

**AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF  
PENN NATIONAL GAMING, INC.**

**CHARTER**

**I. PURPOSE**

The Audit Committee (the “Audit Committee”) of the Board of Directors (the “Board”) of Penn National Gaming, Inc. (the “Company”) shall assist the Board in monitoring (a) the integrity of the financial statements of the Company, (b) the independent auditor’s qualifications and independence, (c) the performance of the Company’s internal audit function and independent auditors, and (d) the compliance by the Company with certain legal and listing requirements. The Audit Committee’s primary duties and responsibilities include:

- Serving as an independent and objective party to monitor the Company’s financial reporting process and internal control system.
- Reviewing and appraising the audit efforts of the Company’s independent accountants and internal auditors and monitoring their independence.
- Maintaining free and open communication with and among the independent accountants, the internal auditors, and financial and senior management of the Company and the Board.

In discharging this oversight role, the Audit Committee is empowered to investigate any matter brought to its attention and any other matters that the Audit Committee believes should be investigated. The Audit Committee may at any time engage, and the Company will provide appropriate funding for, independent counsel or other advisors and ordinary administrative expenses that the Audit Committee deems necessary or appropriate in carrying out its duties. The Audit Committee will primarily fulfill these responsibilities by carrying out the activities enumerated in Section IV of this Charter.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits, assure compliance with certain laws and listing standards, assure compliance with the Company’s Code of Business Conduct, or determine that the Company’s financial statements are complete and accurate and prepared in accordance with generally accepted accounting principles. These duties are the responsibility of management.

**II. COMPOSITION**

The Audit Committee shall be comprised of no fewer than three directors, each of whom shall meet the “independence” requirements of NASDAQ and the rules and regulations of the Securities and Exchange Commission (the “SEC”). All members of the Audit Committee shall be able to read and understand fundamental financial statements, including a company’s balance sheet, income statement, and cash flow statement at the time of his or her appointment to the Audit Committee. The Company is responsible for providing the Committee with educational resources

pertinent to the Company and other matters as may be requested by the Committee. At least one member of the Audit Committee shall be an "audit committee financial expert" as defined by the rules and regulations of the SEC within the time prescribed by applicable law or listing standards, or the Company will publicly disclose why it does not comply with this requirement.

The members of the Audit Committee shall be elected by the Board at the annual organizational meeting of the Board and shall serve until their successors shall be duly elected and qualified. Audit Committee members may be removed or replaced by a majority vote of the Board. Unless an Audit Committee Chair is elected by the full Board, the members of the Audit Committee may designate a Chair by majority vote of the Audit Committee.

### **III. MEETINGS**

The Audit Committee shall meet as often as it deems necessary, but no less frequently than quarterly.

In discharging its responsibility to foster open communications, the Audit Committee shall meet at least annually with management and the independent auditors in separate executive sessions to discuss any matters that the Audit Committee or either of these groups believe should be discussed privately. In addition, the Audit Committee may request any officer, employee or agent of the Company to attend an Audit Committee meeting or to meet with members of the Audit Committee.

The Audit Committee shall meet with the independent auditors and/or management quarterly to review the Company's financial statements consistent with Section IV below.

The Audit Committee may also act by unanimous written consent without a meeting.

### **IV. RESPONSIBILITIES AND DUTIES**

The Audit Committee shall:

#### **A. Documents/Reports Review**

1. Annually review and reassess this Charter.
2. Submit all proposed revisions to this Charter to the Board for approval and confirm with management that the Charter is disclosed in accordance with the rules and regulations of the SEC and applicable listing standards.
3. Review and discuss the Company's audited financial statements for each fiscal year with management and the independent auditors; review the written disclaimer and the letter from the independent auditors required by PCAOB Rule 3526, as it may be modified or supplemented; and discuss with the independent auditors their independent status. Based on the review and discussions in the preceding sentence, make a recommendation to the Board on inclusion of the audited financial statements in the Company's Annual Report on Form 10-K for each fiscal year. The Audit Committee

shall review any certification, report or opinion rendered by the independent auditors in connection with the audited annual financial statements.

4. Review and discuss, with management and the independent auditors, adjustments recorded as a result of the audit of the Company's financial statements for each fiscal year, and the effects of audit findings that were not adjusted in the underlying accounting records of the Company.
5. Review, discuss and assess, with management and the independent auditors, the impact of new accounting pronouncements on the Company's financial statements and related disclosures.
6. Review with management and the independent auditors the matters that the independent auditors are required to communicate to the Audit Committee as a result of their review of the Company's interim financial information to be included in periodic reports to be filed with the SEC.
7. Discuss with management and the independent auditors significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies, and such other matters that the Audit Committee deems appropriate.
8. Inquire of management and the independent auditors if any correspondence or published reports that raise material issues regarding the Company's financial statements or accounting policies have been received from regulators or governmental agencies.
9. Confirm management has included a report on the Audit Committee in all proxies and information statements, as required by applicable laws or listing standards.

**B. Independent Auditors**

1. Exercise sole authority within the Company to appoint, determine the scope of services, compensation and funding for, oversee and, where appropriate, discharge and replace the independent auditors. The independent auditors shall report directly to the Audit Committee and shall be evaluated by the Audit Committee.
2. Determine the independence of the independent auditors by: (i) reviewing and considering the written disclosures and the letter from the independent auditors required by PCAOB Rule 3526, as it may be modified or supplemented, that they are independent; (ii) actively engaging in a discussion with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence

of the independent auditors; and (iii) taking, or recommending that the Board take, appropriate action to oversee the independence of the independent auditors.

3. Approve, in advance, the nature, timing and scope of (a) the proposed audit of the Company's financial statements for each fiscal year and the procedures to be utilized in each such audit and (b) all other audit and audit-related services. The Audit Committee may delegate such pre-approval authority to a subcommittee of the Audit Committee and any pre-approval granted pursuant to such delegation shall be presented to the full Audit Committee at its next scheduled meeting.
4. Approve, in advance, all requests by management for permissible non-audit services to be provided to the Company by the independent auditors. The Audit Committee may delegate such pre-approval authority to a subcommittee of the Audit Committee and any pre-approval granted pursuant to such delegation shall be presented to the full Audit Committee at its next scheduled meeting.
5. On a timely basis, obtain from the independent auditors and review, in connection with each audit, a report to the Audit Committee setting forth (a) all critical accounting policies and practices to be used; (b) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors; and (c) other material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.
6. Obtain from the independent auditors for the Audit Committee's review and comment a report at least annually regarding:
  - a. the independent auditors' internal quality-control procedures;
  - b. any material issues raised by the most recent internal quality-control review or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years regarding one or more independent audits carried out by the firm;
  - c. any steps taken to deal with any such issues; and
  - d. all relationships between the independent auditors and the Company.
7. Obtain from the independent auditors a confirmation to the Audit Committee regarding the rotation of the lead (or coordinating) audit partner

having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by applicable law or listing standards.

8. Recommend to the Board policies for the Company's hiring of employees or former employees of the independent auditors who participated in any capacity in the audit of the Company.
9. Provide the independent auditors with full access to the Audit Committee and the Board to report on any and all matters deemed appropriate by the independent auditors.
10. Annually, or more frequently to the extent necessary, consult with the independent auditors outside the presence of management regarding internal controls and the completeness and accuracy of the Company's annual financial statements.
11. Direct the attention of independent auditors towards specific matters or areas deemed to be of special significance, and authorize the independent auditors to perform supplemental reviews or audits that the Audit Committee may deem advisable.

**C. Internal Auditing**

1. Participate in the appointment, promotion, or dismissal of the Company's head of internal audit.
2. Assist with the development and approval of the internal audit department's mandate, goals and mission.
3. Annually review the internal audit department's budget, plan, activities and organizational structure.
4. Review significant reports prepared by the internal audit department together with management's response and follow-up to these reports.
5. Review with the internal auditors the results of the Internal Audit department's monitoring of compliance with the Company's Code of Business Conduct.
6. Review the performance of the internal audit department.

**D. Financial Reporting Processes**

1. Prior to filing the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, review and discuss the Company's financial statements with management and the independent auditors.

2. Prior to disclosure, review and discuss with management the Company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.
3. Review and discuss, with management and the independent auditors, any reports on the Company's internal accounting controls rendered by the independent auditors. The review shall include discussions regarding the quality, adequacy and effectiveness of the Company's accounting and financial controls including computerized information system controls and security.
4. Obtain from the officers providing certifications required in connection with the filing of the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, and review with management, disclosure of (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and any material weaknesses in internal controls and (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls.
5. For the Company's Annual Report on Form 10-K, review and comment on the independent auditor's report on the Company's internal control over financial reporting, as required by section 404 of the Sarbanes-Oxley Act of 2002 and the rules and regulations of the SEC.
6. Review and comment on the integrity of the Company's financial reporting processes, both internal and external, by consultation with the independent auditors at least once annually.
7. Review the independent auditors' judgments regarding the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.
8. Consider significant changes to the Company's accounting principles and practices as suggested by the independent auditors or management.
9. Make periodic inquiries, but no less than annually, of management and the independent auditors with regard to significant risks and exposures facing the Company and assess the steps management has taken to minimize such risks.
10. Make inquiries, at least quarterly, of management and the independent auditors with regard to any off-balance-sheet transactions and assess the purpose, need and risks.

**E. Process Improvement**

1. No less than annually, the Audit Committee should independently address with management and the independent auditors any significant accounting policies, procedures and judgments made by management in the preparation of the annual financial statements.
2. Subsequent to the completion of the annual audit, review separately with management and the independent auditors any significant difficulties encountered during the course of the audit, significant changes in the audit plan or scope of work and any restrictions on the scope of work or access to required information.
3. Review and comment on any significant disagreement among management and the independent auditors in connection with the preparation of the financial statements.
4. Review and comment on significant findings during the year with management and the independent auditors, including status of previous audit recommendations.
5. Review, with the independent auditors and management, the extent to which changes or improvements in financial or accounting practices have been implemented. These reviews should be conducted at appropriate times subsequent to implementation of changes or improvements, as decided by the Audit Committee.

**F. Ethical and Legal Compliance**

1. Annually review the Company's Code of Business Conduct. Annually review and comment on the procedures that management has established to administer and enforce the Company's Code of Business Conduct.
2. Along with management, ensure adequate procedures are in place and being adhered to for receiving and handling complaints regarding accounting, internal controls or auditing matters and the confidential, anonymous submission of information by employees regarding questionable accounting, internal controls or auditing matters.
3. Review and pre-approve conflicts of interest and related party transactions in accordance with the Company's Corporate Governance Guidelines.
4. Review with corporate counsel any legal compliance matters, including corporate securities trading policies, as may be deemed appropriate by the Audit Committee.
5. Discuss with management and with corporate counsel the status of material matters such as pending litigation, taxation matters and other areas of

oversight to the legal and compliance area as may be appropriate by the Audit Committee.

6. Perform any other activities consistent with this Charter, the Company's By-laws and governing law, as the Audit Committee or the Board deems necessary or appropriate.

**G. Audit Committee Reporting**

1. Provide periodic reports to the Board regarding the activities of the Audit Committee.
2. Issue such reports as may be required by the SEC for inclusion in the Company's annual proxy statement, or as otherwise required by applicable laws or listing standards.