>	880.0	27.0%	1,097.6	1.8%

(in thousands of dollars unless stated otherwise)

Contributions from ATM machines and other guest services at the Deerfoot Joint Venture account for the majority of reported other revenue gains for the Period.

## Expenses

### Total Expenses

Total Expenses	Q1 (three months)			vs. previous quarter	
	2007	2006	+(-)	Q4 2006	+(-)
<b>Total</b>	<b>7,896.9</b>	6,803.4	16.1%	8,039.9	(1.8%)
<b>% of Revenues</b>	<b>56.1%</b>	59.1%	(3.0%)	59.6%	(3.5%)

(in thousands of dollars unless stated otherwise)

Overall expenses are higher year over year following overall revenue growth. As a percentage of total revenue, however, they have fallen year over year and from the previous quarter. The Deerfoot Joint Venture and Boomtown Casino seem to have found their stride. Both properties are now making inroads in reducing expenses as a percentage of total revenue on the strength of solid revenue growth. Service Plus hotel too had a very strong quarter making a contribution to favourable economies of scale.

Quarter over quarter the Fund recorded a reduction in total expenses as a result of reduced utility expenses and bonuses during the Period.

### 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	Q1 (three months)			vs. previous quarter	
	2007	2006	+(-)	Q4 2006	+(-)
<b>Operations</b>	<b>3,046.2</b>	2,653.5	14.8%	3,100.5	(1.8%)
<b>General admin</b>	<b>112.0</b>	98.1	14.2%	137.0	(18.2%)
<b>Trustee fees</b>	<b>36.0</b>	38.8	(7.2%)	26.9	33.8%
<b>Management fees</b>	<b>334.8</b>	164.1	104.0%	237.1	41.2%
<b>Total</b>	<b>3,529.0</b>	2,954.5	19.4%	3,501.5	0.8%
<b>% of Revenues</b>	<b>25.1%</b>	25.7%	(0.6%)	26.0%	(0.9%)

(in thousands of dollars unless stated otherwise)

Year over year human resource costs are higher as a result of higher activity levels for operations, annual wage adjustments and higher management fees which are based on sales and profitability. As a percentage of revenue human resource costs have declined with cost efficiencies gained by higher sales volumes. Period human resource costs for operations and general admin were lower than those incurred in Q4 2006 as year end bonuses for 2006 were accrued and or paid in the previous quarter.

### Marketing and Promotions

Marketing and promotions include all donations, sponsorships and complimentary services offered at properties in addition to sales and advertising expenses.

Marketing and Promotions	Q1 (three months)			vs. previous quarter	
	2007	2006	+(-)	Q4 2006	+(-)
<b>Total</b>	<b>464.0</b>	296.8	56.3%	481.4	(3.6%)
<b>% of Revenues</b>	<b>3.3%</b>	2.6%	0.7%	3.6%	(0.3%)

(in thousands of dollars unless stated otherwise)

The recent launch of loyalty programs at the Deerfoot Joint Venture and Great Northern Casino accounts for overall year over year increases in promotional spending. Loyalty program spending was being incurred as early as Q4 2006. Compared to Q4 2006 promotional spending is lower. This is largely due to less radio advertising which had been ramped up for the Christmas banquet season.

## Operating Costs

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

Operating	Q1 (three months)			vs. previous quarter	
	2007	2006	+(-)	Q4 2006	+(-)
<b>Total</b>	<b>1,521.8</b>	1,316.1	15.6%	1,632.1	(6.8%)
<b>% of Revenues</b>	<b>10.8%</b>	11.4%	(0.6%)	12.1%	(1.3%)

(in thousands of dollars unless stated otherwise)

Increased operating costs year over year for the Period are again a result of increase operational activity and higher sales. As a percentage of revenue, however, they have declined with the larger revenue base over which fixed costs are measured.

A decline in operational costs from Q4 2006 resulted from lower utility expenses. In Q4 2006 the Fund paid for a number of price spikes in electricity resulting from unscheduled generation outages. Until recently, electrical consumption had been priced at the variable pooled rate. Management has recently hedged base loads for electrical supply to eliminate the price volatility.

## General and Administrative

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

General & admin	Q1 (three months)			vs. previous quarter	
	2007	2006	+(-)	Q4 2006	+(-)
<b>Total</b>	<b>548.4</b>	469.1	16.9%	458.3	19.7%
<b>% of Revenues</b>	<b>3.9%</b>	4.1%	(0.2%)	3.4%	0.5%

(in thousands of dollars unless stated otherwise)

Factors contributing to the overall increase in general and administrative expenses versus Q1 2006 include property insurance. Management adjusted property coverage amounts to reflect the higher replacement costs of appreciating assets. All insurance policy periods run from June to June. Property taxes were up sharply at the Deerfoot Joint Venture as their assessment was for the first time made on completed construction. Property taxes are also sharply higher at Service Plus where consistently high occupancy rates in the city prompted a large increase in the assessed values of all hotel properties in the city. Higher expenses compared to Q4 2006 can be attributed to 2006 audit fees recorded during the Period.

## Amortizations

Amortizations	Q1 (three months)			vs. previous quarter	
	2007	2006	+(-)	Q4 2006	+(-)
<b>Total</b>	<b>553.7</b>	593.5	(6.7%)	675.2	(18.0%)

(in thousands of dollars unless stated otherwise)

Period amortization is lower than comparative quarters in 2006 due to declining balances in the cost base for amortizations calculated as a percentage of the non-amortized asset values.

## Interest

Interest is incurred on term debts held by the Deerfoot Joint Venture and Gamehost Limited Partnership.

Interest	Q1 (three months)			vs. previous quarter	
	2007	2006	+(-)	Q4 2006	+(-)
<b>Total</b>	<b>264.2</b>	279.7	(5.5%)	220.3	19.9%
<b>% of Revenues</b>	<b>1.9%</b>	2.4%	(0.6%)	1.6%	0.2%

(in thousands of dollars unless stated otherwise)

The Fund has a \$9.0 million term loan with revolving terms at bank prime plus 1.5%. The outstanding balance of this loan was \$2.0 million at the start of the Period and \$8.0 million at the end of the Period. Funds from this loan facility were used to make the special cash distribution in January 2007 that was declared in December 2006. Surplus cash generated by the Fund is routinely applied against the outstanding balance of this loan to reduce ongoing interest expenses.

The Deerfoot Joint Venture has a term loan at bank prime plus 1% which includes \$2.0 million portioned with revolving terms. Regular amortized payments are being made. Surplus cash generated by the Deerfoot Joint Venture is routinely applied against the outstanding balance of the \$2.0 million revolving portion of this loan to reduce ongoing interest expenses. The total outstanding balance of this loan at the end of the Period was \$20.6 million. The revolving portion included in the preceeding total was \$nil at the start and throughout the Period. The Fund's 40% participating Interest in these amounts are included in the above table

## Facilities

Capital Expenditures	Q1 (three months)			vs. previous quarter	
	2007	2006	+(-)	Q4 2006	+(-)
Maintenance	49.9	15.0	232.5%	163.8	(69.5%)
Expansion	(2.4)	868.8	(100.3%)	0.0	0.0%
	47.5	883.8	(94.6%)	163.8	(71.0%)

(in thousands of dollars unless stated otherwise)

Minimal maintenance was required during the Period on all facilities. With the bulk of refurbishment maintenance completed in previous periods there were only a few minor items requiring funding during the Period. Some mechanical upgrades and completion of security projects were the most significant along with some additional computer equipment. This compares favourably to Q1 2006 when Deerfoot was still completing items remaining from the original construction and to Q4 2006 when the Grande Prairie properties were finishing sizable refurbishments.

## Financial Condition

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### Liquidity and Capital Resources

Assets totaled \$92.6 million for the Fund at the end of the Period, a increase of \$0.9 million from December 31, 2006. Cash and cash equivalents totaled \$9.8 million, up \$1.8 million for the Period.

The Limited Partnership has a \$9,000,000 revolving term loan with the Canadian Western Bank (“CWB”). The loan matures on May 15, 2007. The year opened with a \$2.0 million balance on this loan. The remaining \$7.0 million was redrawn in January 2007 for the special cash distribution declared for December 2006 payable January 15, 2007. Over the remaining course of the Period, \$1.0 million in surplus cash was applied against the loan to reduce interest charges. At the end of the Period there was \$8.0 million outstanding. Terms of the loan include a floating interest rate at 1.5% above the CWB Prime Lending Rate. The CWB Prime Lending Rate at throughout the Period was 6.0% per annum. There are no specific debt covenants attached to this loan.

The Fund has a 40% Participating Interest Responsibility for debt of the Deerfoot Joint Venture. At the end of the Period the Deerfoot Joint Venture had \$20,610,404 remaining on a term debt instrument. The loan is secured by the Deerfoot Joint Venture’s land and building. Interest on the loan floats at 1.0% above the CWB Prime Lending Rate. The CWB Prime Lending Rate throughout the Period was 6.0% per annum. The loan is structured in two segments. The outstanding balance of the first segment, the demand non-revolving portion, is \$20,610,404. The outstanding balance of the second segment, a \$2 million demand revolving portion, is \$nil. The Fund’s portion of the total of both segments of this loan is 40% or \$8,244,162. The Deerfoot Joint Venture loan has the following performance covenants:

1. Maximum debt to equity ratio of 3.00:1.00
2. Minimum debt service coverage of 1.25:1.00

The Fund is required by the Alberta Gaming and Liquor Commission to maintain a Minimum Continuing Net Working Capital Position (“MCNWCP”) to support its gaming operations. Available credit remaining on the \$9 million term facility and the \$2 million revolving portion of the Deerfoot Joint Venture debt is considered working capital for the purpose of calculating MCNWCP. The Fund regularly runs a large surplus to this MCNWCP.

### Distributable cash from operations

The Fund declared a monthly cash distribution of \$0.15 per unit for the month of January 2007. In February 2007 trustees approved an increase in the regular monthly distribution of 33% to \$0.20 per unit. Monthly distributions of \$0.20 were declared for each of February, March and April 2007. Declared distributions are paid on or about the 15<sup>th</sup> of the month following declaration.

Distributable cash is a non-GAAP measure. For its own purposes, the Fund defined the 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 Trustees in their discretion. It is the intention of the Fund trustees to distribute sufficient income from the Fund so that the

Fund will not have any liability for tax under Part I of the Income Tax Act. The Fund's mandate is to make consistent monthly cash payments to unit holders based on management's projections of the year's distributable cash.

Most recently, 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") released draft guidance for the calculation and disclosure of distributable cash. For both of these governing bodies the intent is to improve on current and varied industry reporting practices. Accordingly, the Fund has adopted the CICA guidelines to report distributable cash for this reporting period including adopting use of "distributable cash from operations" as standard terminology with standard means of measure.

#### Productive capacity

The Fund's assets are in buildings, land improvements and furniture fixtures and equipment. Current productive capacity of the Fund consists of 123 guest rooms and 1 meeting room at Service Plus, the Fund's Participating Interest in 188 guest rooms, 10 meeting/banquet rooms, 3 restaurants and lounge at the Deerfoot Joint Venture and ancillary amenities for both facilities. Also included in productive capacity are the Fund's interests in three gaming licenses, one each for Boomtown Casino, Great Northern Casino and the Deerfoot Joint Venture. Together these licenses allow the Fund to directly operate 798 slot machines and 31 table games as well as participate 40% in the operation of 631 slot machines and 34 table games at the Deerfoot Joint Venture.

#### Productive capacity maintenance

Productive capacity maintenance costs for rooming and food and beverage facilities of the Fund are minimal. Maintaining the shine on our properties so that they continue to attract guests is largely one of regular refurbishment of the finishings such as paint or new carpets and beds. For the most part, maintenance costs are appropriately treated as operational expenses at the time they are incurred and as such are already included in the periodic cash flow from operating activities as reported in financial statements. From time to time, however, there are capital costs that would be paid for by cash generated from operating activities rather than borrowed money. Examples of these costs for the Fund would be converting to keyless entry on guest room access doors or the installation of digital security. These later capital costs would fall into the category of productive capacity maintenance for the purpose of determining distributable cash from operations.

Liquor sales require the Fund to hold a valid 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, but requires no capital outlay by the Fund.

Gaming operations of the Fund require minimal capital outlay by the Fund. Slot machines are owned and maintained by the Alberta Gaming and Liquor Commission. Tables are owned and maintained by the by the Fund. Productive capacity maintenance of both tables and slot machines is more significantly measured in terms of maintenance of the Fund's gaming licenses issued by the Alberta Gaming and Liquor Commission. Holders of charitable gaming 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 no capital outlay by the Fund. The Fund's gaming licenses have consistently received favourable audit results from the Alberta Gaming and Liquor Commission.

Annualized capital costs for productive capacity maintenance should not exceed \$200,000 per year for the Fund based on a historical review of these costs.

### Discretionary and other items

From time to time, at their discretion, management or trustees may elect to reserve cash for other purposes such as but not limited to potential or planned capital expansions that will be paid out of operating cash flow. In 2005 and 2006, management used surplus cash flow to finance the Boomtown Casino as an example.

### Long-term unfunded contractual obligations

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

### Debt Strategy

The current strategy of the Fund is to minimize debt. Current debt instruments will be maintained or eliminated to the extent they allow for repayment. Debt maintenance includes regular amortized monthly principal payments and intermitant payments/drawings on revolving debt instruments. It has been the practice of the Fund to draw on revolving debt to meet obligations for special distributions when and if they are declared.

### Financing restrictions on distributions caused by debt covenants

The Fund has, a \$9.0 million revolving term loan is secured by assets owned by the Fund and has no debt covenants.

A second term facility held by the Deerfoot Joint Venture, requires that the Deerfoot Joint venture make amortized monthly principal payments of \$209,156.58 and maintain a debt to equity ratio not greater than 3.00:1.00 and debt service coverage of not less than 1.25:1.00. At the end of the Period the Deerfoot Joint Ventures debt to equity ratio was 2.20:1.00 and debt service coverage was 7.34:1.00 both well within the acceptable limits.

It should be noted as well that the Fund is required to maintain a Minimum Continuing Net Working Capital position ("MCNWCP") as stipulated by the Alberta Gaming and Liquor Commission. The Fund regularly maintains a large cushion to this requirement. Surplus to the MCNWCP at the end of the Period is in excess of \$3.0 million.

### Excess of cash flows from operations over cash distributions declared

As Fund payout ratios would indicate, management, with the approval of trustees, has chosen to payout less than the full amount of distributable cash from operations. The total of all adjustments made to cash provided by operations in arriving at distributable cash from operations is less than the Fund's available tax shield. The Fund has typically used the full amount of available annual tax shield which provides management the flexibility to use the excess cash for, but not limited to, the principal portion of amortized loan payments and payments on revolving loans to reduce interest expenses. Excess cash has also been used to finance the 2005/2006 expansion of Boomtown Casinos. Additional amounts of excess in cash flow from operations over cash distributions declared is held as reserve for unforeseen circumstances or new opportunities. The payout ratios resulting from these practices are easily maintained and should provide unit holders confidence that current cash distributions are sustainable.

Summary of Distributable Cash From Operations	Q1 (three months)		Since Inception
	2007	2006	
Cash provided by operations (see Interim Consolidated Statements of Cash Flows)	\$ 7,113,375	\$ 3,967,252	\$ 58,218,373
Less adjustment for:			
Productive capacity maintenance	47,541	14,521	726,135
Distributable cash from operations	7,065,834	3,952,731	57,492,238
Cash distributions	3,869,718	2,532,906	41,828,134
Cash distributions/unit	\$0.55	\$0.36	\$5.95
Payout ratio	54.8%	64.1%	72.8%
Excess of cash flows from operations over cash distributions declared	3,196,116	1,419,825	15,664,104
Excess of net income over cash distributions declared	2,316,651	2,175,230	18,270,909

#### Tax attributes of cash distributions to unit holders

The Fund has held back from distribution to unit holders cash in excess of the Fund's available tax shield. In the past and for the foreseeable future, available tax shield will exceed any normal adjustments made to cash provided by operations in determining distributable cash from operations. As a result, payout ratios of less than 100% of distributable cash from operations should be expected.

In the first half of December each year, management, based on earnings projections to the end of the calendar year, will calculate a special distribution recommendation for the approval of trustees. The recommendation will ensure the tax position of the trust is nil. Individual unit holders, therefore, can expect their distributions to be mostly taxable as income excepting a small portion which will be considered as return of capital for tax purposes. Historical attributes are provided here for reference.

<u>Tax Attributes</u>	<u>Income</u>	<u>ROC</u>	<u>Total</u>
2006	97.25%	2.75%	100.00%
2005	89.61%	10.39%	100.00%
2004	95.25%	4.75%	100.00%
2003	80.84%	19.16%	100.00%

## Business Risks and Outlook

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### Economic Outlook

The economic outlook for the province of Alberta remains strong. Drilling activity is lower in the local energy sector of late. Oil and gas prices, however, have been gaining strength, which will ultimately provide the underlying support for higher drilling activity. Interest remains high in the oil sands region of northern Alberta despite rising construction and production costs. The province continues to attract population growth higher than the national average and consumer spending in Alberta remains high.

### Competition

In our 2006 Annual Report we provided a detailed description of the landscape for new casinos in Alberta that may have an impact on the Fund's properties. An update on the construction of the Tsuu T'ina First Nation development west of Calgary finds the facility progressing, but slower than planned. Their original target for a mid summer 2007 opening may need to be pushed back. They have, however, begun their recruitment campaign which, given the tight labour market, will have a ripple effect on all other gaming properties in the city. Economically, the new facility would have little impact on the Deerfoot Joint Venture due to our focus on community based gaming. However, the Tsuu T'ina casino will not be subject to the non-smoking restrictions that come into effect in 2008. We will be monitoring this element closely

### Non-smoking

The Deerfoot Joint Venture has been able to capitalize on their temporary exclusion from the City of Calgary's new non-smoking bylaw. Increased activity in the facilities lounge facilities since the new bylaw came into effect has been evident. Come January 1, 2008, however, the Deerfoot Joint Venture will have to contend with the non-smoking provision. Casinos in other jurisdictions that have already made the transition to a non-smoking environment have typically experienced a 12% - 15% drop in patronage at the initial stage with a recovery to normal within three to twelve months. Management sees an opportunity in the longer term to attract new patrons who have traditionally avoided gaming establishments because of smoking.

### Government

We continue to follow the governments planned tax restructuring for the income trust sector. Previously announced changes would see income trust earnings taxed at the trust level prior to distribution to unit holders. A four year transition period for existing trusts would delay the new ruling to the beginning of 2011. Limitations have also been placed on growth of individual trusts. The move has motivated a number of conversions to corporations as well as private and foreign buyouts. Management will make prudent use of the four year transition period to determine our own course of action once the final outcome of the proposed tax changes are known.

### Ticket In Ticket Out (TITO)

The Alberta Gaming and Liquor Commission confirmed the implementation of TITO at the Deerfoot Joint Venture for mid July 2007. Dates for the Fund's other properties have not yet been determined. TITO reduces the need for cash on the gaming floor and the frequent conversions of coin to cash on player winnings. Experience in other jurisdictions indicates implementation of this technology dramatically reduces labour costs associated with handling cash and moderately increases the total amount of cash played resulting in higher net win to the operator.

April 18, 2007

## Notice of No Auditor Review

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The accompanying unaudited consolidated interim financial statements of the Fund have been prepared by management in accordance with Canadian generally accepted accounting principles. Management accepts sole responsibility for the material correctness of reported results.

Readers are cautioned that these financial statements have not been independently audited or reviewed by the Fund's external auditors.

Readers should also understand that these unaudited consolidated interim financial statements should be read in conjunction with the Fund's audited consolidated financial statements for the year ended December 31, 2006.

## Interim Consolidated Balance Sheets

*(Unaudited)*

	March 31, 2007	December 31, 2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 9,835,581	\$ 8,055,044
Accounts receivable	948,386	1,208,560
Current portion of Notes Receivable	29,202	28,645
Inventories	247,930	253,360
Prepaid expenses	193,762	321,962
	11,254,861	9,867,571
Notes receivable	51,293	58,820
Property, plant & equipment	35,170,485	35,676,659
Licenses	3,500,000	3,500,000
Goodwill	42,579,216	42,579,216
	\$ 92,555,855	\$ 91,682,266
<b>Liabilities and unit holder equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,203,792	\$ 2,224,290
Term loan(s) (Notes 5 and 9)	16,244,162	10,397,157
Due to related parties (Notes 6 and 9)	42,465	135,451
Unit holder distributions payable	1,407,170	8,583,738
	19,897,589	21,340,636
Class B limited partnership units	36,717,553	35,583,320
	56,615,142	56,923,956
Unit holders' equity	35,940,713	34,758,310
	\$ 92,555,855	\$ 91,682,266

**See accompanying notes to consolidated financial statements.**

## Interim Consolidated Statements of Unit Holders' Equity

*(Unaudited)*

	<b>three months ended March 31</b>	
	<b>2007</b>	<b>2006</b>
Balance at the beginning of the period	\$ 34,758,310	\$ 34,528,213
Net income	3,157,481	2,403,001
Distributions to unit holders	<u>(1,975,078)</u>	<u>(1,292,778)</u>
Balance at the end of the period	<u>\$ 35,940,713</u>	<u>\$ 35,638,436</u>

**See accompanying notes to consolidated financial statements.**

## Interim Consolidated Statements of Operations

**(Unaudited)**

	three months ended March 31	
	2007	2006
Revenue		
Hotel - rooming	\$ 2,237,296	\$ 1,650,038
Table games	2,083,808	1,849,130
Slot machines	5,485,784	4,722,573
Food & beverage services	3,079,031	2,333,080
Lease and rental	79,659	76,764
Other	1,117,697	879,976
	14,083,275	11,511,561
Expenses		
Cost of goods sold	1,015,767	893,735
Human resources	3,529,000	2,954,547
Marketing and promotions	464,041	296,817
Operating	1,521,766	1,316,091
Corporate and general administration	548,420	469,070
	7,078,994	5,930,260
Earnings before amortization, interest and income allocation to Class B Limited Partners	7,004,281	5,581,301
Amortization	553,700	593,479
Interest charges	264,212	279,686
Income allocation to Class B Limited Partners	3,028,888	2,305,135
Net income	\$ 3,157,481	\$ 2,403,001
Net income per unit *		
Weighted average and fully diluted	\$ 0.879	\$ 0.669

**See accompanying notes to financial statements**

\* Based on Net income before Income allocation to Class B Limited Partners against total units (all classes) issued and outstanding.

## Interim Consolidated Statements of Cash Flows

*(Unaudited)*

	three months ended March 31	
	2007	2006
Cash provided by (used for) operations		
Net income	\$ 3,157,481	\$ 2,403,001
Add non-cash items:		
Allocation of net income to class B limited partners	3,028,888	2,305,135
Amortization of property, plant & equipment	553,700	593,479
	<u>6,740,069</u>	<u>5,301,615</u>
Net changes in non-cash working capital:		
Accounts receivable	260,174	83,179
Inventories	5,430	(19,634)
Prepaid expenses	128,200	4,122
Accounts payable and accrued liabilities	(20,498)	(1,402,030)
	<u>7,113,375</u>	<u>3,967,252</u>
Financing		
Advances to/from related parties	(92,986)	1,041,169
Term loans advances (payments)	5,847,005	4,373,395
Proceeds from collection of notes receivable	6,970	6,472
Distributions to Class B Limited Partners	(5,408,336)	(3,272,560)
Unit holder distributions	(5,637,950)	(3,411,498)
	<u>(5,285,297)</u>	<u>(1,263,022)</u>
Investments		
Purchase of property, plant & equipment	(47,541)	(550,739)
Increase in cash and cash equivalents	1,780,537	2,153,491
Opening cash and cash equivalents	<u>8,055,044</u>	<u>8,528,002</u>
Closing cash and cash equivalents	<u>\$ 9,835,581</u>	<u>\$ 10,681,493</u>
Supplemental cash flow information:		
Interest paid and recorded as expense	\$ 264,212	\$ 279,686

## Notes to Consolidated Financial Statements

three month period ended March 31, 2007  
(Unaudited)

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### 1. Organization Structure and Nature of the Operations

#### Fund

Gamehost Income Fund (the "Fund") is an unincorporated open-ended limited purpose trust established under the laws of the Province of Alberta and is governed by a trust agreement dated April 9, 2003 (the "Fund Agreement").

#### Trust

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

#### Limited Partnership

Gamehost Limited Partnership (the "Limited Partnership") is a limited partnership formed under the laws of the Province of Alberta. The Limited Partnership owns the assets and business operations of the Fund. These assets were acquired from Service Plus Hospitality Ltd., Will Inns Ltd. and Boomtown Casino Ltd. pursuant to a Plan of Arrangement (the "Plan of Arrangement") under the Business Corporations Act (Alberta) (the "ABCA"). The Limited Partnership began operations of the Fund effective June 1, 2003.

#### Manager

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

#### Units

An unlimited number of Fund Units and Special Voting Units may be created and issued pursuant to the Fund Agreement. The Limited Partnership is authorized to issue unlimited numbers of both Class A units ("A Units") and Class B Limited Partnership units ("B Units"). The A Units are held by, and can only be issued to, the Trust. All B Units are held by the remaining partners of the Limited Partnership. There are 3,591,051 A Units and 3,444,800 B Units of the Limited Partnership issued and outstanding. B Units are exchangeable, on a one-for-one basis, for Fund Units. Holders of Fund Units and holders of B Units have equal voting rights.

### 2. Nature of Operations

The Fund's activities are currently confined to the Province of Alberta, Canada. Operations include the Boomtown Casino in Ft. McMurray, the Great Northern Casino in Grande Prairie and Service Plus Inns & Suites ("Service Plus"), a limited service hotel, also located in Grande Prairie. As a complement to Service Plus, the Fund owns a retail complex (the "Strip Mall") that leases space to separate liquor store, pub and full service restaurant operations. The Fund is also a 40% joint venture partner in Deerfoot Inn & Casino Inc., (the "Deerfoot Joint Venture") in Calgary.

## Notes to Consolidated Financial Statements

three month period ended March 31, 2007  
(Unaudited)

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### 3. Basis of Preparation

The interim consolidated financial statements of the Fund have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The interim consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality.

Interim consolidated financial results include the activities of the Fund, the Trust, the Limited Partnership with all its operating divisions and the Fund's proportionate share of the activities of the Deerfoot Joint Venture.

### 4. Comparative Figures

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

### 5. Term Loan

The Fund has a \$9.0 million revolving term loan with Canadian Western Bank ("CWB") during the Period. The loan has an outstanding balance of \$8.0 million (December 31, 2006 - \$2.0 million) at the end of the Period. Terms of the loan include a floating interest rate at 1.5% above CWB prime. This rate was 7.0% at the end of the Period (December 31, 2006 – 7.0%). The repayment schedule allows for interest only payments to maturity of the loan in May, 2007. Security for the loan includes;

- A promissory note
- General security agreement for first charge on Service Plus, Great Northern Casino and the Strip Mall.
- Demand collateral mortgage first charge in the amount of \$9,000,000
- Assignment of rents and leases
- Assignment of all risk casualty and liability insurance

### 6. Related Party Transactions

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

- a) During the Period, the Fund entered into related party transactions with several companies controlled by David Will and/or Darcy Will. David Will and Darcy Will are trustees of the Fund. Together, David Will and Darcy Will also exercise control over the Fund with direct ownership or control of 45.1% of the outstanding units of all unit classes. Transactions include the following:
  - Incurred by the Fund for management services in the amount of \$135,000 (2006 - \$114,000);
  - Incurred by the Fund for aircraft and other rentals in the amount of \$43,160 (2006 - \$52,988);
  - Reimbursement by the Fund for expenses incurred on behalf of the Fund in the amount of \$29,433 (2006 - \$48,246);
  - Incurred by the Fund for distributions on Class B Partnership units owned by these companies in the amount of \$1,687,290 (2006 - \$1,104,408).

## Notes to Consolidated Financial Statements

three month period ended March 31, 2007  
(Unaudited)

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

- Amounts which are unpaid at March 31 include the following:
  - \$613,560 (2006 - \$368,136) in distributions payable;
  - \$21,472 (2006 - \$nil) included in due to related parties.
- b) During the Period, the Fund also incurred expenses to other trustees or companies controlled by other trustees for consulting and trustee services in the amount of \$31,500 (2006 - \$109,986). Of these amounts, \$25,855 (2006 - \$nil) are included in due to related parties at March 31, 2007.
- c) The Fund's 40% proportionate share of the Deerfoot Joint Venture's related party transactions included in these financial statements are summarized separately in Note 8.

### 7. Commitments

#### Management Agreement

The Fund has a management agreement with Gamehost Management Inc. for management services provided to the Fund. The agreement provides for monthly management fees owing to Gamehost Management Inc. based on a percentage of EBITDA of the Fund.

### 8. Distributions to Unit Holders

Declared distributions totaled \$3,869,718 for the Period (2006 - \$2,532,906). Total declared distributions include one regular monthly distributions of \$0.15 per unit in January, 2007 before trustees approved a 33% increase in regular monthly distributions to \$0.20 per unit. A \$0.20 per unit distribution was declared for each of February and March 2007. Subsequent to the end of the Period a \$0.20 per unit cash distribution was declared for April 2007.

#### **2007 Distribution Summary**

Month	Date Declared	Record Date	Payment Date	Distribution per Unit
January	15-Jan-07	31-Jan-07	15-Feb-07	\$0.15
February	16-Feb-07	28-Feb-07	15-Mar-07	\$0.20
March	12-Mar-07	31-Mar-07	16-Apr-07	\$0.20
April	17-Apr-07	30-Apr-07	15-May-07	\$0.20

### 9. Investment in the Deerfoot Joint Venture

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

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

**Notes to Consolidated Financial Statements**  
**three month period ended March 31, 2007**  
**(Unaudited)**

**9. Investment in the Deerfoot Joint Venture (cont.)**

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

The Fund's interim consolidated financial statements include its Participating interest in the assets, liabilities, revenues and expenses and net income and cash flows resulting from operating, financing and investing activities of the Joint Venture. The following statements report the Fund's 40% proportionate share of the Deerfoot Joint Venture.

**Deerfoot Joint Venture (Gamehost Participating Interest)**  
**Balance Sheets**  
**(Unaudited)**

	March 31, 2007	December 31, 2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,113,971	\$ 2,623,245
Accounts receivable	292,691	350,336
Inventories	124,605	124,168
Prepaid expenses	89,500	120,915
	<u>3,620,767</u>	<u>3,218,664</u>
Property, plant & equipment	15,573,144	15,793,322
	<u>\$ 19,193,911</u>	<u>\$ 19,011,986</u>
<b>Liabilities and unitholder equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 857,929	\$ 899,505
Term loan	8,244,162	8,397,157
Due to related parties	-	33,082
	<u>9,102,091</u>	<u>9,329,744</u>
Equity	10,091,820	9,682,242
	<u>\$ 19,193,911</u>	<u>\$ 19,011,986</u>

**Notes to Consolidated Financial Statements**  
**three month period ended March 31, 2007**  
**(Unaudited)**

**9. Investment in the Deerfoot Joint Venture (cont.)**

**Deerfoot Joint Venture (Gamehost Participating Interest)**  
**Statements of Operations and Cash Flow**

**(Unaudited)**

	<b>three months ended March 31</b>	
	<b>2007</b>	<b>2006</b>
Revenue		
Hotel - rooming	\$ 805,169	\$ 469,371
Table games	866,549	591,425
Slot machines	1,200,001	808,411
Food & beverage services	1,227,534	877,086
Lease and rental	840	840
Other	398,614	223,708
	<u>4,498,707</u>	<u>2,970,841</u>
Expenses		
Cost of goods sold	387,133	333,535
Human resources	1,423,912	1,201,032
Marketing and promotions	237,558	153,577
Operating	428,099	423,169
General and administration	159,807	115,931
	<u>2,636,509</u>	<u>2,227,244</u>
Earnings before interest and amortization	1,862,198	743,597
Interest	135,004	152,692
Amortization	<u>237,616</u>	<u>349,465</u>
Income (Loss)	<u>\$ 1,489,578</u>	<u>\$ 241,440</u>
Cash Flows		
Operating activities	\$ 1,741,160	(\$ 212,435)
Financing activities	(1,232,996)	1,136,938
Investing activities	<u>(17,438)</u>	<u>9,952</u>
Increase in cash and cash equivalents	490,727	934,455
Opening cash and cash equivalents	<u>2,623,245</u>	<u>2,403,991</u>
Closing cash and cash equivalents	<u>\$ 3,113,971</u>	<u>\$ 3,338,446</u>

## Notes to Consolidated Financial Statements

three month period ended March 31, 2007  
(Unaudited)

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### 9. Investment in the Deerfoot Joint Venture (cont.)

#### Term Loan

A project loan, taken by the Deerfoot Joint Venture, for the original construction of the facility was amended to a term loan in September 2006 and contains two segments:

- Segment (1) of the loan stipulates demand non-revolving terms in the principal amount of \$21,599,252.
- Segment (2) of the loan stipulates demand revolving terms in the principal amount of \$2,000,000.

Interest on both segments is at prime plus 1.0% above the Canadian Western Bank prime lending rate. The effective annual interest rate was 7.0% at March 31, 2006 (2006 – 6.5%).

Amortization of the loan is 15 years, regardless of prepayment and re-advance of Segment (2). Blended monthly payments are \$206,000. The bank has the right to adjust the monthly installments to reflect changes in Prime.

At March 31, 2007, the balance of Segment (1) was \$20,610,404 and Segment (2), the revolving portion of the term loan, had been reduced to \$nil.

The Fund has recorded their proportionate share of the debt in these financial statements.

#### Land Purchase

The joint venturers have signed an offer to purchase land in Calgary, Alberta for \$1,050,000 for use as a parking lot. Prior to the offer to purchase, the joint venturers signed a five year operating lease for the same piece of land. The term of the lease is from September 1, 2004 to August 31, 2009 at \$7,000 per month. The lease expires when the land becomes rezoned and the purchase closes. This is expected to be finalized Q2 2007.

The Fund's share of the commitment would be \$420,000 being 40% of the land purchase and \$2,800 per month being 40% of the monthly lease while in effect.

#### Management Agreement

The Joint Venture has a management agreement with 1016312 Alberta Ltd. 1016312 Alberta Ltd.'s shareholders are David Will and Darcy Will, who are also shareholders of the venturers of the Joint Venture and are Trustee's of the Fund. The management agreement stipulates that 1016312 Alberta Ltd. is entitled to a percentage of the gross revenues plus a percentage of any EBITDA of the Joint Venture. For the Period ending March 31, 2007, \$268,161 (2006 - \$125,402) was paid or accrued as management fees.

The Funds has recorded its 40% proportionate share at \$107,265 (2005 - \$50,121) of which \$41,987 (2006 - \$37,353) is part of the accounts payable and accrued liability balance reported on these consolidated interim financial statements.

## Notes to Consolidated Financial Statements

three month period ended March 31, 2007  
(Unaudited)

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### 9. Investment in the Deerfoot Joint Venture (cont.)

#### Related party transactions

During the year, the Joint Venture entered into transactions with related parties. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Related party transactions are non-interest bearing with no specific terms of repayments. The Fund's 40% proportionate share of related party transactions are summarized as follows:

- a) During the year, the Deerfoot Joint Venture entered into related party transactions with several companies controlled by David Will and/or Darcy Will. David Will and Darcy Will are joint venture partners of the Deerfoot Joint Venture. Together, David Will and Darcy Will also exercise control over the Deerfoot Joint Venture with direct ownership or control of 90% of the Deerfoot Joint Venture. Transactions include the following:
- Payment by the Deerfoot Joint Venture for management services in the amount of \$107,264 (2006 - \$50,121)
  - Payment by the Deerfoot Joint Venture for aircraft and other rentals in the amount of \$nil (2006 - \$1,716);
  - Reimbursement by the Deerfoot Joint Venture for expenses incurred on behalf of the Deerfoot Joint Venture in the amount of \$38,955 (2006 - \$24,600);
  - Payment by the Deerfoot Joint Venture of cash advances in the amount of \$550,800 (2006 - \$nil).
  - Amounts which are unpaid at December 31 include the following:
    - \$7,082 (2006 - \$nil) included in accounts payable and accrued liabilities; and
    - \$nil (2006 - \$19,512) included in due to related parties.

### 10. Segmented Information

The Fund's operations are predominantly in the hotel accommodation and gaming industries. The Fund derives its revenues from marketing its services in Western Canada.

The hotel segment includes the operations of Service Plus, the Strip Mall and the Funds proportionate share of the Deerfoot Joint Venture's hotel operations. The gaming segment includes the operations of Great Northern Casino, Boomtown Casino and the Funds proportionate share of the Deerfoot Joint Venture's gaming operations. The food and beverage segment includes food, beverage and entertainment activity generated by all properties. Property overhead costs are allocated arbitrarily.

General Administration includes administration of the Fund, the Trust and the Limited Partnership.

**Notes to Consolidated Financial Statements**  
 three month period ended March 31, 2007  
 (Unaudited)

**10. Segmented Information (cont.)**

	Q1 (three months)		
	2007	2006	+(-)
<b>Revenue</b>			
Tables	2,084	1,849	12.7%
Slots	5,486	4,723	16.2%
Other	959	783	22.4%
<b>Gaming</b>	<b>8,528</b>	<b>7,355</b>	<b>16.0%</b>
Hotel	2,443	1,790	36.5%
Food and beverage	3,079	2,333	32.0%
Other	33	34	(4.4%)
<b>Total</b>	<b>14,083</b>	<b>11,512</b>	<b>22.3%</b>
<b>Expenses</b>			
Gaming	2,605	2,129	22.3%
Hotel	1,436	1,263	13.7%
Food and beverage	2,475	2,091	18.4%
Other	564	447	26.0%
<b>Total</b>	<b>7,079</b>	<b>5,930</b>	<b>19.4%</b>
<b>EBITDA</b>			
Gaming	5,923	5,225	13.4%
Hotel	1,008	527	91.4%
Food and beverage	604	242	149.2%
Other	(531)	(413)	28.6%
<b>Total</b>	<b>7,004</b>	<b>5,581</b>	<b>25.5%</b>
<b>EBITDA</b>	<b>7,004</b>	<b>5,581</b>	<b>25.5%</b>
Interest	264	280	100.0%
Amortizations	554	593	(6.7%)
<b>Net earnings</b>	<b>6,186</b>	<b>4,708</b>	<b>31.4%</b>

(in thousands of dollars unless stated otherwise)

**Notes to Consolidated Financial Statements**  
 three month period ended March 31, 2007  
 (Unaudited)

**10. Segmented Information (cont.)**

Long-lived Assets		
	March 31, 2007	December 31, 2006
<b>Hotel</b>		
Goodwill and licenses	4,579	4,579
Property, plant & equipment	16,862	16,855
Work-in-progress	-	-
	21,441	21,434
<b>Casino</b>		
Goodwill and licenses	41,500	41,500
Property, plant & equipment	16,433	16,395
Work-in-progress	-	-
	57,933	56,078
<b>Food &amp; Beverage</b>		
Property, plant & equipment	7,405	7,402
Work-in-progress	-	-
	7,405	7,402
<b>General Administration</b>		
Property, plant & equipment	165	166
Work-in-progress	-	-
	165	166
<b>Total</b>		
Goodwill and licenses	46,079	46,079
Property, plant & equipment	40,865	40,817
Work-in-progress	-	-
	86,944	86,896

Long-lived Assets at NBV <sup>1</sup>		
	March 31, 2007	December 31, 2006
Hotel	19,000	19,195
Casino	55,202	56,460
Food & Beverage	7,048	7,092
General Administration	-	9
Work-in-progress	-	-
	81,250	82,756

(in thousands of dollars unless stated otherwise)

<sup>1</sup> NBV (Net Book Value)