PetroHunter Energy Corp
Form 10-Q
February 14, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: DECEMBER 31, 2006

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______________ to ___________________

Commission File Number: 000-51152

PETROHUNTER ENERGY CORPORATION
(Exact name of registrant as specified in its charter)

MARYLAND	98-0431245
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1875 LAWRENCE STREET, SUITE 1400, DENVER, COLORADO 80203
(Address of principal executive offices) (Zip Code)

Registrant's telephone number: (303) 572-8900

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer [ ]   Accelerated filer [ ]   Non-accelerated filer [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
222,928,734 SHARES OF COMMON STOCK, $.001 PAR VALUE, AS OF JANUARY 31, 2007

PETROHUNTER ENERGY CORPORATION
(A DEVELOPMENT COMPANY)

CONSOLIDATED BALANCE SHEETS

ASSETS

	DECEMBER 31 2006 (UNAUDITED)	SEPTEMBER 3 2006 (UNAUDITED
Current Assets		
Cash and cash equivalents	$ 2,308,442	$ 10,631,
Oil and gas receivables - related party	499,802	35,
Other receivables	34,024	22,
Due from related parties	228,173	921,
Prepaid expenses and other assets	64,430	30,
Subscriptions receivable - related party	300,000	
TOTAL CURRENT ASSETS	3,434,871	11,642,
PROPERTY AND EQUIPMENT, AT COST		
Oil and gas properties under full cost, net	67,193,993	45,972,
Furniture and equipment, net	635,862	550,
	67,829,855	46,522,
OTHER ASSETS		
Restricted cash	1,601,793	1,076,
Deferred financing costs	29,617	
TOTAL ASSETS	$ 72,896,136	$ 59,241,

LIABILITIES AND STOCKHOLDERS' EQUITY

	DECEMBER 31 2006 (UNAUDITED)	SEPTEMBER 3 2006 (UNAUDITED
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 16,207,549	$ 9,644,
Accrued interest payable	62,342	124,
Due to shareholder	545,467	197,
Royalties payable	121,859	
Contracts payable - oil and gas properties	2,900,000	
Convertible notes payable - in default	200,000	
Convertible notes payable	1,705,000	400,
TOTAL CURRENT LIABILITIES	21,742,217	10,366,
ASSET RETIREMENT OBLIGATION	528,268	522,
TOTAL LIABILITIES	22,270,485	10,888,
COMMON STOCK SUBSCRIBED	1,887,500	

COMMITMENTS AND CONTINGENCIES (NOTES 3,4,6 AND 9)

STOCKHOLDERS' EQUITY

Preferred stock, $.001 par value		
Authorized - 1,000,000 shares, issued, none		
Common stock, $.001 par value		
Authorized - 500,000,000 shares		
Issued and outstanding - 219,928,734 shares	219,929	219,
Capital in excess of par value	72,505,304	70,944,
Common stock issuable	4,127,770	
Deficit accumulated during the development stage	(28,114,852)	(22,810,
TOTAL STOCKHOLDERS' EQUITY	48,738,151	48,353,
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 72,896,136	$ 59,241,

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

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PETROHUNTER ENERGY CORPORATION
(A DEVELOPMENT COMPANY)
CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED DECEMBER 31 2006 (UNAUDITED)	THREE MONTHS ENDED DECEMBER 31 2005 (UNAUDITED)
REVENUES		
Oil and gas revenues	$ 448,876	$ -
COSTS AND EXPENSES		
Lease operating expenses	161,800	-
General and administrative	3,670,998	711,254
Property development - related	1,815,000	700,000
Depreciation, depletion, amortization and accretion	86,137	-
TOTAL OPERATING EXPENSES	5,733,935	1,411,254
OTHER INCOME (EXPENSE)		
Interest income	8,059	-
Interest expense	(27,018)	(187,434)
TOTAL OTHER INCOME (EXPENSE)	(18,959)	(187,434)
NET LOSS	$ (5,304,018)	$ (1,598,688)
NET LOSS PER COMMON SHARE - BASIC AND DILUTED	$ (0.02)	$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	219,928,734	100,000,000

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

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PETROHUNTER ENERGY CORPORATION
(A DEVELOPMENT COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED DECEMBER 31 2006 (UNAUDITED)
Cash flows used in operating activities	
Net loss	$ (5,304,018)
Adjustments to reconcile net loss to net cash (used) in operating activities	
Stock for expenditures advanced	-
Stock based compensation	1,561,133
Depreciation, depletion, amotization and accretion	86,137
Stock for financing costs	-
Changes in assets and liabilities	
Accounts receivable	(475,880)
Due from related party	785,793
Prepaids and other	(33,470)
Accounts payable and accrued expenses	(50,662)
Due to shareholder	347,682
Royalties payable	121,859
NET CASH USED IN OPERATING ACTIVITIES	(2,961,426)
CASH FLOWS USED IN INVESTING ACTIVITIES	
Additions to oil and gas properties	(7,866,635)
Property and equipment	(33,156)
Restricted cash	(525,000)
NET CASH USED IN INVESTING ACTIVITIES	(8,424,791)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from the sale of common stock	-
Proceeds from common stock subscribed	1,587,500
Proceeds from the exercise of warrants	-
Cash received upon recapitalization and merger	-
Proceeds from issuance of convertible notes	1,505,000
Offering and financing costs	(29,617)
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,062,883

NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(8,323,334)	
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10,631,776	
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 2,308,442	$
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION		
Cash paid for interest	$ -	$
Cash paid for income taxes	$ -	$
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Stock issued for expenditures advanced	$ -	$
Contracts for oil and gas properties	$ 2,900,000	$
Common stock issued for debt conversion	$ -	$
Common stock issued for commissions on offerings	$ -	$
Common stock issued for property and finders fee on property	$ -	$
Convertible debt issued for property	$ -	$
Common stock issuable	$ 4,127,770	$

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

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PETROHUNTER ENERGY CORPORATION
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

PetroHunter Energy Corporation, formerly known as Digital Ecosystems Corp., ("Digital") was incorporated on February 21, 2002 under the laws of the State of Nevada. On February 10, 2006, Digital entered into a Share Exchange Agreement (the "Agreement") with GSL Energy Corporation ("GSL") and certain shareholders of GSL pursuant to which Digital acquired more than 85% of the issued and outstanding shares of common stock of GSL, in exchange for shares of Digital's common stock. On May 12, 2006, the parties to the Agreement completed the share exchange, and Digital changed its business to the business of GSL. Subsequent to the closing of the Agreement, Digital acquired all the remaining outstanding stock of GSL, and effective August 14, 2006, Digital changed its name from Digital Ecosystems Corp. to PetroHunter Energy Corporation ("PetroHunter").

GSL was incorporated under the laws of the State of Maryland on June 20, 2005 for the purpose of acquiring, exploring and developing oil and gas properties. GSL is considered a development stage company as defined by Statement of Financial Accounting Standards ("SFAS") No. 7, and its principal activities since inception have been raising capital through the sale of common stock and convertible notes and the acquisition of oil and gas properties in the Western United States and Australia. In October 2006, GSL changed its name to PetroHunter Operating Company. On November 8, 2005, GSL formed Paleotechnology, Inc. ("Paleo") as a wholly owned subsidiary for the purpose of exploring and developing new products and processes using by-products of petroleum extraction environments. On September 11, 2006, PetroHunter formed PetroHunter Heavy Oil Ltd. ("Heavy Oil"), as a wholly owned subsidiary for the purpose of holding and developing the Company's heavy oil assets. Effective September 30, 2006, PetroHunter acquired 50% of the outstanding common shares of Sweetpea Corporation Pty Ltd ("Sweetpea"), an Australian corporation; and effective January 1, 2007 acquired the remaining 50%. Sweetpea is the record owner of four exploration permits issued by the Northern Territory of Australia. On October 20, 2006, PetroHunter formed PetroHunter Energy NT Ltd. ("PetroHunter NT"), as a wholly owned subsidiary, for the purpose of holding and developing its assets in the Northern Territory of Australia. Collectively, PetroHunter and its subsidiaries are referred to herein as the "Company".

As a result of the Agreement, GSL became a wholly owned subsidiary of PetroHunter. Since this transaction resulted in the former shareholders of GSL acquiring control of PetroHunter, for financial reporting purposes the business combination was accounted for as an additional capitalization of PetroHunter (a reverse acquisition with GSL as the accounting acquirer).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited financial statements included herein were prepared from the records of the Company in accordance with generally accepted accounting principles in the United States applicable to interim financial statements and reflect all adjustments which are, in the opinion of management, necessary to provide a fair statement of the results of operations and financial position for the interim periods. Such financial statements conform to the presentation reflected in the Company's Form 10-KSB filed with the Securities and Exchange Commission for the year ended September 30, 2006. The current interim period reported herein should be read in conjunction with the Company's Form 10-KSB for the year ended September 30, 2006. The results of operations for the three months ended December 31, 2006 are not necessarily indicative of the results that may be expected for the full fiscal year ending September 30, 2007.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and extinguishment of liabilities in the normal course of business. As shown in the accompanying balance sheet the Company has incurred a cumulative net loss of $28,114,852 for the period from inception (June 20, 2005) to

December 31, 2006, has a working capital deficit of $18,307,346 at December 31, 2006 and has significant capital expenditure commitments. As of December 31, 2006, the Company has received oil and gas revenue from its initial wells, and will require significant additional funding to sustain its operations and satisfy its contractual obligations for its planned oil and gas exploration and development operations. These factors, among others, may indicate that the Company may be unable to continue in existence. The Company's financial statements do not include any adjustments related to the realization of the carrying value of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. The Company's ability to establish itself as a going concern is dependent upon its ability to obtain additional financing, in order to fund its planned operations and ultimately, to achieve profitable operations. Management believes that they can be successful in obtaining equity and/or debt financing which will enable the Company to continue in existence and establish itself as a going concern. The Company has sold approximately $59.4 million of convertible notes and common stock through December 31, 2006, and management believes that the Company will be successful in raising additional funding to have sufficient capital to meet its obligations for its planned operations. The Company has raised an additional $955,000 (including $600,000 from a related entity) subsequent to December 31, 2006 in two private placements of common stock and convertible notes currently in process and has received $7,000,000 from a private investor pursuant to a loan commitment. (See Notes 6 and 7.)

BASIS OF PRESENTATION

The accompanying consolidated financial statements include PetroHunter for the three months ended December 31, 2006. For the three months ended December 31, 2005, the consolidated financial statements are those of GSL. All significant intercompany transactions have been eliminated upon consolidation.

OIL AND GAS PROPERTIES

The Company utilizes the full cost method of accounting for oil and gas activities. Under this method, subject to a limitation based on estimated value, all costs associated with property acquisition, exploration and development, including costs of unsuccessful exploration, are capitalized within a cost center on a country basis. No gain or loss is recognized upon the sale or abandonment of undeveloped or producing oil and gas properties unless the sale represents a significant portion of oil and gas properties and the gain significantly alters the relationship between capitalized costs and proved oil and gas reserves of the cost center. Depreciation, depletion and amortization of oil and gas properties is computed on the units of production method based on proved reserves. Amortizable costs include estimates of future development costs of proved undeveloped reserves.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OIL AND GAS PROPERTIES (Continued)

Capitalized costs of oil and gas properties may not exceed an amount equal to the present value, discounted at 10%, of the estimated future net cash flows from proved oil and gas reserves plus the cost, or estimated fair market value, if lower, of unproved properties. Should capitalized costs exceed this ceiling, an impairment is recognized. The present value of estimated future net cash flows is computed by applying year end prices of oil and natural gas to estimated future production of proved oil and gas reserves as of year end, less estimated future expenditures to be incurred in developing and producing the proved reserves and assuming continuation of existing economic conditions. As of December 31, 2006, the Company has no proved reserves, has received revenue from testing and production on its initial wells, and all oil and gas property costs are considered to be unevaluated and are recorded at the lower of cost or estimated fair market value.

ASSET RETIREMENT OBLIGATION

The Company applies SFAS 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement requires companies to record the present value of obligations associated with the retirement of tangible long-lived assets in the period in which it is incurred. The liability is capitalized as part of the related long-lived asset's carrying amount. Over time, accretion of the liability is recognized as an operating expense and the capitalized cost is depreciated over the expected useful life of the related asset. Asset retirement obligations ("ARO") relate primarily to the plugging, dismantlement, removal, site reclamation and similar activities of its oil and gas properties.

REVENUE RECOGNITION

The Company recognizes oil and gas revenues from its interests in producing wells as oil and gas is produced and sold from these wells. The Company may have an interest with other producers in certain properties, in which case the Company uses the sales method to account for gas imbalances. Under this method, revenue is recorded on the basis of gas actually sold by the Company. In addition, the Company records revenue for its share of gas sold by other owners that cannot be volumetrically balanced in the future due to insufficient remaining reserves. The Company also reduces revenue for other owners' gas sold by the Company that cannot be volumetrically balanced in the future due to insufficient remaining reserves. The Company's remaining over- and under-produced gas balancing positions will be considered in the Company's proved reserves. The Company has no gas balancing arrangements in place at December 31, 2006. Oil and gas sold is not significantly different from the Company's product entitlement.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT

The Company applies SFAS 144, "Accounting for the Impairment and Disposal of Long-Lived Assets," which requires that long-lived assets to be held and used be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Oil and gas properties accounted for using the full cost method of accounting, the method utilized by the Company, are excluded from this requirement, but will continue to be subject to the ceiling test limitations. The Company's unproved properties are evaluated periodically for the possibility of potential impairment. At December 31, 2006, there was no impairment charge for unproved properties.

INCOME TAXES

The Company has adopted the provisions of SFAS 109, "Accounting for Income Taxes." SFAS 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Temporary differences between the time of reporting certain items for financial and tax reporting purposes consist primarily of exploration and development costs on oil and gas properties, and stock based compensation of options granted.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company's financial statements are based on a number of significant estimates, including oil and gas reserve quantities which are the basis for the calculation of depreciation, depletion and impairment of oil and gas properties, and timing and costs associated with its retirement obligations.

The oil and gas industry is subject, by its nature, to environmental hazards and clean-up costs. At this time, management knows of no substantial costs from environmental accidents or events for which the Company may be currently liable. In addition, the Company's oil and gas business makes it vulnerable to changes in wellhead prices of crude oil and natural gas. Such prices have been volatile in the past and can be expected to be volatile in the future. By definition, proved reserves are based on current oil and gas prices and estimated reserves. Price declines reduce the estimated quantity of proved reserves and increase annual amortization expense (which is based on proved reserves).

(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LOSS PER COMMON SHARE

Basic (loss) per share is based on the weighted average number of common shares outstanding during the period. Diluted (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Convertible equity instruments such as stock options and convertible debentures are excluded from the computation of diluted loss per share, as the effect of the assumed exercises would be anti-dilutive. The dilutive weighted average number of common shares outstanding excluded potential common shares from stock options and warrants of approximately 44,701,500 for the three months ended December 31, 2006.

SHARE BASED COMPENSATION

The Company had followed Accounting Principles Board ("APB") Opinion No. 25,"Accounting for Stock Issued to Employees", and related interpretations, through September 30, 2005 which resulted in the accounting for grants of awards to employees at their intrinsic value in the consolidated financial statements. Additionally, the Company has recognized compensation expense in the financial statements for awards granted to non-employees which must be re-measured each period under the mark-to-market, as required under EITF 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods or Services". The Company previously adopted the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", as amended by SFAS No. 148, "Accounting for Stock-Based Compensation --Transition and Disclosure", through disclosure only.

Effective October 1, 2005, the Company adopted SFAS123(R), "Accounting for Stock-Based Compensation," using the modified prospective method, which results in the provisions of SFAS 123(R) being applied to the consolidated financial statements on a going-forward basis. Prior periods have not been restated. SFAS 123(R) requires companies to recognize share-based payments to employees as compensation expense on a fair value method. Under the fair value recognition provisions of SFAS 123(R), stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the service period, which generally represents the vesting period. The expense recognized over the service period is required to include an estimate of the awards that will be forfeited. Previously, no such forfeitures have occurred. The Company is assuming no forfeitures going forward based on the Company's historical forfeiture experience. The fair value of stock options is calculated using the Black-Scholes option-pricing model.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SHARE BASED COMPENSATION (Continued)

As of December 31, 2006, options to purchase an aggregate of 32,295,000 shares of the Company's common stock were outstanding, of which 10,259,000 are exercisable. These options were granted, to the Company's officers, directors and consultants in August of 2005 and 2006, vest 20% at grant date and 20% per year on the anniversary of the grant date for the next four years. Each option has an exercise price equal to the fair market value per share of the Company's common stock at the date of grant and each option expires and terminates, if not exercised sooner, five years from the grant date. Stock-based employee compensation of $511,133 and stock-based non-employee compensation costs of $1,050,000 before tax, were charged to operations as compensation expense for the three months ended December 31, 2006.

CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, the Company considers as cash equivalents all highly liquid investments with a maturity of three months or less at the time of purchase. Restricted cash at December 31, 2006 consists of certificates of deposit underlying letters of credit for exploration permits, state and local plugging and abandonment bonds and guarantees to vendors.

CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash. The Company maintains cash accounts at one financial institution. The Company periodically evaluates the credit worthiness of financial institutions, and maintains cash accounts only in large high quality financial institutions, thereby minimizing exposure for deposits in excess of federally insured amounts. On occasion, the Company may have cash in banks in excess of federally insured amounts. The Company believes that credit risk associated with cash is remote.

FAIR VALUE

The carrying amount reported in the balance sheet for cash, receivables, prepaids, accounts payable and accrued liabilities approximates fair value because of the immediate or short-term maturity of these financial instruments.

Based upon the borrowing rates currently available to the Company for loans with similar terms and average maturities, the fair value of convertible notes approximates their carrying value.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 3 - AGREEMENT WITH MAB RESOURCES LLC

Effective January 1, 2007, the Company and MAB Resources LLC ("MAB") entered into an Acquisition and Consulting Agreement (the "Consulting Agreement"), as amended, which replaced in its entirety the Management and Development Agreement (the "Development Agreement") entered into July 1, 2005, and materially revised the relationship between MAB and the Company. MAB is a Delaware limited liability company and the largest shareholder of the Company. MAB is in the business of oil and gas exploration and development. Under the terms of the Consulting Agreement:

- The Company's working interest in all its oil and gas properties doubled (from 50% undivided interest in the properties to 100%);
- The Company's prior obligation to carry MAB for its 50% portion of the first $700 million in capital costs was eliminated;
- The Company's aggregate monthly payments to MAB related to the existing properties were reduced from $600,000 to (i) $25,000 for consulting, plus (ii) $225,000 for payments under a $13.5 million promissory note as partial consideration for MAB's assignment of its previous undivided 50% working interest in the properties;
- MAB's 3% overriding royalty was increased to 5% (the "Override"), but the Override does not apply to the Company's Piceance II properties, and does not apply to the extent that the Override would cause the Company's net revenue interest under an oil and gas lease to be less than 75%;
- MAB will receive 7% of the issued and outstanding shares of PetroHunter Energy NT, Ltd. ("PetroHunter NT"), as of the date that the Company receives PetroHunter NT shares in consideration for the Company's assignment of its rights and obligations in the Northern Territory (Australia) permits to PetroHunter NT.

The new agreement also provides for the issuance of 50 million shares of the Company's common stock to MAB. MAB has the right and opportunity to receive up to an additional 50 million shares, to be held in escrow and released over a five-year period in specified numbers of shares that are tied to the Company's performance in booking reserves. The entire Consulting Agreement, including the monthly payments to MAB, terminates after five years, except MAB's overriding royalty continues for the life of the properties.

Commencing July 1, 2005 and continuing through December 31, 2006, the Company and MAB operated pursuant to the Development Agreement, and a series of individual property agreements (collectively, the "EDAs"). The Development Agreement sets forth: (a) MAB's obligation to assign to the Company a minimum 50% undivided interest in any and all oil and gas assets which MAB acquires from third parties in the future; and (b) MAB's and the Company's long-term relationship regarding the ownership and operation of all jointly-owned properties. Each of the Properties acquired was covered by a property-specific EDA that is consistent with the terms of the Development Agreement.

PETROHUNTER ENERGY CORPORATION
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 4 - OIL AND GAS PROPERTIES

Commencing effective July 1, 2005 and continuing through December 31, 2006, the Company entered into a Management and Development Agreement (the "Development Agreement") and a series of property-specific Exploration and Development Agreements (collectively, the "EDAs") pursuant to the Development Agreement with MAB. Effective January 1, 2007, the Development Agreement and the EDA's were replaced in their entirety by the Consulting Agreement with MAB as discussed in Note 3 above.

The following description of the Company's oil and gas property acquisitions for the period from October 1, 2006 to December 31, 2006 is pursuant to the original Development Agreement and related EDA's. All references to the Company's obligations to pay "project development costs" pertaining to the following properties means the specified amount of capital expenditures (for each such property), which were credited against the Company's obligation to carry MAB for MAB's 50% portion of such expenditures.

On November 28, 2006, MAB entered into an agreement with Maralex Resources, Inc. and Adelante Oil & Gas, LLC (collectively, "Maralex") for the acquisition and development of the Jack's Pocket Prospect in Garfield County, Colorado (the "Maralex Agreement"). Under the terms of the Maralex Agreement, an initial payment of $100,000 was made upon execution and the balance of $2.9 million cash and issuance of 2,428,100 shares of the Company's common stock was due on January 15, 2007. The Company has recorded the $2.9 million obligation as a contract payable at December 31, 2006 and the fair market value of the shares to be issued of $4,127,770, based on the closing price of the Company's common stock as of the date of the Maralex Agreement. Effective January 12, 2007, the Maralex Agreement was amended to extend the payment terms of the cash due through March 15, 2007, and increase the shares to be issued to 3 million.

On November 14, 2006, the Company and Lakes Oil N.L. entered into an agreement (the "Agreement") under which they will jointly develop Lakes Oil's onshore petroleum prospects (focusing on unconventional gas resources) in the Gippsland and Otway basins in Victoria, Australia. The arrangement is subject to various conditions precedent, including completion of satisfactory due diligence, and the satisfactory processing of certain retention lease applications. Under the Agreement, the Company or its subsidiary company Sweetpea will initially farm into 33-1/3% of Lakes Oil's permits by spending $7 million in Lakes Oil's permits. In addition, the Company will subscribe for $3 million in new shares in Lakes Oil at 1.5 cents (Australian). PetroHunter will also have the right to increase its position in Lakes Oil's permits with two further 16-2/3% farm-in tranches of $10 million each, exercisable within 12 months and 24 months, respectively, from the date of the first closing under the Agreement (the "Closing"). Under the Agreement, the Company has the right to participate in the same proportion in any permits which are non-contiguous to existing permits acquired by Lakes within 2 years from the Closing, and any contiguous permits acquired by Lakes moving forward, and the Company has a first right of refusal in other permits acquired by Lakes within

5 years from the Closing. The Company is to assume Lakes Oil's position as operator of the permits.

NOTE 4 - OIL AND GAS PROPERTIES (CONTINUED)

On December 29, 2006, the Company entered into an agreement ("PSA") with Galaxy Energy Corporation ("Galaxy") and its wholly owned subsidiary, Dolphin Energy Corporation ("Dolphin"), a related party, for the Company to purchase, through its wholly owned subsidiary, PetroHunter Operating Company, all of Galaxy's and Dolphin's oil and gas interests in the Powder River Basin of Wyoming and Montana. The controlling owner of PetroHunter's largest single shareholder (MAB Resources LLC) is Marc A. Bruner. Mr. Bruner is a 14.3% beneficial shareholder of Galaxy and the father of the President and Chief Executive Officer of Galaxy. Dolphin owns an average 86% working interest in 197 oil and gas wells in the Powder River Basin. Twenty-two wells are currently selling gas at an average rate of 850,000 cubic feet a day. The remaining wells are in various stages of dewatering, shut-in waiting on pipeline, or waiting to be completed.

The PSA provides for the Company to pay $45 million to acquire all of Galaxy's and Dolphin's oil and gas interests in Sheridan, Johnson, Converse and Campbell Counties in Wyoming, and in Big Horn, Custer, Powder River and Rosebud Counties in Montana. The purchase price will be $20 million in cash and $25 million in shares of the Company's common stock at the rate of $1.50 per share. Closing of the transaction will be subject to approval by Galaxy's senior lenders, approval in its discretion of all matters by the Company's Board of Directors, including the Company receiving financing on terms acceptable to it, and various other terms and conditions. Either party may terminate the agreement if the closing has not occurred by February 28, 2007. As of January 31, 2007, the Company has paid to Galaxy a $2 million earnest money payment due under the terms of the agreement.

The Company's exploration projects continue to be evaluated, and management believes that the carrying costs of these projects are recoverable. Should the Company be unsuccessful in its exploration activities, the carrying cost of these prospects will be charged to operations. The Company charges to operations all property development costs incurred to MAB under the related EDA's. None of the Company's projects had production as of the date of acquisition and, as of December 31, 2006, the Company had received revenues from initial testing and production on certain of its projects.

NOTE 5 - ASSET RETIREMENT OBLIGATION

SFAS 143, "Accounting for Asset Retirement Obligations addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement requires companies to record the present value of obligations associated with the retirement of tangible long-lived assets in the period in which it is incurred. The liability is capitalized as part of the related long-lived asset's carrying amount. Over time, accretion of the liability is recognized as an operating expense and the capitalized cost is depreciated over the expected useful life of the related asset. The Company's asset retirement obligations relate primarily to the plugging, dismantlement, removal, site reclamation and similar activities of its oil and gas properties.

NOTE 5 - ASSET RETIREMENT OBLIGATION (CONTINUED)

The following table summarizes activity related to the accounting for asset retirement obligations for the three months ended December 31, 2006 and 2005:

	2006	2005
Asset retirement obligations, beginning of period	$ 522,054	$ -
Liabilities incurred	170,230	-
Revisions to estimates	(162,845)	-
Liabilities settled	-	-
Accretion expense	(1,171)	-
Asset retirement obligations, end of period	$ 528,268	$ -

NOTE 6 - CONVERTIBLE NOTES

Prior to the merger with GSL on May 12, 2006, Digital entered into five separate loan agreements, aggregating $400,000, due one year from issuance, commencing October 11, 2006. The loans bear interest at 12% per annum, are unsecured, and are convertible at the option of the lender, at any time during the term of the loan or upon maturity, at a price per share equal to the closing price of the Company's common shares on the OTC.BB market on the day preceding notice from the lender of its intent to convert the loan. As of December 31, 2006 the Company was in default on payment of an aggregate $200,000 of notes which matured.

In December 2006, PetroHunter NT, commenced the sale, pursuant to a private placement, of up to $50,000,000 of convertible notes. The notes bear interest at 12% per annum, mature one year from date of issuance and are convertible, at the option of the note holder, at the rate of one share of PetroHunter NT common stock for each $.50 of debt. As of December 31, 2006, $1,505,000 has been received from the offering.

NOTE 7 - STOCKHOLDERS' EQUITY

COMMON STOCK

On November 6, 2006, the Company commenced the sale of a maximum $125,000,000 pursuant to a Private Placement of Units at $1.50 per unit. Each unit consists of one share of the Company's common stock and one-half common stock purchase warrant. A whole common stock purchase warrant entitles the purchaser to acquire one share of the Company's common stock at an exercise price of $1.88 per share through December 31, 2007. The Company may pay a commission of up to 5% to a broker or agent in conjunction with the sale. As of December 31, 2006, the Company has received subscriptions for $1,887,500 for the sale of units pursuant to the Private Placement, of which cash of $1,587,500 has been received. The subscription receivable at December 31, 2006 of $300,000 was received in January 2007. Of the total subscriptions, $1,400,000 was from a related party. In February 2007, the Board of Directors determined that the composition of the units being offered would be restructured, and those investors who had subscribed in the offering of November 6, 2006 will be offered the opportunity to rescind their subscriptions. Accordingly, the Company has recorded the proceeds and outstanding subscriptions from the offering at December 31, 2006 as "Common Stock Subscribed", and has not included these amounts as a component of Stockholders' Equity.

NOTE 7 - STOCKHOLDERS' EQUITY (CONTINUED)

STOCK OPTION PLAN

The Company adopted the 2005 Stock Option Plan (the "Plan"), as amended. Under the Plan, stock options may be granted at an exercise price not less than the fair market value of the Company's common stock at the date of grant. Options may be granted to key employees and other persons who contribute to the success of the Company. The Company has reserved 40,000,000 shares of common stock for the plan. At December 31, 2006, options to purchase 7,705,000 shares were available to be granted pursuant to the stock option plan.

There were no options granted, forfeited or vested during the three months ended December 31, 2006.

WARRANTS

The following stock purchase warrants were outstanding at December 31, 2006:

NUMBER OF SHARES	EXERCISE PRICE	EXPIRY DATE
34,442,500	$1.00	2011

During 2006, the Company issued 35,442,500 stock purchase warrants in conjunction with the unit sale of common stock. The warrants are exercisable for a period of five years from date of issuance at an exercise price of $1.00 per share. As of September 30, 2006, 1,000,000 warrants were exercised, and no additional warrants were exercised during the three months ended December 31, 2006.

NOTE 8 - RELATED PARTY TRANSACTIONS

During the three months ended December 31, 2006, the Company incurred $1,815,000 in property development costs to MAB under the Development Agreement between MAB and the Company (Note 3). At December 31, 2006, MAB was owed $545,467 by the Company.

In June 2006, the Company entered into an Office Sharing Agreement with Falcon Oil & Gas Ltd. ("Falcon") for office space in Denver, Colorado, of which Falcon is the lessee. Under the terms of the agreement, Falcon and the Company share, on a 50/50 cost basis, all costs related to the office space, including rent, office operating costs, furniture and equipment and any other expenses related to the operations of the corporate offices. Marc A. Bruner, the 75% owner of the largest single shareholder of the Company, is also the Chief Executive Officer and a Director of Falcon. At December 31, 2006, Falcon owed the Company $219,313, for Falcon's share of costs incurred pursuant to the agreement.

Due from related parties at December 31, 2006 includes $8,860 due to the Company from Galaxy Energy Corporation ("Galaxy") for reimbursement for charges paid to a drilling company for Galaxy's use of a drilling rig under contract to the Company. This amount was paid to the Company January 2007.

NOTE 8 - RELATED PARTY TRANSACTIONS (CONTINUED)

At December 31, 2006, the Company is owed $499,802 from MAB for oil and gas revenues for its share of initial production earned through December 31, 2006 pursuant to the Development and EDA agreements with MAB.

During the three months ended December 31, 2005, the Company incurred consulting fees related to services provided by its officers in the aggregate amount of $172,050; and incurred $700,000 in property development costs to MAB under the Development Agreement between MAB and the Company. At December 31, 2005, MAB was owed $605,058 by the Company.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL

Oil and gas producing activities are subject to extensive environmental laws and regulations. These laws, which are constantly changing, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefit are expensed. Liabilities for expenditures of a noncapital nature are recorded when environmental assessment and/or remediation is probable, and the costs can be reasonably estimated.

CONTINGENCIES

The Company may from time to time be involved in various claims, lawsuits, disputes with third parties, actions involving allegations of discrimination, or breach of contract incidental to the operations of its business. The Company is not currently involved in any such incidental litigation which it believes could have a materially adverse effect on its financial condition or results of operations.

COMMITMENTS

On November 14, 2006, the Company, through its subsidiary, Paleo, and the Box Hill Institute signed an agreement which commenced a five-year research collaboration with the BioSkills Specialist Centre for Biotechnology Training at the Box Hill Institute in Melbourne, Australia. As part of the agreement, Paleo and the Box Hill Institute share laboratory space and offer training opportunities for Box Hill students. The team will target a broad array of applications including energy/petrochemical, environmental remediation, timber and plant resources, agricultural and consumer products. Management estimates that it will incur approximately $1.6 million under the five (5) year term of the agreement between Paleo and Boxhill.

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PETROHUNTER ENERGY CORPORATION
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE - 10 SUBSEQUENT EVENTS

On January 9, 2007, the Company entered into a Credit and Security Agreement (the "Financing") with Global Project Finance AG, a Swiss company, for mezzanine financing in the amount of $15 million. The loan provides for an interest rate of 6.75% over prime, and is to be secured by a first perfected lien on the Company's assets, limited to the specific portion of the assets to which the loan proceeds are applied by the Company. The Company plans to apply most of the proceeds of this loan to its drilling and development operations in the Piceance Basin, Colorado. The terms of the Financing also provide for the issuance of one million warrants of the Company's shares upon execution of the Credit Agreement, and up to an additional three million warrants, tied on a pro rata basis to each draw down of the credit facility up to $15 million - that is, warrants for 600,000 shares for each $3 million advanced. The warrants will be exercisable for five years after the date of the Credit Agreement. The exercise price of the warrants will be equal to 120% of the weighted average price of the Company's stock for the 30 days immediately prior to each warrant issuance date. Global Project Finance AG and its controlling shareholder, Christian Russenberger, were shareholders of the Company prior to the Credit Agreement. As of February 9, 2007, the Company has drawn down $7,000,000 on the credit facility.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and related notes appearing elsewhere in this Form 10-Q.

PetroHunter Energy Corporation ("PetroHunter"), formerly Digital Ecosystems Corp. ("Digital"), through the operations of its wholly owned subsidiary, PetroHunter Operating Company, is a global oil and gas exploration and production company with primary assets consisting of a working interest in oil and gas leases and related interests in various oil and natural gas prospects, including approximately 220,000 net acres in Colorado, Utah and Montana and approximately seven million net acres in the Northern Territory of Australia. The properties are managed and operated in three groups: Heavy Oil, Piceance Basin, and Australia.

PetroHunter Operating Company (formerly GSL Energy Corporation) was formed in June 2005 as a Maryland corporation, and on May 12, 2006 completed a stock exchange by which its stockholders received more than 85% of Digital's outstanding stock (the "Stock Exchange"). The business of PetroHunter Operating Company became the business of Digital. Subsequent to May 2006, Digital acquired all the remaining outstanding stock of PetroHunter Operating Company, and effective August 14, 2006, Digital changed its name from Digital Ecosystems Corp. to PetroHunter Energy Corporation and changed its domicile to Maryland. Digital was incorporated on February 21, 2002 under the laws of the State of Nevada.

In October 2006, GSL Energy Corporation ("GSL") changed its name to PetroHunter Operating Company. On November 8, 2005, GSL formed Paleotechnology, Inc. ("Paleo") as a wholly-owned subsidiary for the purpose of exploring and developing new products and processes using by-products of petroleum extraction environments. On September 11, 2006, PetroHunter formed PetroHunter Heavy Oil Ltd. as a wholly-owned subsidiary for the purpose of holding and developing its heavy oil assets. Effective September 30, 2006, PetroHunter acquired 50% of the outstanding common shares of Sweetpea Corporation Pty Ltd ("Sweetpea"), an Australian corporation; and effective January 1, 2007 acquired the remaining

50%. Sweetpea is the record owner of four exploration permits issued by the Northern Territory of Australia. PetroHunter formed PetroHunter Energy NT Ltd. on October 20, 2006 for the purpose of holding and developing its assets in the Northern Territory of Australia. Collectively, PetroHunter and its subsidiaries are referred to herein as the "Company," "we," "us" or "our".

As a result of the Stock Exchange, GSL, now known as PetroHunter Operating Company, became a wholly owned subsidiary of our Company. Since this transaction resulted in the former shareholders of GSL acquiring control of our Company, for financial reporting purposes the business combination was accounted for as an additional capitalization of the Company (a reverse acquisition with GSL as the accounting acquirer). In accounting for this transaction:

i. GSL was deemed to be the purchaser and parent company for financial reporting purposes. Accordingly, its net assets were included in the consolidated balance sheet at their historical book value; and

ii. Control of the net assets and business of the Company was acquired effective May 12, 2006 for no consideration.

PetroHunter Operating Company is considered a development stage company as defined by Statement of Financial Accounting Standards ("SFAS") No. 7, and its principal activities since inception have been raising capital through the sale of common stock and convertible notes and the acquisition of oil and gas properties in the Western United States and Australia.

MAB RESOURCES LLC

Effective January 1, 2007, we entered into an entered into an Acquisition and Consulting Agreement (the "Consulting Agreement"), as amended, with MAB Resources LLC ("MAB") which replaced in its entirety the Management and Development Agreement (the "Development Agreement") entered into July 1, 2005, and materially revised our relationship with MAB. MAB is a Delaware limited liability company and our largest shareholder. MAB is in the business of oil and gas exploration and development. Under the terms of the Consulting Agreement:

- Our working interest in all our oil and gas properties doubled (from 50% undivided interest in the properties to 100%);
- Our prior obligation to carry MAB for its 50% portion of the first $700 million in capital costs was eliminated;
- Our aggregate monthly payments to MAB related to the existing properties were reduced from $600,000 to (i) $25,000 for consulting, plus (ii) $225,000 for payments under a $13.5 million promissory note as partial consideration for MAB's assignment of its previous undivided 50% working interest in the properties;
- MAB's 3% overriding royalty was increased to 5% (the "Override"), but the Override does not apply to our Piceance II properties, and does not apply to the extent that the Override would cause our net revenue interest under an oil and gas lease to be less than 75%;
- MAB will receive 7% of the issued and outstanding shares of PetroHunter Energy NT, Ltd. ("PetroHunter NT"), as of the date that we receive PetroHunter NT shares in consideration for our assignment of our rights and obligations in the Northern Territory (Australia) permits to PetroHunter NT.

The new agreement also provides for the issuance of 50 million shares of our common stock to MAB. MAB has the right and opportunity to receive up to an additional 50 million shares, to be held in escrow and released over a five-year period in specified numbers of shares that are tied to our performance in booking reserves. The entire Consulting Agreement, including the monthly payments to MAB, terminates after five years, except MAB's overriding royalty continues for the life of the properties.

The transfer of MAB's working interest for our shares (including the carried interest), the revised override and MAB foregoing monthly capital cost advances, will be analyzed in an independent economic evaluation, and the closing of this agreement, which is to occur by the end of February 2007, will be subject to such evaluation concluding that the consideration exchanged by the parties reflects a fair and reasonable market value for us.

Commencing July 1, 2005 and continuing through December 31, 2006, we and MAB operated pursuant to the Development Agreement, and a series of individual property agreements (collectively, the "EDAs"). The Development Agreement set forth: (a) MAB's obligation to assign to us a minimum 50% undivided interest in any and all oil and gas assets which MAB acquired from third parties in the future; and (b) our long-term relationship with MAB regarding the ownership and operation of all

jointly-owned properties. Each of the Properties acquired was covered by a property-specific EDA that was consistent with the terms of the Development Agreement.

PROPOSED ACQUISITION OF POWDER RIVER BASIN PROPERTIES

On December 29, 2006, we entered into a Purchase and Sale Agreement (the "PSA") with Galaxy Energy Corporation ("Galaxy") and its wholly owned subsidiary, Dolphin Energy Corporation ("Dolphin"). Pursuant to the PSA, we agreed to purchase all of Galaxy's and Dolphin's oil and gas interests in the Powder River Basin of Wyoming and Montana (the "Powder River Basin Assets").

Marc A. Bruner, who is the controlling owner of our largest shareholder, also is a 14.3% beneficial shareholder of Galaxy. Marc A. Bruner is the father of Marc E. Bruner, the President, Chief Executive Officer and director of Galaxy. Marc E. Bruner is the stepson of Carmen J. Lotito, the Chief Financial Officer and a director of the Company.

The purchase price for Powder River Basin Assets is $45 million, with $20 million to be paid in cash and $25 million to be paid in shares of our common stock at the rate of $1.50 per share.

Closing of the transaction is subject to approval by Galaxy's secured noteholders, approval of all matters in its discretion by our Board of Directors, including the Company obtaining outside financing on terms acceptable to its Board of Directors, and various other terms and conditions. Either party may terminate the agreement if closing has not occurred by February 28, 2007.

As of January 31, 2007, we paid to Galaxy a $2 million earnest money payment due under the terms of the agreement. In the event the closing does not occur for any reason other than a material breach by us, the deposit shall convert into a promissory note (the "Note"), payable to us, and shall be an unsecured subordinated debt of both Galaxy and Dolphin, which is payable only after repayment of Galaxy's and Dolphin's senior indebtedness.

We became the contract operator of the Powder River Basin Assets beginning January 1, 2007. At closing, the operating expenses incurred by us as the contract operator will be credited toward the purchase price, or if closing does not occur, will be added to the principal amount of the Note.

MAB has orally agreed to guarantee the performance of Galaxy and Dolphin under the PSA (including but not limited to all their obligations under the Note), and has orally agreed to reimburse us for certain losses and damages which might be incurred as a result of those parties entering into the PSA. We expect that a written agreement will be entered into by the parties prior to closing.

PRODUCTION AND PRICES

The following table sets forth information regarding net production of oil and natural gas, and certain price and cost information for quarter ended December 31, 2006 and the fiscal year ended September 30, 2006. We did not have any production during the fiscal year ended September 30, 2005.

	FOR THE QUARTER ENDED DECEMBER 31, 2006	FOR THE FISCAL YEAR ENDE SEPTEMBER 30, 2006
PRODUCTION DATA:		
Natural gas (Mcf)	85,922	5,822
Oil (Bbls)	79	-0-
AVERAGE PRICES:		
Natural gas (per Mcf)	$5.17	$6.12
Oil (per Bbl)	$58.29	--

PRODUCTIVE WELLS

The following table summarizes information at January 31, 2007, relating to the productive wells in which we owned a working interest as of that date. Productive wells consist of producing wells and wells capable of production. Gross wells are the total number of producing wells in which we have an interest, and net wells are the sum of our fractional working interests owned in gross wells.

	GROSS			NET		
LOCATION	OIL	GAS	TOTAL	OIL	GAS	TOTAL
Colorado	--	18	18	--	5.2	5.2
Utah	--	--	--	--	--	--
Montana	2	--	2	2.0	--	2.0
Australia	--	--	--	--	--	--
TOTAL	--	18	20	2.0	5.2	7.2

ACREAGE POSITIONS

As of January 31, 2007, we owned interests in the following developed and undeveloped acreage positions. Undeveloped acreage refers to acreage that has not been placed in producing units.

	DEVELOPED		UNDEVELO
LOCATION	GROSS ACRES	NET ACRES	GROSS ACRES
Colorado	480.0	102.2	25,759.0
Utah	0	0	173,738.0
Montana	80.0	80.0	93,515.0
Australia	0	0	7,000,000.0
TOTAL	560.0	182.2	7,293,012.0

SUMMARY OF DEVELOPMENT AND EXPLORATION PROJECTS AND PLAN OF OPERATIONS

The following is an update of our production and exploration areas and significant projects. While actively pursuing specific production and exploration activities in each of the following areas, we continually review additional acquisition opportunities in our core areas that meet our exploration criteria.

HEAVY OIL PROPERTIES

GREAT SALT LAKE, UTAH. We have 173,738 net mineral acres under lease (covered by approximately 78 leases) on two principal properties, the West Rozel Field and Gunnison Wedge prospect in the Great Salt Lake of Utah. Recent developments are mapping of seismic data and recommendation of three drill sites on the West Rozel field. Three vertical pairs of wells have been sited to test the productivity of the field using a dual well strategy. This strategy involves paired wells with one well being a production well and the other a water injection (disposal) well. Seismic and geologic maps have been completed and the permit process has been started for the proposed locations. We anticipate gathering additional seismic data to test the Gunnison Wedge prospect in the northwestern portion of the Great Salt Lake. A significant production component of producing these heavy oils is maintenance of an appropriate gas oil ratio within the reservoir. We have recently identified a new potential gas sand, up to 60 feet in thickness at a depth of about 1500 feet, i.e. about 900 feet above the target reservoir depth, at West Rozel field, which may help to provide in situ gas and increase the economic viability of the project. The gas horizon seems to occur over much of the West Rozel acreage.

Pursuant to the terms of the acquisition agreement, we must commence drilling of three wells within this project by April 30, 2007. We are currently working to secure permits for planned drilling operations. The earliest expiration for the project leasehold is June 2008. Subsequent drilling and development, as well as any applications to extend the term of one or more of the leases, will be determined as we evaluate the results of the first test wells.

FIDDLER CREEK, MONTANA. We have acquired an acreage position of 23,795 net acres on four anticlines on the northern portion of the Big Horn Basin, which extends from north central Wyoming into southern Montana. These properties encompass significant portions of Roscoe Dome, Dean Dome, Fiddler Creek and MacKay Domes, which we believe have significant estimated in place oil reserves. These structures are large asymmetric anticlines with proven production from several Cretaceous horizons; i.e. the Upper Greybull Sandstone, the Lower Greybull Sandstone and the Pryor Sandstone. There is both oil and gas potential in these sandstones and new technology and techniques have commenced to improve recovery of oil from two previously drilled wells. We have re-entered two wells, the Bar B #1 on Dean Dome and the #1 Eggen on the Fiddler Creek structure. Additional wells have been selected for further testing on Roscoe Dome, the #4 George and the #6 George. Two horizontal tests are planned for the Roscoe and Dean Dome this year as well as a stratigraphically deeper test on either the MacKay Dome or the Fiddler Creek structure to test Paleozoic potential in Phosphoria (Permian), Tensleep (Pennsylvanian), and Madison (Mississippian) formations. A small 2D seismic program may be required to site the deeper test.

A portion of the acreage position in the Fiddler Creek Project area was acquired for a purchase price of $11,250,000 (of which one-half has been paid through January 31, 2007). We have the option to retain these leases by paying the balance on or before December 31, 2007. In the event we elect not to make such payment, we would be required to reassign the properties to the seller, and there would be no other cost or penalty.

PROMISED LAND, MONTANA. We have acquired 49,120 net acres in a resource play evaluating heavy oil reservoirs in Jurassic Swift Formation and Lower Cretaceous Bow Island and Sunburst sandstone reservoirs in north central Montana. The Swift reservoirs were deposited in a shallow marine to estuarine depositional setting. The Swift sandstones are commonly oil saturated in the area, and most well tests report oil shows in the Swift. The reservoirs are up to 60 feet thick and composed of high quality sandstone, averaging about 20 percent porosity and permeabilities range up to one darcy. The oil gravities range from 10(degree) to 22(degree)API with viscosities of 1500 centipoise to greater than 50,000 centipoise at 125(degree)F. Additional conventional petroleum potential is possible in Devonian Duperow and Nisku formations, and in the Mississippian Madison Formation. Following some detailed geologic and geophysical investigations to determine the depositional environment and geometry of the Swift sandstone reservoirs, we anticipate drilling three vertical tests in the coming year offsetting previously drilled wells that encountered oil saturated Swift reservoirs if the results of the investigation support those wells.

We do not have any drilling commitments with respect to this property.

PLAN OF OPERATIONS. We anticipate that, over the next twelve months, we will incur the following costs related to our heavy oil prospects in Montana and Utah:

- $6,000,000 to $9,000,000 to add land in Montana in areas where we have already completed acquisitions;

- $8,000,000 to $15,000,000 in connection with the Fiddler Creek project, to include drilling, completion and production facilities; and

- $15,000,000 to $20,000,000 in connection with the Great Salt Lake project, to include project design, project equipment procurement, site infrastructure development and initial drilling.

We formed a subsidiary, PetroHunter Heavy Oil Ltd., in September 2006 ("PetroHunter Heavy Oil"), for the purpose of holding and developing our heavy oil assets. We anticipate that PetroHunter Heavy Oil will engage in a private placement of debt securities in the near future, similar to the offering of PetroHunter Energy NT described below.

PICEANCE BASIN, COLORADO PROPERTIES

BUCKSKIN MESA PROJECT. A 26-square mile 3D seismic survey has been licensed, re-processed, and interpreted to focus initial drilling in areas of thickest pay and enhanced fracturing. We have acquired approximately 20,000 net acres of leasehold in Rio Blanco County, Colorado. We have applied for and received six approved drilling permits to test targets in the Cretaceous Mesaverde Group. We have drilled and cased our first well at Buckskin Mesa, the Anderson 6-16, with a total depth of 10,785 feet. Log analysis indicates a gross pay interval in excess of 3,500 feet, with a net pay of 600 feet. Gas shows during drilling averaged 3,000 units with peaks as high as 20,000 units. Mud weight had to be increased to control the well, which indicates a pressure gradient in the Williams Fork of 0.56psi/foot. We are negotiating to enter into a contract for a workover rig to begin completion and testing operations. Depending on observed reservoir drainage of the wells, we believe there is potential for 1,000 to 2,000 additional well locations.

We are obligated to drill four additional wells to test the Iles Formation by November 30, 2007.

PICEANCE II PROJECT. We have acquired approximately 1,000 net acres of leasehold contiguous to Parachute, Rulison, and Grand Valley fields in Garfield County, Colorado. As of January 31, 2007, we had interests in 18 producing wells, 13 wells waiting on completion, and 4 wells being drilled. Average daily production net to us from these wells at January 31, 2007 (the most recent data available) was 6,984 mcf/day. Initial production rates varied from 1,000 to 2,554 mcf/day.

Production is from frac-stimulated perforations in stacked sands of the fluvial Williams Fork formation.

On November 28, 2006, we executed a purchase and sale agreement with Maralex Resources, Inc. and Adelante Oil & Gas, LLC (collectively "Maralex") for the acquisition and development of 2,000 net acres in the Jack's Pocket Prospect in Garfield County, Colorado. Under the terms of the agreement, an initial payment of $100,000 was made upon execution and the balance of $2.9 million cash and issuance of 2,428,100 shares of our common stock was due on January 15, 2007. Effective January 12, 2007, the agreement was amended to extend the payment terms of the cash due through March 15, 2007, and increase the shares to be issued to 3 million. These shares have been issued as of January 31, 2007. We are obligated to drill four wells on these leases during 2007.

PLAN OF OPERATIONS. We expect that the development of our Colorado properties will include: (i) continued drilling of wells in the southern portion of the Piceance Basin, where we expect to complete at least 12 wells for additional gas production, (ii) design and construction of a two-mile low pressure gathering system to connect these wells to market, and (iii) continued exploration of our lease position near Buckskin Mesa/Powell Park discovery wells in the northern Piceance Basin.

Associated with the development of our Colorado properties, we anticipate that, over the next twelve to twenty-four months, we will incur the following costs:

- $8,000,000 to $52,000,000 to add leasehold in the Piceance II and Buckskin Mesa project areas
- $50,000,000 to $80,000,000 in connection with the Piceance II project, to include drilling, completion and production facilities; and
- $35,000,000 to $50,000,000 in connection with the Buckskin Mesa project, to include drilling, completion and production facilities.

AUSTRALIA PROPERTIES

BEETALOO BASIN. The Beetaloo Basin property in the Northern Territory of Australia currently consists of approximately 7 million acres. We have applied for permits covering an additional 1.5 million acres that is contiguous to the currently-owned permits. Located about 600 kilometers south of Darwin, the Beetaloo Basin is a large basin, comparable in size to the Williston Basin in the U.S. or the entire southern North Sea basin. Structurally it has been viewed as a relatively simple intracratonic, passive margin basin, with minor extension (strike-slip), filled with sediments ranging from Cambrian to

Mesoproterozoic rocks. However, interpretation of new 2D seismic data acquired by us in 2006 requires modification of the structural and tectonic history of the basin. The broad, low relief structures previously recognized in the basin, probably related to strike-slip movement, represent only a portion of its history. Significant and possibly multiple compressional events are observed in the basin. Ongoing geophysical evaluation has identified a more recent compressional history along the western margin of

the basin resulting in a series of westerly verging, imbricate thrust faults in contrast to easterly verging, thrust faults discovered in the central basin. All identified structures are untested and prospective.

The Basin has many thousands of meters of sediments, but the reservoirs of interest to us are within 4000 meters of the surface, most less than 3000 meters. The sedimentary rocks include thick (hundreds of meters), rich source rocks, namely the Velkerri Shale with Total Organic Carbon ("TOC") contents as high as 12%, and the Kyalla Shale with typical TOC contents of 2-3%. There is also a number of sandstone reservoirs interbedded with the rich source rocks. The prospective formations, from stratigraphically youngest to oldest, include the Cambrian Bukalara Sandstone, and the Neoproterozoic Jamison, Moroak, and Bessie Creek sandstones. A number of even deeper sandstones are expected to be very tight and were not prospective in the single well where they were tested east of the Basin.

Three primary plays have been recognized within the basin. The first is a conventional structural, shallow sweet oil play of 35(degree) API gravity. The Bukalara, Jamison, and Moroak sandstones (and perhaps the Bessie Creek sandstone along the western margin) have potential for oil accumulations in trapped and sealed geometries. Most of the eleven previous wells drilled within the basin had oil and gas shows, and the Jamison #1 well tested oil on a Drill Stem Test. Detailed petrophysical analyses have been performed on all wells and have identified significant potential in some of these tests.

The second play is an unconventional fractured shale play within the Kyalla and Velkerri formations, not unlike the Barnett Shale play in Texas. It is unknown whether the hydrocarbons will be gas or oil (or possibly both) for this exploration target; however, the Barnett Shale model and algorithms in our petrophysical analyses of these shales suggest they are viable targets.

Finally, the Moroak and Bessie Creek sandstones offer a Basin Centered Gas Accumulation (BCGA) play at the center of the basin. It is an unconventional resource play characterized by a lack of a gas/water contact. Petrophysical analyses of several wells previously drilled in the basin demonstrate the presence of a BCGA in the basin.

The current seven million acres are represented by four exploration permits. Depending on the permit, we are in the second or third year of an initial five-year exploration period that can be extended. As part of the work commitment plan submitted to the Northern Territory Department of Primary Industry, Fisheries and Mines, 686 kilometers of 2D seismic data were acquired during 2006 to delineate the previously defined exploration leads. The data are being processed, interpreted, and mapped in anticipation of an eight to ten well drilling program in 2007 including both shallow offset wells to potential bypassed wells and tests of the undrilled structural features seen throughout the basin. In the event of commercial production the exploration permits will have to be converted to production licenses.

We are required to drill four wells by August 31, 2007.

GIPPSLAND AND OTWAY BASINS. On November 14, 2006, we entered into an agreement with Lakes Oil N.L. ("Lakes Oil"), under which we will jointly develop Lakes Oil's on-shore petroleum prospects (focusing on unconventional gas resources) in the Gippsland and Otway basins in Victoria, Australia. The arrangement is subject to various conditions precedent, including completion of satisfactory due diligence, and the satisfactory processing of certain retention lease applications. Under the agreement, we or our subsidiary company, Sweetpea Petroleum Pty. Ltd., will initially farm into 33-1/3% of Lakes Oil's permits by spending $7 million in Lakes Oil's permits. In addition, we will subscribe for $3 million in new shares in Lakes Oil at 1.5 cents (Australian). We will also have the right to increase our position in Lakes Oil's permits with two further 16-2/3% farm-in tranches of $10

million each, exercisable within 12 months and 24 months respectively. Under the agreement, we have the right to participate in the same proportion in any permits which are non-contiguous to existing permits acquired by Lakes Oil within two years, and any contiguous permits acquired by Lakes Oil moving forward, and we have a first right of refusal in other permits acquired by Lakes Oil within five years. We are to assume Lakes Oil's position as operator of the permits.

PLAN OF OPERATIONS. In Australia we plan to explore and develop portions of the 7,000,000 acres of the project area in the Northern Territory of Australia (Beetaloo Basin). During 2007, we plan to drill a minimum of eight wells in the exploration permit blocks. We anticipate that, over the next twelve months, we will incur $45,000,000 to $60,000,000 in costs related to drilling, well completion and a potential delineation seismic program.

Under the agreement with Lakes Oil, we or our subsidiary company, Sweetpea Petroleum Pty. Ltd., will initially farm into 33-1/3% of Lakes Oil's permits by spending $7 million in Lakes Oil's permits. In addition, we will subscribe for $3 million in new shares in Lakes Oil at 1.5 cents (Australian).

CURRENT FINANCING ACTIVITIES

To fund the planned operations described above and our fixed commitments for operating leases, delay rentals, property development fees and consulting fees and note payments to MAB totaling approximately $2,700,000 for the fiscal year ended September 30, 2007, we are engaging in financing activities. On November 6, 2006, we commenced an offering of up to $125,000,000 pursuant to a private placement of units at $1.50 per unit. Each unit consisted of one share of our common stock and one-half common stock purchase warrant. A whole common stock purchase warrant entitled the purchaser to acquire one share of our common stock at an exercise price of $1.88 per share through December 31, 2007. We may pay a commission of up to 5% to a broker or agent in conjunction with the sale. As of January 12, 2007, we had received $1,917,500 from the sale of units pursuant to the private placement. In February 2007, our board of directors determined that the composition of the units being offered would be restructured, and those investors who had subscribed in the offering will be offered the opportunity to rescind their subscriptions.

In November 2006, PetroHunter Energy NT Ltd. commenced a private placement of up to $50,000,000 of convertible notes. The notes bear interest at 12% per annum, mature one year from date of issuance, and are convertible, at the option of the note holder, at the rate of one share of PetroHunter Energy NT common stock for each $0.50 of debt. As of December 31, 2006, $1,505,000 has been received from this offering.

In addition, on January 9, 2007, we entered into a Credit and Security Agreement (the "Financing") with Global Project Finance AG, a Swiss company, for mezzanine financing in the amount of $15 million. The loan provides for an interest rate of 6.75% over prime, and is to be secured by a first perfected lien on our assets, limited to the specific portion of the assets to which the loan proceeds are applied by us. We plan to apply most of the proceeds of this loan to our drilling and development operations in the Piceance Basin, Colorado. The terms of the Financing also provide for the issuance of warrants to purchase one million of our shares upon execution of the Credit Agreement, and warrants to purchase up to an additional three million shares, tied on a pro rata basis to each draw down of the credit facility up to $15 million - that is, warrants for 600,000 shares for each $3 million advanced. The warrants will be exercisable for five years after the date of the Credit Agreement. The exercise price of the warrants will be equal to 120% of the weighted average price of our stock for the 30 days immediately prior to each warrant issuance date. Global Project Finance AG and its controlling

shareholder, Christian Russenberger, were shareholders of the Company prior to the Credit Agreement. As February 7, 2007, we had drawn down $7,000,000 on the credit facility.

LIQUIDITY AND CAPITAL RESOURCES

We had not commenced principal operations or earned significant revenue as of December 31, 2006, and are considered a development stage company. During the period from inception to December 31, 2006, we incurred a cumulative net loss of $28,114,852 and at December 31, 2006 have a working capital deficit of $18,307,346. In order to fund our planned exploration and development of oil and gas properties, we will require significant additional funding. We have sold approximately $59.4 million of convertible notes and common stock through December 31, 2006, and our management believes that we will be successful in raising additional funding to have sufficient capital to meet our obligations for our planned operations for at least the next twelve months.

The Company at December 31, 2006 is vastly different from its existence at December 31, 2005. At December 31, 2005, we had been operating for approximately six months, had no employees, and had acquired an interest in two properties, West Rozel and Buckskin Mesa, aggregating approximately 12,400 net mineral acres. During the 2006 fiscal year, we added 16 employees, moved to offices in Denver, Colorado, and acquired an interest in properties aggregating approximately 7,207,000 acres.

We funded the acquisition of these properties and the increased level of activity primarily through the sale of debt and equity securities for cash. We also issued 8,800,000 shares, valued at $0.50 per share, as partial consideration for the acquisition of oil and properties and as consideration for a finder's fee on an oil and gas prospect. At December 31, 2006, we had a working capital deficit of $18,307,346 and cash of $2,308,442. In addition, we will need to raise additional funds for our planned operations and acquisitions.

Prior to the acquisition of PetroHunter Operating Company in May 2006, we entered into five separate loan agreements, aggregating $400,000, due one year from issuance, commencing October 11, 2006. The loans bear interest at 12% per annum, are unsecured, and are convertible, at the option of the lender at any time during the term of the loan or upon maturity, at a price per share equal to the closing price of our common stock on the OTC Bulletin Board on the day preceding notice from the lender of its intent to convert the loan. As of January 31, 2007, we were in default on payment of an aggregate of $200,000 of notes.

CASH USED IN OPERATING ACTIVITIES. Primarily as a result of our net loss of $5,304,018, we used cash of $2,961,426 for three months ended December 31, 2006. See "Results of Operations" below for the discussion of our operating expenses. The principal adjustment to reconcile the net loss to net cash used in operating activities was stock based compensation of $1,561,133, as a result of stock options issued to employees and consultants. In comparison, we used $1,263,644 of cash in operations for the three months ended December 31, 2005.

CASH USED IN INVESTING ACTIVITIES. We used cash of $8,424,791 in during the three month ended December 31, 2006, primarily for our additions to our oil and gas properties ($7,866,635). We also used $525,000 for restricted cash, which are certificates of deposit underlying letters of credit for exploration permits, state and local bonds and guarantees to vendors. During the three months ended December 31, 2005, we used $4,189,761 for additions to oil and gas properties.

We currently anticipate our capital budget will be approximately between $165 and $260 million for the period ending December 31, 2007, which we plan to use for a diverse portfolio of development and exploration wells in our core areas of operation. If we are unable to obtain capital through the sale of our securities or a credit facility or otherwise, our ability to execute our development plans could be greatly limited. We may consider selling down a portion of our interests in some of our exploration and development projects to industry partners to generate additional funds to finance our 2007 capital budget.

CASH PROVIDED BY FINANCING ACTIVITIES. Cash provided by financing activities in 2006 consists of proceeds from convertible promissory notes sold by PetroHunter Energy NT Ltd. and proceeds from the sale of 1,058,333 units in our private placement shares for gross proceeds of $1,587,500. Total cash provided by financing activities was $3,062,883, resulting in cash of $2,308,442 at December 31, 2006.

It is anticipated that the continuation and future development of our business will require additional, substantial, capital expenditures. We have no reliable source for additional funds for administration and operations to the extent our existing funds have been utilized. In addition, our capital expenditure budget for the period ending December 31, 2007 will depend on our success in selling additional prospects for cash, the level of industry participation in our exploration projects, the availability of debt or equity financing, and the results of our activities. We anticipate spending approximately between $165 and $260 million on exploration and development activities during the period ending December 31, 2007. To limit capital expenditures, we may form industry alliances and exchange an appropriate portion of our interest for cash and/or a carried interest in our exploration projects. We may need to raise additional funds to cover capital expenditures. These funds may come from cash flow, equity or debt financings, a credit facility, or sales of interests in our properties, although there is no assurance additional funding will be available or that it will be available on satisfactory terms.

RESULTS OF OPERATIONS

OIL AND GAS REVENUES. We generated our first revenues during the last quarter of our fiscal year ending September 30, 2006 from initial testing and production of natural gas wells in the Piceance Basin of Colorado. Revenues increased significantly for the quarter ended December 31, 2006, since we had 12 producing wells as of December 31, 2006. We generated $448,876 of production revenues for the three months ended December 31, 2006, as compared to none for the three months ended December 31, 2005.

A total of 12 wells produced and sold 85,922 Mcf of natural gas and 79 Bbl of oil. The average prices received for gas and oil sold were $5.17 per Mcf and $58.29 per Bbl. Lease operating expenses were $161,800 or $1.88/Mcf. Depreciation, depletion and amortization expense ("DD&A"), based on information currently available to the Company, is estimated at $86,137 or $1.00/Mcfe.

GENERAL AND ADMINISTRATIVE. Due to the substantially increased level of activity during the three months ended December 31, 2006 as compared to the three months ended December 31, 2005, general and administrative expenses increased by $2,959,744 or 516%.

For the quarters ended December 31, 2006 and 2005, we recorded general and administrative costs of $3,670,998 and $711,254, respectively, as summarized below.

	THREE MONTHS ENDED DECEMBER 31	
	2006	2005
Consulting fees	$ 235,774	$ 282,891
Insurance	69,124	8,327
Investor relations	280,447	33,865
Legal	189,132	71,151
Salaries	554,143	--
Stock Based compensation	1,561,133	205,678
Travel & entertainment	466,093	61,359
Director fees	10,500	--
Office lease and expenses	172,082	15,488
Audit and accounting	62,621	30,000
Other expenses	69,949	2,495
	$ 3,670,998	$ 711,254

- Consulting fees decreased as officers became salaried employees in 2006.
- Insurance increased due to growth of the business.
- Investor relations increased upon the Company becoming a public company through the Stock Exchange in May 2006.
- Legal expenses increased due to growth of the business and costs of public company reporting and compliance.
- We had no employees at December 31, 2005. Amount for 2006 reflects officers becoming salaried employees and growth of the business.
- Stock based compensation expenses in 2006 include the effect of grant date fair value accounting of vested employee stock options in accordance with SFAS 123R adopted by us effective October 1, 2005. The 2005 expense was calculated in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations.
- Increased travel and entertainment expenses reflect the growth of the business.
- Increase in director fees reflects one outside director in 2006 versus none in 2005.
- Increased office expenses reflect costs of our existing offices in Denver and Salt Lake City in 2006 versus one smaller office in Denver in 2005.
- Increased accounting and audit fees reflect the growth of the business.

PROPERTY DEVELOPMENT - RELATED. We also incurred $1,815,000 in property development costs to MAB in 2006, as compared to $700,000 in 2005. As a result of the new Acquisition and Consulting Agreement with MAB, which is effective January 1, 2007, we will no longer incur these property development costs.

OPERATING EXPENSES. Total operating expenses for 2006 were $5,733,935, as compared to $1,411,254 in 2005.

INTEREST EXPENSE. We incurred interest expense of $27,018 for 2006, as compared to $187,434 for 2005. We expect that interest expense will increase for the remainder of the current fiscal year ending September 30, 2007, due to the credit facility we obtained in January 2007, which is described below in "Plan of Operations," and due to the interest to be paid to MAB under the terms of the new Acquisition and Consulting Agreement.

NET LOSS. As a result of the expenses described above, we incurred a loss of $5,304,018 for 2006, as compared to $1,598,688 for 2005, increasing the loss accumulated since inception to $28,114,852.

GOING CONCERN

We have incurred a cumulative net loss $28,114,852 for the period from inception to December 31, 2006 and at December 31, 2006 have a working capital deficit of $18,307,346. We require significant additional funding to sustain our operations and satisfy our contractual obligations for our planned oil and gas exploration and development operations. Our ability to establish the Company as a going concern is dependent upon our ability to obtain additional financing, in order to fund our planned operations and ultimately, to achieve profitable operations.

OFF-BALANCE SHEET ARRANGEMENTS

From time to time, we enter into off-balance sheet arrangements and transactions that can give rise to off-balance sheet obligations. As of December 31, 2006, the off-balance sheet arrangements and transactions that we have entered into include operating lease agreements. We do not believe that these arrangements are reasonably likely to materially affect our liquidity or availability of, or requirements for, capital resources.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our Financial Statements.

OIL AND GAS PROPERTIES. We utilize the full cost method of accounting for oil and gas activities. Under this method, subject to a limitation based on estimated value, all costs associated with property acquisition, exploration and development, including costs of unsuccessful exploration, are capitalized within a cost center. No gain or loss is recognized upon the sale or abandonment of undeveloped or producing oil and gas properties unless the sale represents a significant portion of oil and gas properties and the gain significantly alters the relationship between capitalized costs and proved oil and gas reserves of the cost center. Depreciation, depletion and amortization of oil and gas properties is computed on the units of production method based on proved reserves. Amortizable costs include estimates of future development costs of proved undeveloped reserves.

Capitalized costs of oil and gas properties may not exceed an amount equal to the present value, discounted at 10%, of the estimated future net cash flows from proved oil and gas reserves plus the cost, or estimated fair market value, if lower, of unproved properties. Should capitalized costs exceed this ceiling, an impairment is recognized. The present value of estimated future net cash flows is computed by applying year end prices of oil and natural gas to estimated future production of proved oil and gas reserves as of year end, less estimated future expenditures to be incurred in developing and producing the proved reserves and assuming continuation of existing economic conditions. As of December 31, 2006, the Company has no proved reserves and all oil and gas property costs are considered to be unevaluated and are recorded at the lower of cost or estimated fair market value.

ASSET RETIREMENT OBLIGATION. We apply SFAS 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement requires companies to record the present value of obligations associated with the retirement of tangible

long-lived assets in the period in which it is incurred. The liability is capitalized as part of the related long-lived asset's carrying amount. Over time, accretion of the liability is recognized as an operating expense and the capitalized cost is depreciated over the expected useful life of the related asset. Asset retirement obligations ("ARO") relate primarily to the plugging, dismantlement, removal, site reclamation and similar activities of its oil and gas properties. At December 31, 2006, we had recorded an ARO of $528,268 for our initial wells under progress.

SHARE BASED COMPENSATION. On October 1, 2005, we adopted SFAS 123(R), "Accounting for Stock-Based Compensation," using the modified prospective method, which results in the provisions of SFAS 123(R) being applied to the consolidated financial statements on a going-forward basis. Prior periods have not been restated. SFAS 123(R) requires companies to recognize share-based payments to employees as compensation expense on a fair value method. Under the fair value recognition provisions of SFAS 123(R), stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the service period, which generally represents the vesting period. The expense recognized over the service period is required to include an estimate of the awards that will be forfeited. Previously, no such forfeitures have occurred. We are assuming no forfeitures going forward based on our historical forfeiture experience. The fair value of stock options is calculated using the Black-Scholes option-pricing model.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No. 133 and 140." SFAS No. 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and also resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets." SFAS No. 155 was issued to eliminate the exemption from applying SFAS No. 133 to interests in securitized financial assets so that similar instruments are accounted for in a similar fashion, regardless of the instrument's form. The Company does not believe that its financial position, results of operations or cash flows will be impacted by SFAS No. 155 as the Company does not currently hold any hybrid financial instruments.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes." The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. The Company will be required to adopt FIN 48 for the fiscal year ended September 30, 2008. The Company is reviewing and evaluating the effect, if any, of adopting FIN 48 on its financial position and results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk relates to changes in the pricing applicable to the sales of gas production in the Piceance Basin in Colorado. This risk will become more significant to us as our production increases in this area. Although we are not using derivatives at this time to mitigate the risk of adverse changes in commodity prices, we may consider using them in the future.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures lack adequate staff and procedures in order to be effective. Subsequent to the end of the period covered by this report we have implemented procedures to remediate this control deficiency by completing the implementation of an accounting system designed for oil and gas producing companies and will be hiring additional staff.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

In connection with the evaluation of our internal controls during our last fiscal quarter, our principal executive officer and principal financial officer have determined that there have been no changes to our internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not Applicable.

ITEM 1A. RISK FACTORS

There were no material changes from the risk factors disclosed in our Form 10-KSB for the fiscal year ended September 30, 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the three months ended December 31, 2006, a wholly-owned subsidiary of the registrant, PetroHunter Energy NT Ltd., sold convertible notes in the aggregate amount of $1,505,000 to one non-U.S. Person pursuant to Regulation S and to one accredited investor pursuant to the exemption from registration contained in Rule 506 of Regulation D. Finder's fees of $75,250 were paid.

The registrant sold 1,058,333 units, each unit consisting of one share of common stock and one-half common stock purchase warrant, to three non-U.S. Persons pursuant to Regulation S and one accredited investor pursuant to the exemption from registration contained in Rule 506 of Regulation D. No underwriters were used.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable.

ITEM 5. OTHER INFORMATION

Not Applicable.

ITEM 6. EXHIBITS

REGULATION S-K NUMBER	EXHIBIT
2.1	Stock Exchange Agreement dated February 10, 2006 by and among Digital Ecosystems Corp., GSL Energy Corporation, MABio Materials Corporation and MAB Resources LLC (incorporated by reference to Exhibit 10.8 to the Company's quarterly report on Form 10-QSB for the quarter ended December 31, 2005, filed February 16, 2006)

REGULATION S-K NUMBER	EXHIBIT
2.2	Amendment No. 1 to Stock Exchange Agreement dated March 31, 2006 (incorporated by reference from Exhibit 10.1 to the Company's current report on Form 8-K dated March 31, 2006, filed April 7, 2006)
2.3	Amendment No. 5 to Stock Exchange Agreement dated May 12, 2006 (incorporated by reference from Exhibit 10.1 to the Company's current report on Form 8-K dated May 12, 2006, filed MaRoman" style="font-size:1.

860,444

795,173

Accumulated other comprehensive income

2,532

3,022

Total shareholders equity	2,318,614	2,250,929
Total liabilities and shareholders equity	$ 5,565,576	$ 5,644,057

See accompanying notes to the condensed consolidated financial statements.

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Penn National Gaming, Inc. and Subsidiaries

Condensed Consolidated Statements of Income

(in thousands, except per share data)

(unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Revenues		
Gaming	$ 717,925	$ 656,077
Food, beverage and other	121,860	112,908
Management service fee	3,047	3,443
Revenues	842,832	772,428
Less promotional allowances	(44,586)	(36,369)
Net revenues	798,246	736,059
Operating expenses		
Gaming	362,018	340,169
Food, beverage and other	90,265	87,804
General and administrative	135,577	115,997
Depreciation and amortization	77,071	53,337
Insurance recoveries, net of deductible charges		(3,863)
Total operating expenses	664,931	593,444
Income from operations	133,315	142,615
Other income (expenses)		
Interest expense	(27,924)	(18,043)
Interest income	262	219
Gain from unconsolidated affiliates	1,721	1,685
Other	664	(1,003)
Total other expenses	(25,277)	(17,142)
Income from operations before income taxes	108,038	125,473
Taxes on income	42,767	46,854
Net income	$ 65,271	$ 78,619
Earnings per common share:		
Basic earnings per common share	$ 0.68	$ 0.83
Diluted earnings per common share	$ 0.63	$ 0.74

See accompanying notes to the condensed consolidated financial statements.

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Penn National Gaming, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(in thousands) (unaudited)

	Three Months Ended March 31, 2013	2012
Net income	$ 65,271	$ 78,619
Other comprehensive (loss) income, net of tax:		
Foreign currency translation adjustment during the period	(391)	288
Unrealized holding losses on corporate debt securities arising during the period	(99)	(70)
Other comprehensive (loss) income	(490)	218
Comprehensive income	$ 64,781	$ 78,837

See accompanying notes to the condensed consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries

Condensed Consolidated Statements of Changes in Shareholders Equity

(in thousands, except share data) (unaudited)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders Equity
Balance, December 31, 2011	12,275	$	76,213,126	$ 756	$ 1,385,355	$ 583,202	$ 2,318	$ 1,971,631
Stock option activity, including tax benefit of $1,126			214,632	2	12,919			12,921
Restricted stock activity, including tax benefit of $353			(4,076)		1,109			1,109
Change in fair value of corporate debt securities							(70)	(70)
Foreign currency translation adjustment							288	288
Net income						78,619		78,619
Balance, March 31, 2012	12,275	$	76,423,682	$ 758	$ 1,399,383	$ 661,821	$ 2,536	$ 2,064,498
Balance, December 31, 2012	12,275	$	77,446,601	$ 769	$ 1,451,965	$ 795,173	$ 3,022	$ 2,250,929
Repurchase of preferred stock	(225)				(22,275)			(22,275)
Stock option activity, including tax benefit of $2,717			540,567	5	24,732			24,737
Restricted stock activity, including tax benefit of $749			188,013		442			442
Change in fair value of corporate debt securities							(99)	(99)
Foreign currency translation adjustment							(391)	(391)
Net income						65,271		65,271
Balance, March 31, 2013	12,050	$	78,175,181	$ 774	$ 1,454,864	$ 860,444	$ 2,532	$ 2,318,614

See accompanying notes to the condensed consolidated financial statements.

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Penn National Gaming, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in thousands) (unaudited)

Three Months Ended March 31,	**2013**	**2012**
Operating activities		
Net income	$ 65,271	$ 78,619
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	77,071	53,337
Amortization of items charged to interest expense	2,149	1,649
Loss (gain) on sale of fixed assets	2,390	(945)
Gain from unconsolidated affiliates	(1,721)	(1,685)
Distributions of earnings from unconsolidated affiliates	5,000	
Deferred income taxes	8,174	(3,143)
Charge for stock-based compensation	6,251	7,911
(Increase) decrease, net of businesses acquired		
Accounts receivable	(3,807)	(114)
Insurance receivable		1,072
Prepaid expenses and other current assets	21,878	3,459
Other assets	(11,544)	(2,328)
Increase (decrease), net of businesses acquired		
Accounts payable	3,922	197
Accrued expenses	(30,503)	(23,897)
Accrued interest	(6,990)	(7,711)
Accrued salaries and wages	(18,096)	(22,201)
Gaming, pari-mutuel, property and other taxes	5,703	(219)
Income taxes		31,434
Other current and noncurrent liabilities	6,669	5,465
Other noncurrent tax liabilities	1,971	1,724
Net cash provided by operating activities	133,788	122,624
Investing activities		
Expenditures for property and equipment, net of reimbursements	(62,703)	(119,659)
Proceeds from sale of property and equipment	2,517	1,283
Investment in joint ventures	(500)	(39,600)
Decrease in cash in escrow	26,000	25,650
Acquisition of gaming licenses	(1,125)	
Net cash used in investing activities	(35,811)	(132,326)
Financing activities		
Proceeds from exercise of options	15,461	4,640
Repurchase of preferred stock	(22,275)	
Proceeds from issuance of long-term debt, net of issuance costs	19,954	47,932
Principal payments on long-term debt	(136,949)	(60,656)
Proceeds from insurance financing	15,306	
Payments on insurance financing	(5,706)	(4,682)
Tax benefit from stock options exercised	3,467	1,479
Net cash used in financing activities	(110,742)	(11,287)
Net decrease in cash and cash equivalents	(12,765)	(20,989)
Cash and cash equivalents at beginning of year	260,467	238,440
Cash and cash equivalents at end of period	$ 247,702	$ 217,451

Supplemental disclosure

Interest expense paid, net of amounts capitalized	$	32,673	$	24,007
Income taxes paid	$	1,124	$	15,353

See accompanying notes to the condensed consolidated financial statements.

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Penn National Gaming, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

1. Organization and Basis of Presentation

Penn National Gaming, Inc. (Penn) and subsidiaries (collectively, the Company) is a diversified, multi-jurisdictional owner and manager of gaming and pari-mutuel properties. As of March 31, 2013, the Company owned, managed, or had ownership interests in twenty-nine facilities in the following nineteen jurisdictions: Colorado, Florida, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Maryland, Mississippi, Missouri, Nevada, New Jersey, New Mexico, Ohio, Pennsylvania, Texas, West Virginia, and Ontario.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The condensed consolidated financial statements include the accounts of Penn and its subsidiaries. Investment in and advances to unconsolidated affiliates are accounted for under the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses for the reporting periods. Actual results could differ from those estimates. For purposes of comparability, certain prior year amounts have been reclassified to conform to the current year presentation.

Operating results for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. The notes to the consolidated financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 2012 should be read in conjunction with these condensed consolidated financial statements. The December 31, 2012 financial information has been derived from the Company s audited consolidated financial statements.

2. Proposed Spin-Off of Real Estate Assets through a Real Estate Investment Trust

On November 15, 2012, the Company announced that it intends to pursue a plan to separate the majority of its gaming operating assets and real property assets into two publicly traded companies including an operating entity, Penn National Gaming (PNG), and, through a tax-free spin-off of its real estate assets to holders of its common and preferred stock, a newly formed publicly traded real estate investment trust (REIT) that will be named Gaming and Leisure Properties, Inc. (GLPI), subject to required gaming regulatory body approvals and other contingencies noted below (the Spin-Off).

A REIT is not permitted to retain earnings and profits (E&P) accumulated during the years when the company or its predecessor was taxed as a regular C corporation. For GLPI to elect REIT status, GLPI must distribute to its shareholders its undistributed E&P attributable to taxable periods prior to its REIT election. The Company currently estimates that, if GLPI were to elect REIT status as of January 1, 2014, the aggregate amount of the special E&P taxable dividend would be approximately $1.1 billion. The dividend will be paid in a combination of cash and GLPI common stock, which will consist of at least 20% in cash with the remainder in GLPI common stock.

As a result of the proposed Spin-Off, GLPI will initially own substantially all of the real property assets and will lease back most of those assets to PNG for use by its subsidiaries, under a triple net 15 year Master Lease agreement (excluding four 5 year renewals, which are at PNG s option) as well as own and operate Hollywood Casino Perryville and Hollywood Casino Baton Rouge through a taxable REIT subsidiary. PNG would hold the gaming licenses, operate the leased gaming facilities and own and operate other assets, including the Casino Rama casino management contract, the 50% joint venture interest in Hollywood Casino at Kansas Speedway, seven non-casino racetracks and gaming equipment.

The Company has received a private letter ruling from the Internal Revenue Service relating to the tax treatment of the separation and the qualification of GLPI as a REIT. The private letter ruling is subject to certain qualifications and based on certain representations and statements made by the Company. If such representations and statements are untrue or incomplete in any material

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respect (including as a result of a material change in the proposed transaction or other relevant facts), the Company may not be able to rely on the private letter ruling.

The completion of the proposed Spin-Off is contingent, among other things, on receipt of regulatory approvals, the receipt of final approval by Penn s Board of Directors, execution of definitive documentation, the receipt of legal and accounting opinions, raising significant amounts of capital to finance the transaction, and other customary conditions. The Company may, at any time and for any reason until the proposed Spin-Off is complete, abandon the Spin-Off or modify or change the terms of the Spin-Off.

3. Summary of Significant Accounting Policies

Revenue Recognition and Promotional Allowances

Gaming revenue is the aggregate net difference between gaming wins and losses, with liabilities recognized for funds deposited by customers before gaming play occurs, for chips and ticket-in, ticket-out coupons in the customers possession, and for accruals related to the anticipated payout of progressive jackpots. Progressive slot machines, which contain base jackpots that increase at a progressive rate based on the number of coins played, are charged to revenue as the amount of the jackpots increase.

Food, beverage and other revenue, including racing revenue, is recognized as services are performed. Racing revenue includes the Company s share of pari-mutuel wagering on live races after payment of amounts returned as winning wagers, its share of wagering from import and export simulcasting, and its share of wagering from its off-track wagering facilities.

Revenue from the management service contract for Casino Rama is based upon contracted terms and is recognized when services are performed.

Revenues are recognized net of certain sales incentives in accordance with Financial Accounting Standards Board (the FASB) Accounting Standards Codification (ASC) 605-50, Revenue Recognition Customer Payments and Incentives. The Company records certain sales incentives and points earned in point-loyalty programs as a reduction of revenue.

The retail value of accommodations, food and beverage, and other services furnished to guests without charge is included in gross revenues and then deducted as promotional allowances. The estimated cost of providing such promotional allowances is primarily included in food, beverage and other expense.

The amounts included in promotional allowances for the three months ended March 31, 2013 and 2012 are as follows:

	Three Months Ended March 31, 2013	2012
	(in thousands)	
Rooms	$ 9,319	$ 6,294
Food and beverage	32,490	27,479
Other	2,777	2,596
Total promotional allowances	$ 44,586	$ 36,369

The estimated cost of providing such complimentary services for the three months ended March 31, 2013 and 2012 are as follows:

	Three Months Ended March 31, 2013	2012
	(in thousands)	
Rooms	$ 3,239	$ 2,356
Food and beverage	21,979	18,480
Other	1,644	1,522
Total cost of complimentary services	$ 26,862	$ 22,358

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Gaming and Racing Taxes

The Company is subject to gaming and pari-mutuel taxes based on gross gaming revenue and pari-mutuel revenue in the jurisdictions in which it operates. The Company primarily recognizes gaming and pari-mutuel tax expense based on the statutorily required percentage of revenue that is required to be paid to state and local jurisdictions in the states where or in which wagering occurs. In certain states in which the Company operates, gaming taxes are based on graduated rates. The Company records gaming tax expense at the Company s estimated effective gaming tax rate for the year, considering estimated taxable gaming revenue and the applicable rates. Such estimates are adjusted each interim period. If gaming tax rates change during the year, such changes are applied prospectively in the determination of gaming tax expense in future interim periods. Finally, the Company recognizes purse expense based on the statutorily required percentage of revenue that is required to be paid out in the form of purses to the winning owners of horseraces run at the Company s racetracks in the period in which wagering occurs. For the three months ended March 31, 2013, these expenses, which are recorded primarily within gaming expense in the condensed consolidated statements of income, were $282.0 million, as compared to $276.9 million for the three months ended March 31, 2012.

Earnings Per Share

The Company calculates earnings per share (EPS) in accordance with ASC 260, Earnings Per Share (ASC 260). Basic EPS is computed by dividing net income applicable to common stock, excluding net income attributable to noncontrolling interests, by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects the additional dilution for all potentially-dilutive securities such as stock options and unvested restricted shares.

At March 31, 2013, the Company had outstanding 12,050 shares of Series B Redeemable Preferred Stock (the Preferred Stock), which the Company determined qualified as a participating security as defined in ASC 260. Under ASC 260, a security is considered a participating security if the security may participate in undistributed earnings with common stock, whether that participation is conditioned upon the occurrence of a specified event or not. In accordance with ASC 260, a company is required to use the two-class method when computing EPS when a company has a security that qualifies as a participating security. The two-class method is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. A participating security is included in the computation of basic EPS using the two-class method. Under the two-class method, basic EPS for the Company s common stock is computed by dividing net income applicable to common stock by the weighted-average common shares outstanding during the period. Diluted EPS for the Company s common stock is computed using the more dilutive of the two-class method or the if-converted method.

The following table sets forth the allocation of net income for the three months ended March 31, 2013 and 2012 under the two-class method:

	Three Months Ended March 31, 2013	2012
	(in thousands)	
Net income	$ 65,271	$ 78,619
Net income applicable to preferred stock	12,358	15,272
Net income applicable to common stock	$ 52,913	$ 63,347

The following table reconciles the weighted-average common shares outstanding used in the calculation of basic EPS to the weighted-average common shares outstanding used in the calculation of diluted EPS for the three months ended March 31, 2013 and 2012:

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	Three Months Ended March 31, 2013	2012
	(in thousands)	
Determination of shares:		
Weighted-average common shares outstanding	77,553	75,994
Assumed conversion of dilutive employee stock-based awards	2,940	2,222
Assumed conversion of restricted stock	99	138
Assumed conversion of preferred stock	22,295	27,278
Diluted weighted-average common shares outstanding	102,887	105,632

The Company is required to adjust its diluted weighted-average common shares outstanding for the purpose of calculating diluted EPS as follows: 1) when the average price of the Company s common stock at the end of the reporting period is less than $45, the diluted weighted-average common shares outstanding is increased by 26,777,778 shares (regardless of how much the stock price is below $45); 2) when the average price of the Company s common stock at the end of the reporting period is between $45 and $67, the diluted weighted-average common shares outstanding is increased by an amount which can be calculated by dividing $1.205 billion (face value) by the current price per share of the Company s common stock, which will result in an increase in the diluted weighted-average common shares outstanding of between 17,985,075 shares and 26,777,778 shares; and 3) when the average price of the Company s common stock at the end of the reporting period is above $67, the diluted weighted- average common shares outstanding is increased by 17,985,075 shares (regardless of how much the stock price exceeds $67). See Note 9 for discussion of the proposed Spin-Off s potential future impact on the calculation of diluted weighted-average common shares outstanding.

Options to purchase 235,125 shares and 3,122,903 shares were outstanding during the three months ended March 31, 2013 and 2012, respectively, but were not included in the computation of diluted EPS because they were antidilutive.

The following table presents the calculation of basic and diluted EPS for the Company s common stock:

	Three Months Ended March 31, 2013	2012
	(in thousands, except per share data)	
Calculation of basic EPS:		
Net income applicable to common stock	$ 52,913	$ 63,347
Weighted-average common shares outstanding	77,553	75,994
Basic EPS	$ 0.68	$ 0.83
Calculation of diluted EPS:		
Net income	$ 65,271	$ 78,619
Diluted weighted-average common shares outstanding	102,887	105,632
Diluted EPS	$ 0.63	$ 0.74

Stock-Based Compensation

The Company accounts for stock compensation under ASC 718, Compensation-Stock Compensation, which requires the Company to expense the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. Stock based compensation expense for the three months ended March 31, 2013 was $6.3 million, as compared to $7.9 million for the three months ended March 31, 2012. This expense is recognized ratably over the requisite service period following the date of grant.

The fair value for stock options was estimated at the date of grant using the Black-Scholes option-pricing model, which requires management to make certain assumptions. The risk-free interest rate was based on the U.S. Treasury spot rate with a term equal to the expected life assumed at the date of grant. Expected volatility was estimated based on the historical volatility of the Company s stock price over a period of 6.57 years, in order to match the expected life of the options at the grant date. Historically, at the grant date, there has been no expected dividend yield assumption since the Company has not paid any cash dividends on its common stock since its initial public offering in May 1994 and since the Company intends to retain all of its earnings to finance the development of its business for the foreseeable future. The weighted-average expected life was based on the contractual term of the stock option and expected employee exercise dates, which was based on the historical and expected exercise behavior of the

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Company s employees. Forfeitures are estimated at the date of grant based on historical experience. No stock options were granted by the Company during the three months ended March 31, 2013.

The Company has also issued cash-settled phantom stock unit awards, which vest over a period of four to five years. Cash-settled phantom stock unit awards entitle employees and directors to receive cash based on the fair value of the Company s common stock on the vesting date. These phantom stock unit awards are accounted for as liability awards and are re-measured at fair value each reporting period until they become vested with compensation expense being recognized over the requisite service period in accordance with ASC 718-30, Compensation Stock Compensation, Awards Classified as Liabilities. As of March 31, 2013, there was $27.6 million of total unrecognized compensation cost that will be recognized over the grants remaining weighted average vesting period of 3.29 years. For the three months ended March 31, 2013, the Company recognized $2.8 million of compensation expense associated with these awards, as compared to $1.2 million for the three months ended March 31, 2012.

Additionally, the Company has issued stock appreciation rights to certain employees, which vest over a period of four years. The Company s stock appreciation rights are accounted for as liability awards since they will be settled in cash. The fair value of these awards is calculated during each reporting period and estimated using the Black-Scholes option pricing model based on the various inputs discussed below. As of March 31, 2013, there was $12.1 million of total unrecognized compensation cost that will be recognized over the awards remaining weighted average vesting period of 2.51 years. For the three months ended March 31, 2013, the Company recognized $2.8 million of compensation expense associated with these awards, as compared to $1.4 million for the three months ended March 31, 2012.

The following are the weighted-average assumptions used in the Black-Scholes option-pricing model at March 31, 2013 and 2012:

	2013	**2012**
Risk-free interest rate	1.08%	1.04%
Expected volatility	46.27%	47.60%
Dividend yield		
Weighted-average expected life (years)	6.57	5.82
Forfeiture rate	5.00%	5.00%

4. New Accounting Pronouncements

In February 2013, the FASB finalized the disclosure requirements on how entities should present financial information about reclassification adjustments from accumulated other comprehensive income. The standard requires that companies present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. If a component is not required to be reclassified to net income in its entirety, companies would instead cross reference to the related footnote for additional information. The disclosures required by this amendment are effective for public entities for annual and interim reporting periods beginning after December 15, 2012. The Company adopted the guidance as of January 1, 2013. Other than the additional disclosure requirements shown below, the adoption of this guidance did not have an impact on the Company s financial statements.

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The net of tax changes in accumulated other comprehensive income by component were as follows:

	Foreign Currency	Available for sale securities	Total
Balance at December 31, 2011	$ 1,202	$ 1,116	$ 2,318
Other comprehensive (loss) income:			
Foreign currency translation adjustment	288		288
Unrealized holding losses on corporate debt securities		(70)	(70)
Ending balance at March 31, 2012	$ 1,490	$ 1,046	$ 2,536
Balance at December 31, 2012	$ 1,628	$ 1,394	$ 3,022
Other comprehensive (loss) income:			
Foreign currency translation adjustment	(391)		(391)
Unrealized holding losses on corporate debt securities		(99)	(99)
Ending balance at March 31, 2013	$ 1,237	$ 1,295	$ 2,532

5. Property and Equipment

Property and equipment, net, consists of the following:

	March 31, 2013	December 31, 2012
	(in thousands)	
Land and improvements	$ 438,378	$ 442,882
Building and improvements	2,295,878	2,283,230
Furniture, fixtures, and equipment	1,275,140	1,240,898
Leasehold improvements	17,188	17,229
Construction in progress	37,267	30,531
Total property and equipment	4,063,851	4,014,770
Less accumulated depreciation	(1,356,679)	(1,283,973)
Property and equipment, net	$ 2,707,172	$ 2,730,797

Depreciation expense, for property and equipment, totaled $76.2 million for the three months ended March 31, 2013, as compared to $53.2 million for the three months ended March 31, 2012. Interest capitalized in connection with major construction projects was $0.1 million for the three months ended March 31, 2013, as compared to $2.9 million for the three months ended March 31, 2012.

6. Long-term Debt

Long-term debt, net of current maturities, is as follows:

	March 31, 2013	December 31, 2012
	(in thousands)	
Senior secured credit facility	$ 2,278,050	$ 2,394,963
$ 325 million 8 ¾% senior subordinated notes due August 2019	325,000	325,000
Other long-term obligations	10,000	10,000
Capital leases	2,076	2,111
	2,615,126	2,732,074
Less current maturities of long-term debt	(88,368)	(81,497)
Less discount on senior secured credit facility Term Loan B	(1,442)	(1,504)
	$ 2,525,316	$ 2,649,073

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The following is a schedule of future minimum repayments of long-term debt as of March 31, 2013 (in thousands) (which does not contemplate the redemption of debt obligations that are anticipated to occur in connection with the proposed Spin-Off):

Within one year	$	88,368
1-3 years		238,633
3-5 years		775,543
Over 5 years		1,512,582
Total minimum payments	$	2,615,126

Senior Secured Credit Facility

The Company s senior secured credit facility had a gross outstanding balance of $2,278.1 million at March 31, 2013, consisting of a $1,028.8 million Term Loan A facility and a $1,249.3 million Term Loan B facility. No balances were outstanding on the revolving credit facility at March 31, 2013. Additionally, at March 31, 2013, the Company was contingently obligated under letters of credit issued pursuant to the senior secured credit facility with face amounts aggregating $73.2 million, resulting in $711.8 million of available borrowing capacity as of March 31, 2013 under the revolving credit facility.

Covenants

The Company s senior secured credit facility and $325 million 83/4% senior subordinated notes require it, among other obligations, to maintain specified financial ratios and to satisfy certain financial tests, including fixed charge coverage, interest coverage, senior leverage and total leverage ratios. In addition, the Company s senior secured credit facility and $325 million 83/4% senior subordinated notes restrict, among other things, the Company s ability to incur additional indebtedness, incur guarantee obligations, amend debt instruments, pay dividends, create liens on assets, make investments, engage in mergers or consolidations, and otherwise restrict corporate activities.

At March 31, 2013, the Company was in compliance with all required financial covenants.

7. Commitments and Contingencies

Litigation

The Company is subject to various legal and administrative proceedings relating to personal injuries, employment matters, commercial transactions and other matters arising in the normal course of business. The Company does not believe that the final outcome of these matters will have a material adverse effect on the Company s consolidated financial position or results of operations. In addition, the Company maintains what it believes is adequate insurance coverage to further mitigate the risks of such proceedings. However, such proceedings can be costly, time consuming and unpredictable and, therefore, no assurance can be given that the final outcome of such proceedings may not materially impact the

Company s consolidated financial condition or results of operations. Further, no assurance can be given that the amount or scope of existing insurance coverage will be sufficient to cover losses arising from such matters.

The following proceedings could result in costs, settlements, damages, or rulings that materially impact the Company s consolidated financial condition or operating results. The Company believes that it has meritorious defenses, claims and/or counter-claims, and intends to vigorously defend itself or pursue its claims.

Gaming licenses in Iowa are typically issued jointly to a gaming operator and a local charitable organization known as a QSO. The agreement between the Company s gaming operator subsidiary in Iowa, Belle of Sioux City, L.P. (Belle), and its QSO, Missouri River Historical Development, Inc. (MRHD), expired in early July 2012. On July 12, 2012, when presented with an extension of the Company s QSO/operating agreement for the Sioux City facility through March 2015, the Iowa Racing and Gaming Commission (IRGC) failed to approve the extension and urged a shorter extension. In mid-August 2012, MRHD offered a revised contract to the Company that would require a yearly renewal from the IRGC and stated that MHRD would be able to continue searching for an operator for a new land-based casino. The Company rejected this contract offer and at the August 23, 2012 IRGC meeting urged the IRGC to reconsider the original extension offer through March 2015. The IRGC did not act on this request and, concluded that the casino can continue to operate without an effective operating agreement. The IRGC also announced at the July 12, 2012 meeting the schedule for requests for proposals for a new land-based Woodbury County casino. Applications and financing proposals were due by November 5, 2012. The Company submitted two proposals for a new gaming and entertainment destination in Woodbury County for the IRGC s consideration. On April 18, 2013, the IRGC awarded the license to another gaming operator. The IRGC has indicated that it intends to permit the Company to continue operations at its Sioux City facility until such time as the new

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casino opens to the public, but not beyond. The Company is currently reviewing all of its options and will maintain an open dialogue with members of the IRGC, Sioux City officials, and its employees regarding the IRGC s decision. However, in light of this decision, the Company believes that the fair value of its Sioux City reporting unit will be less than its carrying amount and expects to record a goodwill and other intangible impairment charge of between $65 million and $80 million in its results in the second quarter of 2013. The exact amount of the charge will be determined after the Company completes its analysis of the estimated future expected cash flows it anticipates receiving from the operations of its Sioux City facility. Argosy Casino Sioux City had remaining goodwill and other intangible assets of $92.8 million at March 31, 2013, and had net revenues and income from operations of $14.0 million and $3.7 million, respectively, for the three months ended March 31, 2013, which represented 1.8% and 2.8% of the Company s consolidated results. The Belle has filed three lawsuits against the IRGC s recent actions, namely refusing to consider the Belle s request to replace MRHD with another non-profit partner and opening up the gaming license to bidding for a land-based casino, its failure to approve the 2015 extension agreement and any extension, and announcing a process would be instituted to revoke the Belle s license. In addition, the Belle filed suit against MRHD for a breach of contract and seeking to enjoin MRHD from disavowing the 2015 extension agreement it signed and the exclusivity obligations in the agreement. The injunction request was denied on October 29, 2012. A trial has been scheduled to begin in April 2014.

On September 11, 2008, the Board of County Commissioners of Cherokee County, Kansas (the County) filed suit against Kansas Penn Gaming, LLC (KPG, a wholly owned subsidiary of Penn created to pursue a development project in Cherokee County, Kansas) and the Company in the District Court of Shawnee County, Kansas. The petition alleged that KPG breached its pre-development agreement with the County when KPG withdrew its application to manage a lottery gaming facility in Cherokee County and sought in excess of $50 million in damages. In connection with their petition, the County obtained an ex-parte order attaching the $25 million privilege fee (which was included in current assets at December 31, 2012) paid to the Kansas Lottery Commission in conjunction with the gaming application for the Cherokee County zone. The defendants filed motions to dissolve and reduce the attachment. Those motions were denied. Following discovery, both parties filed dispositive motions and the motions were argued on April 20, 2012. In September 2012, the judge ruled in favor of the County on its motion for summary judgment. At December 31, 2012, the Company accrued $6.4 million which was included in accrued expenses within the consolidated balance sheet, based on settlement discussions that took place in January 2013. In February 2013, the Company finalized the settlement with the County and the $25 million privilege fee was returned to the Company, net of the amount previously accrued.

8. Income Taxes

A reconciliation of the liability for unrecognized tax benefits is as follows:

		Noncurrent tax liabilities (in thousands)
Balance at January 1, 2013	$	20,393
Additions based on current year positions		280
Additions based on prior year positions		1,691
Currency translation adjustments		(607)
Balance at March 31, 2013	$	21,757

The increase in the Company s liability for unrecognized tax benefits during the three months ended March 31, 2013 was primarily due to recording interest expense accruals for previously recorded unrecognized tax benefits.

The Company s effective tax rate (income taxes as a percentage of income from operations before income taxes) increased to 39.6% for the three months ended March 31, 2013, as compared to 37.3% for the three months ended March 31, 2012. During the three months ended March 31, 2013, the Company recorded a $1.1 million valuation allowance against the tax benefit associated with capital losses incurred within the quarter that the Company does not believe it will be able to utilize prior to their expiration.

At March 31, 2013 and December 31, 2012, prepaid expenses within the condensed consolidated balance sheets include prepaid income taxes of $33.6 million and $68.4 million, respectively.

9. Shareholders Equity

Impact of Proposed Spin-Off on Preferred Equity Investment

As part of the proposed Spin-Off transaction described further in Note 2, the Company entered into an agreement (the Exchange Agreement) with FIF V PFD LLC, an affiliate of Fortress Investment Group LLC (Fortress), providing for the potential

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exchange of shares of the Company s Preferred Stock for shares of a new class of preferred stock, Series C Convertible Preferred Stock (Series C), in contemplation of the potential Spin-Off.

The Exchange Agreement provides Fortress with the right to exchange its 9,750 shares of Preferred Stock for fractional shares of Series C at an exchange ratio that treats each such fractional share (and therefore each share of common stock into which such fractional share is convertible) as worth $67 per share, which is the ceiling price at which the shares of preferred stock are redeemable by the Company at maturity. Each fractional share of Series C will automatically convert into a share of common stock upon sale to a third party not affiliated with Fortress. Any shares of Series B not exchanged for shares of Series C prior to the second business day before the record date established for the distribution of GLPI common stock in the Spin-Off shall automatically be exchanged for shares of Series C on such date. Subsequently, the Company will have the right to purchase from Fortress, prior to the record date for the Spin-Off, a number of shares of Series C, at a price of $67 per fractional share of Series C, such that, immediately following the consummation of the Spin-Off, Fortress will own not more than 9.9% of GLPI s common stock. The Company may terminate the Exchange Agreement at any time prior to the Spin-Off if it determines, in its sole discretion, to abandon the Spin-Off, provided that Fortress would keep any shares of Series C it received in exchange for preferred stock prior to termination.

Under the terms of the Statement with Respect to Shares of Series C Convertible Preferred Stock of the Company (the Series C Designation), the Series C is nonvoting stock, provided, however, that the Series C Designation cannot be altered or amended so as to adversely affect any right or privilege held by the holders of Series C shares without the consent of a majority of the shares of Series C then outstanding. Holders of Series C will participate in dividends paid to the holders of common stock of the Company on an as-converted basis. Each fractional share of Series C will automatically convert into a share of common stock upon sale to a third party not affiliated with the original holder.

The Company, Fortress and certain other holders of preferred stock are party to an Investor Rights Agreement, dated July 3, 2008 (the Investor Rights Agreement), that grants those holders certain rights with respect to the Company. In connection with the Exchange Agreement, Fortress and the Company entered into the Supplementary Investor Rights Agreement, which provides that, as between Fortress and the Company, the Series C shares will be governed by the Investor Rights Agreement, and modifies certain other existing arrangements between the Company and Fortress. The Supplementary Investor Rights Agreement provides Fortress with additional registration rights, beyond those currently set forth in the Investor Rights Agreement, including additional opportunities to sell shares of Series C stock in a registered offering, the right to select the managing underwriter in an underwritten offering prior to the Spin-Off and an increase in the registration expenses borne by the Company. The Supplementary Investor Rights Agreement also provides that, following the completion of the Spin-Off, the following rights and obligations under the Investor Rights Agreement would be eliminated: Fortress s right to nominate a director, the obligation of Fortress to vote its shares of common stock in accordance with the recommendations of the Company s Board of Directors, the restriction on hedging activities and certain information rights.

Additionally, the Exchange Agreement provides that, following the Spin-Off, GLPI and Fortress will enter into an investor rights agreement on similar terms to the Investor Rights Agreement as modified by the Supplemental Investor Rights Agreement.

Finally, in January 2013, the Company signed an agreement with Centerbridge Partners, L.P. pursuant to which the Company will repurchase their 2,300 shares of Preferred Stock at par in advance of the Spin-Off and in February 2013, the Company repurchased 225 shares of Preferred Stock from WF Investment Holdings, LLC at a slight discount to par.

10. Segment Information

The Company has aggregated its properties into three reportable segments: (i) Midwest, (ii) East/West, and (iii) Southern Plains, which is consistent with how the Company s Chief Operating Decision Maker reviews and assesses the Company s financial performance.

The Midwest reportable segment consists of the following properties: Hollywood Casino Lawrenceburg, Hollywood Casino Aurora, Hollywood Casino Joliet, Argosy Casino Alton, Hollywood Casino Toledo, which opened on May 29, 2012, and Hollywood Casino Columbus, which opened on October 8, 2012. It also includes the Company s Casino Rama management service contract and the Mahoning Valley and Dayton Raceway projects in Ohio which the Company anticipates completing in 2014.

The East/West reportable segment consists of the following properties: Hollywood Casino at Charles Town Races, Hollywood Casino Perryville, Hollywood Casino Bangor, Hollywood Casino at Penn National Race Course, Zia Park Casino, and the M Resort.

The Southern Plains reportable segment consists of the following properties: Argosy Casino Riverside, Argosy Casino Sioux City, Hollywood Casino Baton Rouge, Hollywood Casino Tunica, Hollywood Casino Bay St. Louis, Boomtown Biloxi, Hollywood

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Casino St. Louis (formerly Harrah s St. Louis which was acquired from Caesars Entertainment on November 2, 2012), and includes the Company s 50% investment in Kansas Entertainment, which owns the Hollywood Casino at Kansas Speedway that opened on February 3, 2012.

The Other category consists of the Company s standalone racing operations, namely Beulah Park, Raceway Park, Rosecroft Raceway, Sanford-Orlando Kennel Club, and the Company s joint venture interests in Sam Houston Race Park, Valley Race Park and Freehold Raceway. If the Company is successful in obtaining gaming operations at these locations, they would be assigned to one of the Company s regional executives and reported in their respective reportable segment. The Other category also includes the Company s corporate overhead operations which does not meet the definition of an operating segment under ASC 280, Segment Reporting, and the Bullwhackers property.

The following tables present certain information with respect to the Company s segments. Intersegment revenues between the Company s segments were not material in any of the periods presented below.

	Midwest	East/West	Southern Plains (in thousands)	Other	Total
Three months ended March 31, 2013					
Net revenues	$ 287,312	$ 317,048	$ 184,684	$ 9,202	$ 798,246
Income (loss) from operations	63,796	69,107	37,009	(36,597)	133,315
Depreciation and amortization	32,257	20,833	19,888	4,093	77,071
Gain (loss) from unconsolidated affiliates			1,737	(16)	1,721
Capital expenditures	33,830	7,071	19,027	2,775	62,703
Three months ended March 31, 2012					
Net revenues	205,110	370,629	149,720	10,600	736,059
Income (loss) from operations	46,281	83,891	44,712	(32,269)	142,615
Depreciation and amortization	17,552	22,241	11,388	2,156	53,337
Gain from unconsolidated affiliates			1,678	7	1,685
Capital expenditures	101,880	10,659	3,932	3,188	119,659
Balance sheet at March 31, 2013					
Total assets	2,300,768	1,188,482	1,673,197	403,129	5,565,576
Investment in and advances to unconsolidated affiliates		87	135,251	66,389	201,727
Goodwill and other intangible assets, net	1,025,295	226,047	778,913	55,818	2,086,073
Balance sheet at December 31, 2012					
Total assets	2,318,283	1,198,391	1,680,773	446,610	5,644,057
Investment in and advances to unconsolidated affiliates		87	138,514	65,905	204,506
Goodwill and other intangible assets, net	1,025,505	226,047	779,787	55,827	2,087,166

11. Fair Value of Financial Instruments

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate:

Cash and Cash Equivalents

The fair value of the Company s cash and cash equivalents approximates the carrying value of the Company s cash and cash equivalents, due to the short maturity of the cash equivalents.

Investment in Corporate Debt Securities

The fair value of the investment in corporate debt securities is estimated based on a third party broker quote. The investment in corporate debt securities is measured at fair value on a recurring basis.

Long-term Debt

The fair value of the Company s Term Loan B component of the senior secured credit facility and senior subordinated notes is estimated based on quoted prices in active markets and as such is a Level 1 measurement (see Note 12). The fair value of the remainder of the Company s senior secured credit facility approximates its carrying value as it is variable rate debt. The fair value of the Company s other long-term obligations approximates its carrying value.

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The estimated fair values of the Company s financial instruments are as follows (in thousands):

	March 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 247,702	$ 247,702	$ 260,467	$ 260,467
Investment in corporate debt securities	6,650	6,650	6,790	6,790
Financial liabilities:				
Long-term debt				
Senior secured credit facility	2,276,608	2,289,044	2,393,459	2,401,225
Senior subordinated notes	325,000	368,063	325,000	368,875
Other long-term obligations	10,000	10,000	10,000	10,000

12. Fair Value Measurements

ASC 820, Fair Value Measurements and Disclosures, establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques (market approach, income approach, and cost approach). The levels of the hierarchy are described below:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.

- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets, such as interest rates and yield curves that are observable at commonly quoted intervals.

- Level 3: Unobservable inputs that reflect the reporting entity s own assumptions, as there is little, if any, related market activity.

The Company s assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy.

The following tables set forth the assets measured at fair value on a recurring basis, by input level, in the condensed consolidated balance sheets at March 31, 2013 and December 31, 2012 (in thousands):

	Balance Sheet Location	Quoted Prices in Active Markets for Identical Assets or	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	March 31, 2013 Total

		Liabilities (Level 1)			
Assets:					
Investment in corporate debt securities	Other assets	$	$ 6,650	$	$ 6,650

	Balance Sheet Location	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	December 31, 2012 Total
Assets:					
Investment in corporate debt securities	Other assets	$	$ 6,790	$	$ 6,790

The valuation technique used to measure the fair value of the investment in corporate debt securities was the market approach. See Note 11 for a description of the input used in calculating the fair value measurement of investment in corporate debt securities.

There were no long-lived assets measured at fair value on a non-recurring basis during the three months ended March 31, 2013.

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13. Subsequent Event

On April 18, 2013, in connection with a request for proposal it issued in 2012, the IRGC awarded a new gaming license (with certain conditions) for the development of an additional casino in Sioux City, Iowa to another applicant. The IRGC has indicated that it intends to permit the Company to continue operations at its Sioux City facility until such time as the new casino opens to the public, but not beyond. The Company, which already has several legal actions pending that relate to this issue, is currently reviewing all of its options and will maintain an open dialogue with members of the IRGC, Sioux City officials, and its employees regarding the IRGC s decision. However, in light of this decision, the Company believes that the fair value of its Sioux City reporting unit will be less than its carrying amount and expects to record a goodwill and other intangible asset impairment charge of between $65 million and $80 million in its results for the second quarter of 2013. The exact amount of the charge will be determined after the Company completes its analysis of the estimated future expected cash flows it anticipates receiving from the operations of its Sioux City facility. This facility has goodwill and other intangible assets of $92.8 million at March 31, 2013 and had net revenues and income from operations of $14.0 million and $3.7 million, respectively, for the three months ended March 31, 2013, which represented 1.8% and 2.8% of the Company s consolidated results.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Operations

We are a leading, diversified, multi-jurisdictional owner and manager of gaming and pari-mutuel properties. As of March 31, 2013, we owned, managed, or had ownership interests in twenty-nine facilities in the following nineteen jurisdictions: Colorado, Florida, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Maryland, Mississippi, Missouri, Nevada, New Jersey, New Mexico, Ohio, Pennsylvania, Texas, West Virginia, and Ontario.

We have made significant acquisitions in the past, and expect to continue to pursue additional acquisition and development opportunities in the future. In 1997, we began our transition from a pari-mutuel company to a diversified gaming company with the acquisition of the Charles Town property and the introduction of video lottery terminals in West Virginia. Since 1997, we have continued to expand our gaming operations through strategic acquisitions (including the acquisitions of Hollywood Casino Bay St. Louis and Boomtown Biloxi, CRC Holdings, Inc., Hollywood Casino Corporation, Argosy Gaming Company, Zia Park Casino, Sanford-Orlando Kennel Club and M Resorts), greenfield projects (such as Hollywood Casino at Penn National Race Course, Hollywood Casino Bangor and Hollywood Casino Perryville), and property expansions (such as Hollywood Casino at Charles Town Races and Hollywood Casino Lawrenceburg). Most recently, we, along with our joint venture partner, opened Hollywood Casino at Kansas Speedway on February 3, 2012 and in Ohio, we opened our Hollywood Casino Toledo facility on May 29, 2012 and our Hollywood Casino Columbus facility on October 8, 2012. Finally, on November 2, 2012, we acquired Harrah s St. Louis facility, which we are in the process of rebranding to Hollywood Casino St. Louis.

The vast majority of our revenue is gaming revenue, derived primarily from gaming on slot machines (which represented approximately 84% and 88% of our gaming revenue in 2012 and 2011, respectively) and to a lesser extent, table games, which is highly dependent upon the volume and spending levels of customers at our properties. Other revenues are derived from our management service fee from Casino Rama, our hotel, dining, retail, admissions, program sales, concessions and certain other ancillary activities, and our racing operations. Our racing revenue includes our share of pari-mutuel wagering on live races after payment of amounts returned as winning wagers, our share of wagering from import and export simulcasting, and our share of wagering from our off-track wagering facilities.

Key performance indicators related to gaming revenue are slot handle and table game drop (volume indicators) and win or hold percentage. Our typical property slot hold percentage is in the range of 6% to 10% of slot handle, and our typical table game win percentage is in the range of 12% to 25% of table game drop.

Slot handle is the gross amount wagered for the period cited. The win or hold percentage is the net amount of gaming wins and losses, with liabilities recognized for accruals related to the anticipated payout of progressive jackpots. Our slot hold percentages have consistently been in the 6% to 10% range over the past several years. Given the stability in our slot hold percentages, we have not experienced significant impacts to earnings from changes in these percentages.

For table games, customers usually purchase cash chips at the gaming tables. The cash and markers (extensions of credit granted to certain credit worthy customers) are deposited in the gaming table s drop box. Table game win is the amount of drop that is retained and recorded as casino gaming revenue, with liabilities recognized for funds deposited by customers before gaming play occurs and for unredeemed gaming chips. As we are focused on regional gaming markets, our table win percentages are fairly stable as the majority of these markets do not regularly experience high-end play which can lead to volatility in win percentages. Therefore, changes in table game win percentages do not typically have a material impact to our earnings.

Our properties generate significant operating cash flow, since most of our revenue is cash-based from slot machines, table games, and pari-mutuel wagering. Our business is capital intensive, and we rely on cash flow from our properties to generate operating cash to repay debt, fund capital maintenance expenditures, fund new capital projects at existing properties and provide excess cash for future development and acquisitions.

We continue to expand our gaming operations through the implementation and execution of a disciplined capital expenditure program at our existing properties, the pursuit of strategic acquisitions and the development of new gaming properties, particularly in attractive regional markets. Current capital projects are ongoing at several of our properties. Additional information regarding our capital projects is discussed in detail in the section entitled Liquidity and Capital Resources Capital Expenditures below.

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Proposed Spin-Off of Real Estate Assets through a Real Estate Investment Trust

On November 15, 2012, we announced that we intend to pursue a plan to separate the majority of our gaming operating assets and real property assets into two publicly traded companies, including an operating entity, PNG, and, through a tax-free Spin-Off of our real estate assets to holders of our common and preferred stock, a newly formed publicly traded REIT, GLPI, subject to required gaming regulatory body approvals and other contingencies noted below. As a result of the proposed Spin-Off, GLPI will initially own substantially all of the real property assets and will lease back most of those assets to PNG for use by its subsidiaries, under a triple net 15 year Master Lease agreement (excluding four 5 year renewal options, which are at PNG s option). PNG would hold the gaming licenses, operate the leased gaming facilities and own and operate other assets, including the Casino Rama casino management contract, the 50% joint venture interest in Hollywood Casino at Kansas Speedway, seven non-casino racetracks and gaming equipment.

Based on the Company s current real estate portfolio, GLPI is expected to initially own the real estate for 17 casino facilities. Through its rent structure, which is partially based on the performance of the facilities, GLPI would expect to grow organically by participating in PNG s growing revenue base. In addition, GLPI would focus on expanding its gaming and leisure sector real estate portfolio through acquisitions, and thereby diversify its asset base and tenant base over time. GLPI will also own and operate Hollywood Casino Perryville and Hollywood Casino Baton Rouge through its taxable REIT subsidiary.

After the proposed Spin-Off of GLPI shares to the Company s shareholders, GLPI will declare a dividend to its shareholders to distribute any accumulated earnings and profits attributable to any pre-REIT years to comply with certain REIT qualification requirements. We currently estimate that, if GLPI were to elect REIT status as of January 1, 2014, the aggregate amount of the taxable dividend would be approximately $1.1 billion. The dividend will be paid in a combination of cash and GLPI common stock, which will consist of at least 20% in cash with the remainder in GLPI common stock. In addition, going forward, the Company expects that GLPI will distribute at least 90% of its annual taxable income as dividends.

Prior to the Spin-Off, the Company anticipates refinancing its existing debt obligations and PNG and GLPI are expected to enter into new credit facilities.

The Company has received a private letter ruling from the Internal Revenue Service relating to the tax treatment of the separation and the qualification of GLPI as a REIT. The private letter ruling is subject to certain qualifications and based on certain representations and statements made by the Company. If such representations and statements are untrue or incomplete in any material respect (including as a result of a material change in the proposed transaction or other relevant facts), the Company may not be able to rely on the private letter ruling. The Company expects to receive opinions from outside counsel regarding certain aspects of the transaction that are not covered by the private letter ruling.

The completion of the proposed transaction is contingent on receipt of regulatory approvals, which the Company anticipates could occur in the second half of 2013, the receipt of final approval by the Penn National Gaming Board of Directors, the receipt of legal and accounting opinions, and other customary conditions. The Company may, at any time and for any reason until the proposed Spin-Off is complete, abandon the Spin-Off or modify or change the terms of the Spin-Off.

Segment Information

We have aggregated our properties into three reportable segments: (i) Midwest, (ii) East/West, and (iii) Southern Plains, which is consistent with how our Chief Operating Decision Maker reviews and assesses our financial performance.

The Midwest reportable segment consists of the following properties: Hollywood Casino Lawrenceburg, Hollywood Casino Aurora, Hollywood Casino Joliet, Argosy Casino Alton, Hollywood Casino Toledo, which opened on May 29, 2012, and Hollywood Casino Columbus, which opened on October 8, 2012. It also includes our Casino Rama management service contract and the Mahoning Valley and Dayton Raceway projects in Ohio which we anticipate completing in 2014.

The East/West reportable segment consists of the following properties: Hollywood Casino at Charles Town Races, Hollywood Casino Perryville, Hollywood Casino Bangor, Hollywood Casino at Penn National Race Course, Zia Park Casino, and the M Resort.

The Southern Plains reportable segment consists of the following properties: Argosy Casino Riverside, Argosy Casino Sioux City, Hollywood Casino Baton Rouge, Hollywood Casino Tunica, Hollywood Casino Bay St. Louis, Boomtown Biloxi, Hollywood Casino St. Louis (formerly Harrah s St. Louis which was acquired from Caesars Entertainment on November 2, 2012), and includes our 50% investment in Kansas Entertainment, which owns the Hollywood Casino at Kansas Speedway that opened on February 3, 2012.

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The Other category consists of our standalone racing operations, namely Beulah Park, Raceway Park, Rosecroft Raceway, Sanford-Orlando Kennel Club, and our joint venture interests in Sam Houston Race Park, Valley Race Park and Freehold Raceway. If we are successful in obtaining gaming operations at these locations, they would be assigned to one of our regional executives and reported in their respective reportable segment. The Other category also includes our corporate overhead operations which does not meet the definition of an operating segment under Accounting Standards Codification 280, Segment Reporting, and our Bullwhackers property.

Executive Summary

Economic conditions continue to impact the overall domestic gaming industry as well as operating results. We believe that current economic conditions, including, but not limited to, high unemployment levels, low levels of consumer confidence, increased stock market volatility, and higher taxes, have resulted in reduced levels of discretionary consumer spending compared to historical levels.

We believe our strengths include our relatively low leverage ratios compared to the regional casino companies that we directly compete against and the ability of our operations to generate positive cash flow. These two factors have allowed us to develop what we believe to be attractive future growth opportunities. We have also made investments in joint ventures that we believe may allow us to capitalize on additional gaming opportunities in certain states if legislation or referenda are passed that permit and/or expand gaming in these jurisdictions and we are selected as a licensee.

Financial Highlights:

We reported net revenues and income from operations of $798.2 million and $133.3 million, respectively, for the three months ended March 31, 2013 compared to $736.1 million and $142.6 million, respectively, for the corresponding period in the prior year. The major factors affecting our results for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, were:

- The partial opening of a casino complex at the Arundel Mills mall in Maryland in June 2012 and its second phase opening in mid-September 2012, which negatively impacted Hollywood Casino at Charles Town Races and Hollywood Casino Perryville.

- The opening of Hollywood Casino Toledo on May 29, 2012, which generated $51.1 million of net revenues for the three months ended March 31, 2013.

- The opening of Hollywood Casino Columbus on October 8, 2012, which generated $63.6 million of net revenues for the three months ended March 31, 2013.

- New competition in our Midwest segment for Hollywood Casino Lawrenceburg, namely the opening on June 1, 2012 of a new racino in Columbus, Ohio, the March 4, 2013 opening of a casino in Cincinnati, Ohio, as well as our Columbus casino.

• The acquisition of Harrah s St. Louis facility, now known as Hollywood Casino St. Louis, on November 2, 2012, which contributed $57.8 million of net revenues for the three months ended March 31, 2013.

• The February 3, 2012 opening of our joint venture, Hollywood Casino at Kansas Speedway, which negatively impacted the results at our Argosy Riverside property in our Southern Plains segment.

• The opening of a new riverboat casino and hotel in Baton Rouge, Louisiana on September 1, 2012, which impacted Hollywood Casino Baton Rouge.

• A pre-tax insurance gain of $3.9 million at Hollywood Casino Tunica during the three months ended March 31, 2012.

• Net income decreased by $13.3 million for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the variances explained above, as well as increased depreciation and amortization expense of $23.7 million and interest expense of $9.9 million as well as decreased income taxes for $4.1 million.

Segment Developments:

The following are recent developments that have had or will have an impact on us by segment:

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Midwest

• In March 2012, we announced that we had entered into a non-binding memorandum of understanding (MOU) with the State of Ohio that establishes a framework for relocating our existing racetracks in Toledo and Grove City to Dayton and Austintown (located in the Mahoning Valley), respectively, where we intend to develop new integrated racing and gaming facilities, budgeted at approximately $257 million and $265 million, inclusive of $50 million in license fees and $75 million in relocation fees, respectively. Pursuant to this arrangement, the Ohio Lottery Commission would retain 33.5% of video lottery terminal revenues (exclusive of the horsemen s share). In addition, the MOU restricts any other gaming facility from being located within 50 miles of our Columbus and Toledo casinos, as well as our relocated racetracks, with certain exceptions. The definitive documentation of the MOU is not yet complete. In June 2012, we announced that we had filed applications with the Ohio Lottery Commission for Video Lottery Sales Agent Licenses for our Ohio racetracks, and with the Ohio State Racing Commission for permission to relocate the racetracks. The new Austintown facility, which will be a thoroughbred track and feature 1,000 or up to 1,500 video lottery terminals, will be located on 184 acres in Austintown s Centrepointe Business Park near the intersection of Interstate 80 and Ohio Route 46. The Dayton facility, which will be a standardbred track and feature 1,500 or up to 1,800 video lottery terminals, will be located on 125 acres on the site of an abandoned Delphi Automotive plant near Wagner Ford and Needmore roads in North Dayton. On May 1, 2013, the Company received approval from the Ohio Racing Commission for our relocation plans for each new racetrack and VLT facility and expects both to open in 2014. The opening of our Dayton facility may have an adverse impact on our Hollywood Casino Columbus facility.

• On October 21, 2011, the Ohio Roundtable filed a complaint in the Court of Common Pleas in Franklin County, Ohio against a number of defendants, including the Governor, the Ohio Lottery Commission and the Ohio Casino Control Commission. The complaint alleges a variety of substantive and procedural defects relative to the approval and implementation of video lottery terminals as well as several counts dealing with the taxation of standalone casinos. We, along with the other two casinos in Ohio, filed motions for judgment on the pleadings. In May 2012, the complaint was dismissed; however, the plaintiffs filed an appeal and oral arguments were held on January 17, 2013. In March 2013, the Ohio appeals court upheld the ruling. The decision of the appeals court was appealed to the Ohio Supreme Court by the plaintiffs on April 30, 2013. The Ohio Supreme Court has the discretion to accept or reject the appeal.

• On March 4, 2013, a new casino in Cincinnati, Ohio opened, which has had and will continue to have a negative impact on Hollywood Casino Lawrenceburg s financial results. In addition, on June 1, 2012, a new racino at Scioto Downs in Columbus, Ohio opened, which has also negatively impacted Hollywood Casino Lawrenceburg and competes in the same market as Hollywood Casino Columbus. Additionally, new racinos in Ohio are planned at Lebanon Raceway and River Downs, both of which hope to finish in early 2014. We anticipate the opening of these new racinos will have a further adverse impact on Hollywood Casino Lawrenceburg.

East/West

• In our East/West segment, Hollywood Casino at Charles Town Races and Hollywood Casino Perryville faced increased competition and their results have been and will continue to be negatively impacted by the opening of a casino complex at the Arundel Mills mall in Anne Arundel, Maryland. The casino opened on June 6, 2012 with approximately 3,200 slot machines and significantly increased its slot machine offerings by mid-September 2012 to approximately 4,750 slot machines. In addition, the Anne Arundel facility introduced table games on April 11, 2013, which will further negatively impact our Hollywood Casino at Charles Town Races facility.

• In November 2012, voters approved legislation authorizing a sixth casino in Prince George s County and the ability to add table games to Maryland s five existing and planned casinos. On March 5, 2013, table games were opened at Hollywood Casino Perryville. The new law also changes the tax rate casino operators pay the state, varying from casino to casino, allows all casinos in Maryland to be open 24 hours per day for the entire year, and permits casinos to directly purchase slot machines in exchange for gaming tax reductions. For our Hollywood Casino Perryville facility, the tax rate would decrease upon the opening of the Prince George casino from 67 percent to 61 percent with an option for an additional 5 percent reduction if an independent commission agrees. A separate state commission is expected to take bids for the Prince George s casino on May 10, 2013. Though we intend to participate in the bidding process, we believe another operator could be selected, and as a result our financial results would be adversely impacted as it would create additional competition for Hollywood Casino at Charles Town Races and Hollywood Casino Perryville.

Southern Plains

- Gaming licenses in Iowa are typically issued jointly to a gaming operator and a local charitable organization known as a QSO. The agreement between the Company s gaming operator subsidiary in Iowa, Belle, and its QSO, MRHD, expired in early July

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2012. On July 12, 2012, when presented with an extension of the Company s QSO/operating agreement for the Sioux City facility through March 2015, the IRGC failed to approve the extension and urged a shorter extension. In mid-August 2012, MRHD offered a revised contract to the Company that would require a yearly renewal from the IRGC and stated that MHRD would be able to continue searching for an operator for a new land-based casino. The Company rejected this contract offer and at the August 23, 2012 IRGC meeting urged the IRGC to reconsider the original extension offer through March 2015. The IRGC did not act on this request and, concluded that the casino can continue to operate without an effective operating agreement. The IRGC also announced at the July 12, 2012 meeting the schedule for requests for proposals for a new land-based Woodbury County casino. Applications and financing proposals were due by November 5, 2012. We submitted two proposals for a new gaming and entertainment destination in Woodbury County for the IRGC s consideration. On April 18, 2013, the IRGC awarded the license to another gaming operator. The IRGC has indicated that it intends to permit the Company to continue operations at its Sioux City facility until such time as the new casino opens to the public, but not beyond. We are currently reviewing all of our options and will maintain an open dialogue with members of the IRGC, Sioux City officials, and our employees regarding the IRGC s decision. However, in light of this decision, we believe the fair value of our Sioux City reporting unit will be less than its carrying amount and expect to record a goodwill and other intangible asset impairment charge of between $65 million and $80 million in our results for the second quarter of 2013. The exact amount of the charge will be determined after we complete our analysis of the estimated future expected cash flows we anticipate receiving from the operations of our Sioux City facility. Argosy Casino Sioux City had remaining goodwill and other intangible assets of $92.8 million at March 31, 2013, and had net revenues and income from operations of $14.0 million and $3.7 million, respectively, for the three months ended March 31, 2013, which represented 1.8% and 2.8% of the Company s consolidated results. The Belle has filed three lawsuits against the IRGC s recent actions, namely refusing to consider the Belle s request to replace MRHD with another non-profit partner and opening up the gaming license to bidding for a land-based casino, its failure to approve the 2015 extension agreement and any extension, and announcing a process would be instituted to revoke the Belle s license. In addition, the Belle filed suit against MRHD for a breach of contract and seeking to enjoin MRHD from disavowing the 2015 extension agreement it signed and the exclusivity obligations in the agreement. The injunction request was denied on October 29, 2012. A trial has been scheduled to begin in April 2014.

- On April 5, 2013, we announced that we and the Jamul Indian Village (the Tribe) have entered into definitive agreements to jointly develop a Hollywood-branded casino and resort on the Tribe s trust land in San Diego County, California. The proposed facility is located approximately 20 miles east of downtown San Diego. The proposed $360 million development will include a three-story gaming and entertainment facility of approximately 200,000 square feet featuring at least 1,700 slot machines, 50 live table games including poker, multiple restaurants, bars and lounges and a partially enclosed parking structure with over 1,900 spaces. It is anticipated that construction could commence late this year with an expected construction period of approximately 24 months. We may, under certain circumstances, provide backstop financing to the Tribe in connection with the project and, upon opening, we will manage the casino and resort.

- A new riverboat casino and hotel in Baton Rouge, Louisiana opened on September 1, 2012. The opening of this riverboat casino has and will continue to have an adverse effect on the financial results of Hollywood Casino Baton Rouge. In addition, a casino in Biloxi opened in late May 2012, which has and will continue to have an adverse effect on the financial results of our Boomtown Biloxi property.

Other

- In February 2013, we entered into a definitive agreement to sell our Bullwhackers property, including the gas station/convenience store located approximately 7 miles east of the Bullwhackers casino. We anticipate the sale will close in the second quarter of 2013 following the receipt of gaming regulatory approvals.

Critical Accounting Estimates

We make certain judgments and use certain estimates and assumptions when applying accounting principles in the preparation of our consolidated financial statements. The nature of the estimates and assumptions are material due to the levels of subjectivity and judgment necessary to account for highly uncertain factors or the susceptibility of such factors to change. We have identified the accounting for long-lived assets, goodwill and other intangible assets, income taxes and litigation, claims and assessments as critical accounting estimates, as they are the most important to our financial statement presentation and require difficult, subjective and complex judgments.

We believe the current assumptions and other considerations used to estimate amounts reflected in our consolidated financial statements are appropriate. However, if actual experience differs from the assumptions and other considerations used in estimating amounts reflected in our consolidated financial statements, the resulting changes could have a material adverse effect on our consolidated results of operations and, in certain situations, could have a material adverse effect on our consolidated financial condition.

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For further information on our critical accounting estimates, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and the notes to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012. There has been no material change to these estimates for the three months ended March 31, 2013.

Results of Operations

The following are the most important factors and trends that contribute to our operating performance:

- The fact that most of our properties operate in mature competitive markets. As a result, we expect a majority of our future growth to come from prudent acquisitions of gaming properties (such as our recent acquisition of Harrah s St. Louis gaming and lodging facility from Caesars Entertainment which closed on November 2, 2012), jurisdictional expansions (such as the February 2012 opening of a casino through a joint venture in Kansas, the May 2012 opening of Hollywood Casino Toledo, the October 2012 opening of Hollywood Casino Columbus, and the opening of video lottery terminal facilities at two racetracks in Ohio which are expected to commence operations in 2014), expansions of gaming in existing jurisdictions (such as the introduction of table games in July 2010 at Hollywood Casino at Charles Town Races and Hollywood Casino at Penn National Race Course, Hollywood Casino Bangor in March 2012, and more recently at Hollywood Casino Perryville in March 2013) and expansions/improvements of existing properties.

- The fact that a number of states are currently considering or implementing legislation to legalize or expand gaming. Such legislation presents both potential opportunities to establish new properties (for example, in Kansas where we opened a casino through a joint venture in February 2012, in Ohio where we opened a casino in Toledo in May 2012 and in Columbus in October 2012, and in Maryland where we opened Hollywood Casino Perryville on September 27, 2010) and increased competitive threats to business at our existing properties (such as the introduction/expansion of commercial casinos in Kansas, Maryland, Ohio, and potentially Kentucky, a new riverboat casino and hotel in Baton Rouge, Louisiana which opened on September 1, 2012, a new casino in Biloxi, Mississippi which opened in late May 2012, a new casino that opened in Oxford, Maine on June 5, 2012, and the introduction of tavern licenses and sweepstakes machines in several states).

- The actions of government bodies can affect our operations in a variety of ways. For instance, the continued pressure on governments to balance their budgets could intensify the efforts of state and local governments to raise revenues through increases in gaming taxes and/or property taxes, or via an expansion of gaming. In addition, government bodies may restrict, prevent or negatively impact operations in the jurisdictions in which we do business (such as the implementation of smoking bans).

- The continued demand for, and our emphasis on, slot wagering entertainment at our properties.

- The successful execution of the development and construction activities currently underway at a number of our facilities, as well as the risks associated with the costs, regulatory approval and the timing of these activities.

- The risks related to economic conditions and the effect of such conditions on consumer spending for leisure and gaming activities, which may negatively impact our operating results and our ability to continue to access financing at favorable terms.

The consolidated results of operations for the three months ended March 31, 2013 and 2012 are summarized below:

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	Three Months Ended March 31, 2013	2012
	(in thousands)	
Revenues:		
Gaming	$ 717,925	$ 656,077
Food, beverage and other	121,860	112,908
Management service fee	3,047	3,443
Revenues	842,832	772,428
Less promotional allowances	(44,586)	(36,369)
Net revenues	798,246	736,059
Operating expenses:		
Gaming	362,018	340,169
Food, beverage and other	90,265	87,804
General and administrative	135,577	115,997
Depreciation and amortization	77,071	53,337
Insurance recoveries, net of deductible charges		(3,863)
Total operating expenses	664,931	593,444
Income from operations	$ 133,315	$ 142,615

Certain information regarding our results of operations by segment for the three months ended March 31, 2013 and 2012 is summarized below:

	Net Revenues		Income (loss) from Operations	
Three Months Ended March 31,	**2013**	**2012**	**2013**	**2012**
	(in thousands)			
Midwest	$ 287,312	$ 205,110	$ 63,796	$ 46,281
East/West	317,048	370,629	69,107	83,891
Southern Plains	184,684	149,720	37,009	44,712
Other	9,202	10,600	(36,597)	(32,269)
Total	$ 798,246	$ 736,059	$ 133,315	$ 142,615

Revenues

Revenues for the three months ended March 31, 2013 and 2012 were as follows (in thousands):

Three Months Ended March 31,	**2013**	**2012**	**Variance**	**Percentage Variance**
Gaming	$ 717,925	$ 656,077	$ 61,848	9.4%
Food, beverage and other	121,860	112,908	8,952	7.9%
Management service fee	3,047	3,443	(396)	(11.5)%
Revenues	842,832	772,428	70,404	9.1%
Less promotional allowances	(44,586)	(36,369)	(8,217)	(22.6)%
Net revenues	$ 798,246	$ 736,059	$ 62,187	8.4%

In our business, revenue is driven by discretionary consumer spending, which has been impacted by weakened general economic conditions such as, but not limited to, high unemployment levels, low levels of consumer confidence, higher taxes, and increased stock market volatility.

We have no certain mechanism for determining why consumers choose to spend more or less money at our properties from period to period and as such cannot quantify a dollar amount for each factor that impacts our customers spending behaviors. However, based on our experience, we can generally offer some insight into the factors that we believe were likely to account for such changes. In instances where we believe one factor may have had a significantly greater impact than the other factors, we have noted

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that as well. However, in all instances, such insights are based only on our reasonable judgment and professional experience, and no assurance can be given as to the accuracy of our judgments.

Gaming revenue

Gaming revenue increased by $61.8 million, or 9.4%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the variances explained below.

Gaming revenue for our Midwest segment increased by $74.2 million, or 38.9%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the openings of Hollywood Casino Toledo on May 29, 2012 and Hollywood Casino Columbus on October 8, 2012, which generated $47.1 million and $57.9 million, respectively, of gaming revenue for the three months ended March 31, 2013, which was partially offset by a reduction in gaming revenue for Hollywood Casino Lawrenceburg due to new competition, namely the opening on June 1, 2012 of a new racino in Columbus, Ohio, our own Columbus casino, as well as a new casino that opened on March 4, 2013 in Cincinnati, Ohio.

Gaming revenue for our Southern Plains segment increased by $33.1 million, or 23.8%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the acquisition of Harrah s St. Louis facility on November 2, 2012, which generated $54.6 million of gaming revenue for the three months ended March 31, 2013, which was partially offset by decreased gaming revenue at Hollywood Casino Baton Rouge and to a lesser extent Argosy Casino Riverside primarily due to the opening of a new riverboat casino and hotel in Baton Rouge, Louisiana on September 1, 2012 and the continued impact of the opening of our Hollywood Casino at Kansas Speedway joint venture in February 2012, respectively.

Gaming revenue for our East/West segment decreased by $45.0 million, or 13.9%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the opening of a casino complex at the Arundel Mills mall in Maryland in 2012 which impacted Hollywood Casino at Charles Town Races and Hollywood Casino Perryville, as well as to a lesser extent a more severe winter compared to the prior year. Additionally, we experienced decreased gaming revenue at Hollywood Casino at Penn National Race Course primarily due to adverse weather compared to the prior year.

Food, beverage and other revenue

Food, beverage and other revenue increased by $9.0 million, or 7.9%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the variances explained below.

Food, beverage and other revenue for our Midwest segment increased by $10.3 million, or 48.5%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the openings of Hollywood Casino Toledo on May 29, 2012 and Hollywood Casino Columbus on October 8, 2012, which generated $4.9 million and $6.9 million, respectively of food, beverage and other revenue for the three months ended March 31, 2013.

Food, beverage and other revenue for our Southern Plains segment increased by $9.1 million, or 38.6%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the acquisition of Harrah s St. Louis facility on November 2, 2012, which contributed $10.9 million of food, beverage and other revenue for the three months ended March 31, 2013.

Food, beverage and other revenue for our East/West segment decreased by $9.5 million, or 16.2%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to decreased food, beverage and other revenue at the M Resort due to the sale of an on-site gas station in April 2012, which had sales of $5.3 million for the three months ended March 31, 2012, and the closure of a dining outlet, which lowered food and beverage revenue by $1.2 million for the three months ended March 31, 2013 compared to the corresponding period in the prior year.

Promotional allowances

The retail value of accommodations, food and beverage, and other services furnished to guests without charge is included in gross revenues and then deducted as promotional allowances. Our promotional allowance levels are determined based on various factors such as our marketing plans, competitive factors, economic conditions, and regulations.

Promotional allowances increased by $8.2 million, or 22.6%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the acquisition of Harrah s St. Louis facility on November 2, 2012 in our Southern Plains segment and the openings of Hollywood Casino Toledo on May 29, 2012 and Hollywood Casino Columbus on October 8, 2012 in our Midwest segment.

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Operating Expenses

Operating expenses for the three months ended March 31, 2013 and 2012 were as follows (in thousands):

Three Months Ended March 31,		2013		2012		Variance	Percentage Variance
Gaming	$	362,018	$	340,169	$	21,849	6.4%
Food, beverage and other		90,265		87,804		2,461	2.8%
General and administrative		135,577		115,997		19,580	16.9%
Depreciation and amortization		77,071		53,337		23,734	44.5%
Insurance recoveries, net of deductible charges				(3,863)		3,863	100.0%
Total operating expenses	$	664,931	$	593,444	$	71,487	12.0%

Gaming expense

Gaming expense increased by $21.8 million, or 6.4%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the variances explained below.

Gaming expense for our Midwest segment increased by $34.0 million, or 34.3%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the openings of Hollywood Casino Toledo on May 29, 2012 and Hollywood Casino Columbus on October 8, 2012. These increases were partially offset by an overall decrease in gaming taxes resulting from decreased taxable gaming revenue mentioned above for Hollywood Casino Lawrenceburg, as well as decreased payroll and marketing costs at this property due to increased cost management efforts.

Gaming expense for our Southern Plains segment increased by $17.3 million, or 33.6%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the acquisition of Harrah s St. Louis facility on November 2, 2012, which was partially offset by an overall decrease in gaming taxes resulting from decreased taxable gaming revenue mentioned above for Argosy Casino Riverside and Hollywood Casino Baton Rouge, as well as decreased payroll and marketing costs at these properties due to realignment of costs associated with lower business demand.

Gaming expense for our East/West segment decreased by $29.1 million, or 15.5%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to an overall decrease in gaming taxes resulting from decreased taxable gaming revenue mentioned above at Hollywood Casino at Charles Town Races, Hollywood Casino Perryville and Hollywood Casino at Penn National Race Course.

Food, beverage and other expense

Food, beverage and other expense increased by $2.5 million, or 2.8%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the variances explained below.

Food, beverage and other expense for our Midwest segment increased by $6.9 million, or 41.3%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the openings of Hollywood Casino Toledo on May 29, 2012 and Hollywood Casino Columbus on October 8, 2012.

Food, beverage and other expense for our Southern Plains segment increased by $5.2 million, or 26.6%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the acquisition of Harrah s St. Louis facility on November 2, 2012.

Food, beverage and other expense for our East/West segment decreased by $8.4 million, or 19.0%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the sale of an on-site gas station in April 2012 at the M Resort, which had expenses of $5.5 million for the three months ended March 31, 2012.

General and administrative expenses

General and administrative expenses include expenses such as compliance, facility maintenance, utilities, property and liability insurance, surveillance and security, and certain housekeeping services, as well as all expenses for administrative departments such as accounting, purchasing, human resources, legal and internal audit. General and administrative expenses also include lobbying expenses.

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General and administrative expenses increased by $19.6 million, or 16.9%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the variances explained below.

General and administrative expenses for our Midwest segment increased by $8.7 million, or 31.6%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due the openings of Hollywood Casino Toledo on May 29, 2012 and Hollywood Casino Columbus on October 8, 2012.

General and administrative expenses for our Southern Plains segment increased by $7.9 million, or 29.5%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the acquisition of Harrah s St. Louis facility on November 2, 2012.

General and administrative expenses for Other increased by $2.8 million, or 9.5%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to higher legal, consulting and other fees related to the pursuit of potential opportunities (primarily in the state of Massachusetts) and increased liability based stock compensation charges for the three months ended March 31, 2013 compared to the corresponding period in the prior year due to an increase in our common stock price.

Depreciation and amortization expense

Depreciation and amortization expense increased by $23.7 million, or 44.5%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the variances explained below.

Depreciation and amortization expense for our Midwest segment increased by $14.7 million, or 83.8%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the openings of Hollywood Casino Toledo on May 29, 2012 and Hollywood Casino Columbus on October 8, 2012.

Depreciation and amortization expense for our Southern Plains segment increased by $8.5 million, or 74.6%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the acquisition of Harrah s St. Louis facility on November 2, 2012.

Depreciation and amortization expense for Other increased by $1.9 million, or 89.8%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. This was caused by our decision in April 2012 to relocate our Ohio racetrack licenses at Raceway Park and Beulah Park to Dayton and Austintown, respectively, which resulted in the shortening of the useful lives of our property and equipment at our existing racetracks in order to fully depreciate these assets to their net salvage value by the anticipated relocation date in 2014.

Insurance recoveries, net of deductible charges

Insurance recoveries, net of deductible charges during the three months ended March 31, 2012 were related to a pre-tax insurance gain of $3.9 million for the flood at Hollywood Casino Tunica.

Other income (expenses)

Other income (expenses) for the three months ended March 31, 2013 and 2012 were as follows (in thousands):

Three Months Ended March 31,	**2013**	**2012**	**Variance**	**Percentage Variance**
Interest expense	$ (27,924)	$ (18,043)	$ (9,881)	(54.8)%
Interest income	262	219	43	19.6%
Gain from unconsolidated affiliates	1,721	1,685	36	2.1%
Other	664	(1,003)	1,667	166.2%
Total other expenses	$ (25,277)	$ (17,142)	$ (8,135)	(47.5)%

Interest expense

Interest expense increased by $9.9 million, or 54.8%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the higher outstanding borrowing on our senior secured credit facility from 2012 and lower capitalized interest for the three months ended March 31, 2013 compared to the corresponding period in the prior year.

Other

Other changed by $1.7 million, or 166.2%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to foreign currency translation gains for the three months ended March 31, 2013 compared to foreign currency translation losses for the three months ended March 31, 2012.

Taxes

Our effective tax rate (income taxes as a percentage of income from operations before income taxes) increased to 39.6% for the three months ended March 31, 2013, as compared to 37.3% for the three months ended March 31, 2012. During the three months ended March 31, 2013, the Company recorded a $1.1 million valuation allowance against the tax benefit associated with capital losses incurred within the quarter that the Company does not believe it will be able to utilize prior to their expiration.

Our projected annual effective tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings and the level of our tax credits. Certain of these and other factors, including our history of pre-tax earnings, are taken into account in assessing our ability to realize our net deferred tax assets.

Liquidity and Capital Resources

Historically, our primary sources of liquidity and capital resources have been cash flow from operations, borrowings from banks and proceeds from the issuance of debt and equity securities.

Net cash provided by operating activities totaled $133.8 million and $122.6 million for the three months ended March 31, 2013 and 2012, respectively. The increase in net cash provided by operating activities of $11.2 million for the three months ended March 31, 2013 compared to the corresponding period in the prior year comprised primarily of an increase in cash receipts from customers of $59.2 million, decreased income tax payments of $14.2 million, and receipt of cash from earnings of our joint venture in Kansas for $5.0 million, all of which were partially offset by an increase in cash paid to suppliers and vendors of $49.4 million, cash paid to employees of $12.7 million, and interest payments of $8.7 million. The increase in cash receipts collected from our customers and the increase in higher cash payments for operating expenses and to employees for the three months ended March 31, 2013 compared to the prior year was primarily due to the previously discussed openings of Hollywood Casino Toledo in late May 2012 and Hollywood Casino Columbus in early October 2012 and the acquisition of Harrah s St. Louis facility on November 2, 2012, partially offset by the impact of new competition on our operations for various properties.

Net cash used in investing activities totaled $35.8 million and $132.3 million for the three months ended March 31, 2013 and 2012, respectively. Net cash used in investing activities for the three months ended March 31, 2013 included expenditures for property and equipment, net of reimbursements totaling $62.7 million, acquisition of gaming licenses for $1.1 million for Hollywood Casino Toledo and Hollywood Casino Columbus, and investment in joint ventures of $0.5 million, all of which were partially offset by a decrease in cash in escrow of $26.0 million and proceeds from the sale of property and equipment totaling $2.5 million. The decrease in net cash used in investing activities of $96.5 million for the three months ended March 31, 2013 compared to the corresponding period in the prior year was primarily due to decreased expenditures for property and equipment of $57.0 million primarily due to the opening of our two new facilities in Ohio in 2012 as well as decreased funding provided to our joint venture in Kansas.

Net cash used in financing activities totaled $110.7 million and $11.3 million for the three months ended March 31, 2013 and 2012, respectively. The increase in net cash used in financing activities for the three months ended March 31, 2013 compared to the corresponding period in the prior year was primarily due to higher net repayments to our senior secured credit facility and the repurchase of preferred stock for $22.3 million, both of which were offset by increased insurance financing and proceeds from the exercise of options.

Capital Expenditures

Capital expenditures are accounted for as either capital project or capital maintenance (replacement) expenditures. Capital project expenditures are for fixed asset additions that expand an existing facility or create a new facility. Capital maintenance expenditures are expenditures to replace existing fixed assets with a useful life greater than one year that are obsolete, worn out or no longer cost effective to repair.

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The following table summarizes our expected capital project expenditures by segment for the fiscal year ending December 31, 2013, and actual expenditures for the three months ended March 31, 2013 (excluding licensing fees and net of reimbursements). The table below should not be utilized to predict future expected capital project expenditures subsequent to 2013.

Property	**Expected for Year Ending December 31, 2013**	**Expenditures for Three Months Ended March 31, 2013 (in millions)**	**Balance to Expend in 2013**
Midwest	$ 210.4	$ 27.8	$ 182.6
East/West	11.5	0.2	11.3
Southern Plains	48.3	12.6	35.7
Other	2.8	0.2	2.6
Total	$ 273.0	$ 40.8	$ 232.2

In June 2012, we announced that we had filed applications with the Ohio Lottery Commission for Video Lottery Sales Agent Licenses for our Ohio racetracks, Raceway Park and Beulah Park, and with the Ohio State Racing Commission for permission to relocate the racetracks to Dayton and Austintown, respectively. On May 1, 2013, we received approval from the Ohio Racing Commission for our relocation plans. Full details and design of the project at Austintown are in the development stage for a new Hollywood-themed facility, with a $265 million budget, inclusive of a $75 million relocation fee and $50 million license fee, featuring a new thoroughbred racetrack and up to 1,500 video lottery terminals, as well as various restaurants, bars and other amenities. The new Austintown facility will be located on 184 acres in Austintown s Centrepointe Business Park near the intersection of Interstate 80 and Ohio Route 46. The Dayton facility will be located on 125 acres on the site of an abandoned Delphi Automotive plant near Wagner Ford and Needmore roads in North Dayton. Full details and design of the Dayton project are in the development stage for a new Hollywood-themed facility, with a $257 million budget, inclusive of a $75 million relocation fee and $50 million license fee, featuring a new standardbred racetrack and up to 1,800 video lottery terminals, as well as various restaurants, bars and other amenities. As of March 31, 2013, we have incurred cumulative costs of $10.7 million and $8.2 million for the Austintown facility and the Dayton facility, respectively.

During the three months ended March 31, 2013, we spent approximately $21.9 million for capital maintenance expenditures, with $6.0 million at our Midwest segment, $6.9 million at our East/West segment, $6.4 million at our Southern Plains segment, and $2.6 million for Other. The majority of the capital maintenance expenditures were for slot machines and slot machine equipment.

Cash generated from operations and cash available under the revolving credit facility portion of our senior secured credit facility have funded our capital project and capital maintenance expenditures in 2013 to date.

Debt

Our senior secured credit facility had a gross outstanding balance of $2,278.1 million at March 31, 2013, consisting of a $1,028.8 million Term Loan A facility and a $1,249.3 million Term Loan B facility. No balances were outstanding on the revolving credit facility at March 31, 2013. Additionally, at March 31, 2013, we were contingently obligated under letters of credit issued pursuant to the senior secured credit facility with face amounts aggregating $73.2 million, resulting in $711.8 million of available borrowing capacity as of March 31, 2013 under the revolving credit facility.

Covenants

Our senior secured credit facility and $325 million 83/4% senior subordinated notes require us, among other obligations, to maintain specified financial ratios and to satisfy certain financial tests, including fixed charge coverage, interest coverage, senior leverage and total leverage ratios. In addition, our senior secured credit facility and $325 million 83/4% senior subordinated notes restrict, among other things, our ability to incur additional indebtedness, incur guarantee obligations, amend debt instruments, pay dividends, create liens on assets, make investments, engage in mergers or consolidations, and otherwise restrict corporate activities.

At March 31, 2013, we were in compliance with all required financial covenants.

Outlook

Based on our current level of operations and anticipated earnings growth, we believe that cash generated from operations and cash on hand, together with amounts available under our senior secured credit facility, will be adequate to meet our anticipated debt

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service requirements, capital expenditures and working capital needs for the foreseeable future. However, we cannot be certain that our business will generate sufficient cash flow from operations, that our anticipated earnings growth will be realized, or that future borrowings will be available under our senior secured credit facility or otherwise will be available to enable us to service our indebtedness, including the senior secured credit facility and the senior subordinated notes, to retire or redeem the senior subordinated notes when required or to make anticipated capital expenditures. In addition, we expect a majority of our future growth to come from acquisitions of gaming properties at reasonable valuations, greenfield projects, jurisdictional expansions and property expansion in under-penetrated markets. If we consummate significant acquisitions in the future or undertake any significant property expansions, our cash requirements may increase significantly and we may need to make additional borrowings or complete equity or debt financings to meet these requirements. Our future operating performance and our ability to service or refinance our debt will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control. See Risk Factors Risks Related to Our Capital Structure in our Annual Report on Form 10-K for the year ended December 31, 2012 for a discussion of the risk related to our capital structure.

We have historically maintained a capital structure comprising a mix of equity and debt financing. We vary our leverage to pursue opportunities in the marketplace and in an effort to maximize our enterprise value for our shareholders. We expect to meet our debt obligations as they come due through internally generated funds from operations and/or refinancing them through the debt or equity markets prior to their maturity.

As discussed earlier in connection with our proposed Spin-Off, we will redeem our $325 million 83/4% senior subordinated notes and refinance our existing remaining debt obligations at the time of the Spin-Off and both the surviving operating gaming company, PNG, and GLPI will enter into new credit facilities.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The table below provides information at March 31, 2013 about our financial instruments that are sensitive to changes in interest rates. For debt obligations, the table presents notional amounts maturing during the period and the related weighted-average interest rates by maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged by maturity date and the weighted-average interest rates are based on implied forward LIBOR rates at March 31, 2013.

	04/01/13 - 03/31/14	04/01/14 - 03/31/15	04/01/15 - 03/31/16	04/01/16 - 03/31/17	04/01/17 - 03/31/18	Thereafter	Total	Fair Value 03/31/13
				(in thousands)				
Long-term debt:								
Fixed rate	$	$	$	$	$	$ 325,000	$ 325,000	$ 368,063
Average interest rate						8.75%		
Variable rate	$ 88,275	$ 115,775	$ 122,650	$ 752,650	$ 12,650	$ 1,186,050	$ 2,278,050	$ 2,289,044
Average interest rate (1)	2.75%	2.95%	3.22%	3.38%	4.58%	4.77%		

(1) Estimated rate, reflective of forward LIBOR plus the spread over LIBOR applicable to variable-rate borrowing.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Controls and Procedures

The Company s management, under the supervision and with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the Company s disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of March 31, 2013, which is the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well-designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that the Company s disclosure controls and procedures were effective as of March 31, 2013 to ensure that information required to be disclosed by the Company in reports we file or submit under the Exchange Act is (i) recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the United States Securities and Exchange Commission s rules and forms and (ii) accumulated and communicated to the Company s management, including the Company s principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

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Changes in Internal Control over Financial Reporting

There were no changes that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonable likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1 Legal Proceedings

Information in response to this Item is incorporated by reference to the information set forth in Note 7: Commitments and Contingencies in the Notes to the condensed consolidated financial statements in Part I of this Quarterly Report on Form 10-Q.

ITEM 1A Risk Factors

We are not aware of any material changes to the risk factors described in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program
January 1, 2013 - January 31, 2013		N/A	N/A	$ 160,158,751
February 1, 2013 - February 28, 2013	7,737	51.10	N/A	160,158,751
March 1, 2013 - March 31, 2013		N/A	N/A	160,158,751

(1) In July 2008, the Company announced the Board of Directors authorized the repurchase of up to $200 million of the Company s common stock. This authorization has been increased and extended several times since 2008, and as of March 31, 2013, there remains available authorization of $160.2 million, which will expire at the Annual Meeting of Shareholders in 2013, unless otherwise extended or shortened by the Board of Directors. The shares repurchased in the table above represent repurchases of shares from employees who surrendered a portion of their shares received through the Company s stock based compensation plans to cover their associated minimum income tax liabilities.

ITEM 3 Defaults upon Senior Securities

Not applicable.

ITEM 4 Mine Safety Disclosures

Not applicable.

ITEM 5 Other information

Not applicable.

ITEM 6. EXHIBITS

Exhibit	**Description of Exhibit**
10.1*	Penn National Gaming, Inc. Deferred Compensation Plan as amended.

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31.1*	CEO Certification pursuant to rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
31.2*	CFO Certification pursuant to rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
32.1*	CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets at March 31, 2013 and December 31, 2012, (ii) the Condensed Consolidated Statements of Income for the three months ended March 31, 2013 and 2012, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012, (iv) the Condensed Consolidated Statements of Changes in Shareholders Equity for the three months ended March 31, 2013 and 2012, (v) the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012 and (vi) the notes to the Condensed Consolidated Financial Statements, tagged as blocks of text.

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* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	PENN NATIONAL GAMING, INC.	
May 3, 2013	By:	/s/ William J. Clifford William J. Clifford Senior Vice President Finance and Chief Financial Officer (Principal Financial Officer)

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EXHIBIT INDEX

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