



# GREAT CANADIAN GAMING CORPORATION

## MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2005

*As at March 30, 2006*

*(Unless otherwise stated, expressed in thousands, except for share and per share information)*

## GREAT CANADIAN GAMING CORPORATION

### Management Discussion & Analysis

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#### FINANCIAL REVIEW SUMMARY

	Quarter ended December 31,		Year ended December 31,		
	2005	2004	2005	2004	2003
Revenues	\$ 85,559	\$ 54,602	\$ 278,104	\$ 175,670	\$ 114,482
EBITDA	\$ 9,603	\$ 17,839	\$ 65,363	\$ 55,580	\$ 36,816
Net income (loss)	\$ (9,165)	\$ 9,686	\$ 19,579	\$ 26,725	\$ 14,371
Earnings (loss) per common share:					
Basic	\$ (0.12)	\$ 0.14	\$ 0.26	\$ 0.41	\$ 0.26
Diluted	\$ (0.12)	\$ 0.13	\$ 0.25	\$ 0.38	\$ 0.25
Total assets			\$ 918,670	\$ 362,415	\$ 156,460
Total long-term liabilities			\$ 526,520	\$ 166,372	\$ 29,789

For the year ended December 31, 2005, Great Canadian Gaming Corporation (the “Company”, “we”, and “our”) reached revenues of \$278.1 million, an increase of 58% from the prior year. For the quarter ended December 31, 2005, revenues were \$85.6 million, an increase of 57% from the same quarter in 2004 and 17% from the third quarter of 2005.

During 2005, the Company continued to deliver on its initiatives to acquire strategic properties, complete capital expansions and increase non-gaming activities to achieve long-term revenue growth. We completed four significant acquisitions in 2005: Orangeville Raceway Limited (operating Fraser Downs Racetrack and Casino (“Fraser Downs”) and Sandown Park (“Sandown”) in March, Metropolitan Entertainment Group (operating Casino Nova Scotia Halifax (“CNS Halifax”) and Casino Nova Scotia Sydney (“CNS Sydney”) in May, Georgian Downs Limited in September and Flamboro Downs Holdings Limited in October.

In August and September 2005, we opened the final phase of the River Rock Casino Resort (“River Rock”) with a hotel, theatre and additional food and beverage outlets to complement the casino, which opened in June 2004. In October 2005, we formally opened the Fraser Downs’ renovation and expansion of the casino, grandstand, main entrance, simulcast area, parking lot and food and beverage facilities. In November 2005, we opened the Coquitlam Boulevard Casino (“Boulevard”) expansion, which more than tripled the area of the gaming floor and added a 1,654 car multi-level parkade.

2005 was a year defined by the acquisitions and expansions of gaming assets. However, our cost and cost structure are reflective of a company that has acquired several gaming opportunities and expanded major properties within a condensed period of time.

EBITDA (defined under “Introduction – Non-GAAP Measures”) increased to \$65.4 million for 2005, an increase of 18% from the prior year. EBITDA was \$9.6 million for the fourth quarter of 2005, a decrease of 46% from the prior year and a decrease of 51% from the third quarter of 2005. Despite the increased scope of the Company’s operations, EBITDA for the fourth quarter of 2005 was negatively affected by pre-opening labour and costs and start-up inefficiencies associated with expansions, higher labour and overheads to digest with the Company’s rapid

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growth, and low EBITDA margins on non-gaming activities.

We estimate that approximately \$5.0 million of unusual costs affected the Company's EBITDA for the fourth quarter of 2005.

These costs included:

- \$1.4 million at River Rock. This amount includes initial marketing and advertising for the new hotel and theatre, food and beverage start-up costs, and theatre opening gala and entertainment costs.
- \$1.3 million at Boulevard. This amount includes initial marketing and promotion costs, and pre-opening hiring, training, and labour costs at the facility, which opened later than originally scheduled.
- \$2.3 million of corporate costs. This amount includes a \$1.4 million adjustment to reflect a discount on the British Columbia Lottery Corporation ("BCLC") Facility Development Improvement Fund ("FDIF") approval towards operating expenditures. The remaining additional corporate costs are related to integration activities, professional and consulting fees and third party training programs.

Food and beverage operations at River Rock and Boulevard, and hotel and theatre operations at River Rock recorded low EBITDA margins in the fourth quarter. The food and beverage operations at River Rock and Boulevard recorded a 0% EBITDA margin and hotel operations at River Rock recorded a 6% EBITDA margin after adjustment for occupancy and unusual costs in the fourth quarter of 2005. The theatre recorded a loss of \$0.9 million, after adjustment for unusual costs in the fourth quarter of 2005.

Prior to the opening of the expanded facilities at Boulevard on November 17, 2005, the gaming operations were affected by the increasing requirements of construction. Tables, slots, and parking availability were reduced during final phases of construction. The potential fourth quarter EBITDA loss from the reduced operations was estimated at \$0.4 million, which is excluded from the unusual costs estimated above.

In the fourth quarter, the Company recorded increases, as compared to prior quarters, in non-cash amortization expenses, primarily from the amortization of intangible assets associated with acquisitions, higher non-cash stock-based compensation expenses, primarily from stock options granted in 2005, and higher financing charges, primarily from increased debt issued during the year to fund both acquisitions and expansions and a cessation of the capitalization of interest charges to development projects, which were completed. The fourth quarter's income tax provision was reduced by \$1.5 million, primarily as a result of a statutory income tax rate reduction's effect on future income taxes.

The Company wrote down non-core investments by \$7.9 million (after-tax \$7.9 million) in the fourth quarter to reflect management's estimate of impairment. Of this amount, \$7.5 million represents a write-off of the Company's investment in the preference and common shares of Creation Casinos Inc. ("Creation"). On February 27, 2006, Creation announced that it had ceased operation of its only operating asset, a casino in Lithuania. Notwithstanding the full write-down recorded, the Company intends to pursue all commercially reasonable means to recover its investment in Creation.

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Our Washington State operation continued its strong performance after our acquisition of the minority ownership interests and our restructuring initiatives in 2004. The four casinos in Washington State recorded income from operations of \$3.3 million in 2005, compared to a loss from operations of \$2.0 million in 2004.

Net income was \$19.6 million for 2005, a decrease of 27% from the prior year. The fourth quarter recorded a net loss of \$9.2 million compared to net income of \$9.7 million in the fourth quarter of 2004 and \$9.0 million in the third quarter of 2005. Fully diluted earnings per common share were \$0.25 for 2005, a decrease of 34% from the prior year. The fourth quarter fully diluted loss per common share was \$0.12 compared to fully diluted earnings per common share of \$0.13 in the fourth quarter of 2004 and fully diluted earnings per common share of \$0.11 in the third quarter of 2005.

Total assets at December 31, 2005 were \$918.7 million, an increase of 153% from the prior year-end, primarily due to the assets acquired from business acquisitions, an increase in amounts due from Provincial Gaming Corporations ("PGCs"), and net additions to property, plant and equipment arising from capital expansions that occurred during the year.

At December 31, 2005, the total receivable from PGCs consisted of a \$244.9 million receivable from BCLC (\$342.4 million gross receivable, discount of \$97.5 million), and a \$44.0 million receivable from Nova Scotia Gaming Corporation ("NSGC"). At December 31, 2004, the total receivable from PGC consisted of \$117.1 million from BCLC.

At December 31, 2005, property, plant and equipment increased to \$283.1 million from \$125.4 million at the prior year-end. At December 31, 2005, intangible assets increased to \$195.8 million from \$28.6 million at the prior year-end.

Total long-term liabilities at December 31, 2005 were \$526.5 million, an increase of 216% from the prior year, primarily due to additional debt issued to fund acquisitions and capital expansions, debt acquired through acquisitions, and increased future income taxes associated with the acquired assets.

On January 13, 2005, the Company completed an offering of 3.75 million common shares for net proceeds of \$60.1 million. The net proceeds were used for the acquisitions of Orangeville Raceway Limited, Weinlager & Amici Caffè (Coquitlam) Ltd. and Weinlager & Amici Caffè (Victoria) Ltd. (collectively, "Weinlager"), and to reduce our operating line of credit.

On August 3, 2005, the Company completed a private placement of 3.70 million special warrants for net proceeds of \$72.7 million. On August 31, 2005, after filing and receiving approval of our short form prospectus, each special warrant was exercised at no additional cost, into one common share of the Company. The proceeds were used for the acquisition of Flamboro Downs, to reduce our operating line of credit used to fund acquisitions and expansions, and for general corporate purposes.

On April 26, 2005, the Company increased the limit of its revolving credit facilities from \$100 million to \$200 million with no change to the security package or terms. Further on July 21,

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2005, we completed the issuance of 5.50% \$150 million Series B Senior Secured Notes ("Series B Notes"). The Series B Notes were issued for a ten-year term maturing July 21, 2015, and rank pari passu with our 5.74% \$150 million Series A Senior Secured Notes ("Series A Notes") and our revolving credit facilities. Proceeds from the issue of the Series B Notes were used to reduce the outstanding indebtedness on our credit facilities and facilitated the development of our various projects in British Columbia, Ontario and Nova Scotia.

On March 27, 2006, the Company announced an equity offering subject to TSX approval, which consisted of a private placement of 6.2 million units at a price of \$12.89 per unit for gross proceeds of \$80 million. Each unit is comprised of one common share and one share purchase warrant, which is exercisable into one common share at an exercise price of \$12.89 for a period of up to two years from the closing date. The Company's Chairman and Chief Executive Officer agreed to participate in the private placement for \$50 million of the total offering. Each unit is subject to a four-month hold period from the closing date.

On March 27, 2006, the Company received the necessary approvals and closed the private placement on March 28, 2006.

On March 27, 2006, the holders of the Company's Series A Notes and Series B Notes (collectively, the "Notes") and the lenders of the Credit Facility (collectively, the "Lenders") agreed to amend certain terms, including the financial covenants, related to the Notes and the Credit Facility. The Lenders agreed to increase the Company's Net Debt to Adjusted EBITDA ratio (defined terms in the debt agreements) to be: 3.50 or less at March 31, 2006, 3.25 or less at June 30, 2006, 3.00 or less at September 30, 2006, 2.75 or less at December 31, 2006 and for all of 2007, and 2.50 or less for any measurement period after January 1, 2008.

In consideration, the Company agreed with the Lenders to:

- pay amendment fees totaling \$1.25 million;
- increase the coupon rate on the Notes by 0.375% per annum for a period ending on the later of December 31, 2006 or the second consecutive quarter the Company maintains a Net Debt to Adjusted EBITDA ratio of 2.50 or less;
- increase the coupon rate on the Notes by an additional 0.75% over the 0.375% mentioned above, should Dominion Bond Rating Service ("DBRS") downgrade the Company's credit rating at any time over the next two years from BBB (low), such increased coupon rate of interest period to end when the Company maintains a Net Debt to Adjusted EBITDA ratio of 2.50 or less for two consecutive quarters;
- agree not to make any third party acquisitions unless subsequent to the acquisition, the Company would have been in compliance with the original Net Debt to Adjusted EBITDA ratio; and
- issue sufficient equity to close by May 31, 2006 to notionally reduce the Net Debt to Adjusted EBITDA ratio to 2.75 or less at March 31, 2006.

The Company's Notes were rated BBB – Stable Trend by DBRS as at December 31, 2005. On February 20, 2006, DBRS changed the rating to BBB - Under Review with Negative Implications, following the Company's early announcement of fourth quarter results and the resignation of the Company's President.

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On March 27, 2006, DBRS completed its review and assigned the Company's Notes a rating of BBB (Low) – Negative Trend; one-step down from BBB. The downgrade followed the Company's earlier announcement of its unaudited fourth quarter results and that, in the absence of remedial actions, a breach of financial covenants would occur at March 31, 2006, and the Company's announcement of a negotiated solution with its lenders and an \$80 million equity injection.

Following a period of rapid expansion, the Company is focused on operations and improving profitability in 2006. Management has targeted improving labour efficiency at expanded and acquired operations and at head office. Discretionary spending is curtailed, staffing is reduced primarily through natural attrition, and the hiring of new staff is restricted. The Company is working with Mayfield Consulting Canada Inc. ("Mayfield") to establish operational and financial objectives to improve profits in food, beverage and hotel operations. Management is also reviewing operational and financial processes and systems to improve efficiency and effectiveness.

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## **INTRODUCTION**

### **Basis of Discussion and Analysis**

This management discussion and analysis (“MD&A”) of our business, financial review, results of operations, liquidity and capital resources, and other financial information is dated as of March 30, 2006. This MD&A should be read in conjunction with the audited consolidated financial statements of the Company and the accompanying notes to those consolidated financial statements for the years ended December 31, 2005 and 2004 (“Annual Financial Statements”).

The consolidated financial statements are prepared under Canadian Generally Accepted Accounting Principles (“GAAP”) and include the operating results of the Company, its subsidiaries, entities where the Company is the primary beneficiary and on a proportionate basis, the accounts of its joint ventures. Unless expressly stated otherwise, all financial information is presented in Canadian dollars. Certain of the prior year and prior quarter comparative figures have been restated to the current year’s and current quarter’s presentation.

Capitalized terms are either defined when they first appear, or are defined at the end of this MD&A in the section titled “Other Financial Information - Definitions of Other Terms Used in the MD&A”.

### **Non-GAAP Measures**

The following non-GAAP definition is used in this MD&A because management believes that it provides useful information regarding our ongoing operations. Readers are cautioned that the definition is not a recognized measure under Canadian GAAP, does not have a standardized meaning prescribed by GAAP, and should not be construed to be an alternative to net income determined in accordance with GAAP or as an indicator of performance or liquidity or cash flows. Our method of calculating this measure may differ from the method used by other entities and accordingly our measure may not be comparable to similar titled measures used by other entities.

EBITDA means Earnings Before Interest and financing expenses (net of interest income), Taxes, Depreciation and Amortization, stock-based compensation, restructuring costs, termination of legal proceedings, gain (loss) on investments and properties, accretive income, foreign exchange gain (loss) and non-controlling interests. EBITDA is derived from the consolidated statement of income, and is computed as revenues less human resources, general and administration, operating supplies, occupancy costs, and marketing and promotion. We believe EBITDA is a useful measure because it provides information to both management and investors with respect to the operating and financial performance of the Company. A reconciliation of EBITDA to the comparable GAAP measure is shown in the “Results of Operations” section in this MD&A.

### **Forward-Looking Statements**

This MD&A contains forward-looking statements which reflect management’s current expectations regarding the Company’s objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities. These forward-looking statements are

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not guarantees, but only predictions. Although the Company believes that these statements are based on information and assumptions which are current, reasonable and complete, these statements are necessarily subject to a number of factors that could cause actual results to vary significantly from current expectations.

Such differences may be caused by factors which include, but are not limited to, ongoing requirements to comply with financial covenants associated with credit facilities and long-term debt, limited terms of operational service agreements with gaming regulators, pending and proposed legislative or regulatory developments, competition from established competitors and new entrants in the gaming business, dependence on key personnel, no assurance that systems, procedures and controls will be adequate to support expanding operations, potential undisclosed liabilities and capital expenditures associated with acquisitions, negative connotations linked to the gaming industry, First Nations claims with respect to public lands on which we conduct our operations, impact of legal proceedings, impact of smoking bans, interest and exchange rate fluctuations, non-realization of cost reductions and synergies, acceptance and demand for new products and services, fluctuations in operating results and general economic conditions.

The Company cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including in the "Risk Factors" section of the Company's Annual Information Form for fiscal 2005, or as identified in the Company's disclosure record on [www.sedar.com](http://www.sedar.com).

The forward-looking statements contained herein are made as of the date of this MD&A and are expressly qualified in their entirety by this cautionary statement. Readers should not place undue reliance on the forward-looking statements, which reflect management's plans, estimates, projections and views only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

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## BUSINESS DESCRIPTION

### General

Great Canadian Gaming Corporation is a multi-jurisdictional gaming and entertainment operator with operations in British Columbia ("BC"), Ontario ("ON") and Nova Scotia ("NS"), Canada, and Washington State, United States of America ("Washington"). The Company operates thirteen casinos, a thoroughbred racetrack, four standardbred racetracks, a community gaming centre, a hotel, a theatre and various associated food and beverage and entertainment facilities.

Descriptions of the Canadian and Washington State gaming industries and our operating agreements in these jurisdictions are included in our Annual Information Form located on the SEDAR website at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.gcgaming.com](http://www.gcgaming.com).

The Company's operating entities as at December 31, 2005 are:

<b>Entity</b>	<b>Abbreviation</b>	<b>Ownership interest %</b>
Flamboro Downs Holdings Limited	Flamboro Downs	100%
Georgian Downs Limited	Georgian Downs	100%
Great American Gaming Corporation	GAGC	100%
Great Canadian Casinos Inc.	GCC	100%
Great Canadian Entertainment Centres Ltd.	GCEC	100%
Hastings Entertainment Inc.	HEI	100%
Jack O'Clubs Gaming Hall Ltd.	Jack O'Clubs	67%
Mayfield Consulting Canada Inc.	Mayfield	0% <sup>(1)</sup>
Metropolitan Entertainment Group	MEG	100%
Orangeville Raceway Limited	Orangeville	100%
TBC Teletheatre B.C.	TBC	50%

<sup>(1)</sup> Mayfield and certain associated companies of Mayfield (hereinafter called Mayfield) have been contracted by the Company to provide food and beverage, and hotel management services in certain locations. Under the terms of the various management services contracts, the Company is the primary beneficiary of Mayfield, even though the Company has no share ownership in Mayfield, as the Company bears the principal risks and rewards of Mayfield's operations. Mayfield is consolidated from the inception date of each applicable management services contract as a variable interest entity. The Mayfield companies that are consolidated provide services only to the Company.

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#### Operations in Canada

The following table summarizes our Canadian casino operations as at December 31, 2005:

Name	Location	Slot Machines	Table Games	Daily Operational Hours	Operating Agreements Expiry Date <sup>(1)</sup>
<b>British Columbia</b>					
Boulevard (Coquitlam) <sup>(4)</sup>	Coquitlam, BC	950	70	24	Nov 2015
Holiday Inn Broadway	Vancouver, BC	-	36	20	Feb 2011
Nanaimo	Nanaimo, BC	380	12	16	Feb 2011
River Rock <sup>(5)</sup>	Richmond, BC	1,000	94	24	Jun 2014
View Royal	View Royal, BC	425	24	18	Feb 2011
Fraser Downs	Surrey, BC	430	-	17.5 - 24	Mar 2014
Bear Mountain <sup>(2)</sup>	Dawson Creek, BC	80	-	14 - 16	May 2006
Jack O'Clubs (Seasonal) <sup>(3)</sup>	Wells, BC	80	-	8	Jun 2012
<b>Nova Scotia</b>					
CNS Halifax	Halifax, NS	758	39	24	Jul 2015
CNS Sydney	Sydney, NS	385	7	16 - 24	Jul 2015
<b>Ontario</b>					
Georgian Downs <sup>(6)</sup>	Innisfil, ON	451	-	18 - 24	Nov 2011
Flamboro Downs <sup>(6)</sup>	Flamborough, ON	752	-	18 - 24	Oct 2010
		<u>5,691</u>	<u>282</u>		
<b>Approved additional expansions:</b>					
Hastings Racecourse <sup>(7)</sup>	Vancouver, BC	600	-		
Sandown	North Saanich, BC	200	-		
Bear Mountain	Dawson Creek, BC	45	-		
		<u>6,536</u>	<u>282</u>		

<sup>(1)</sup> With the exception of Bear Mountain, subject to renewal terms, at the option of Company, for ten years in BC and NS. Subject to renewal terms, at the option of the Ontario Lottery Gaming Corporation ("OLGC"), for five years in ON.

<sup>(2)</sup> The Company is currently in negotiations with BCLC for a new ten-year operating agreement for Bear Mountain, which is expected to be in effect on opening of the permanent facility.

<sup>(3)</sup> Seasonal operations, open during summer months only. Currently closed.

<sup>(4)</sup> Approved to operate up to 1,000 slot machines.

<sup>(5)</sup> Subsequent to the year-end, increased operating tables to 110 and decreased operating slots to 918.

<sup>(6)</sup> Operates under siteholder agreements with OLGC for OLGC to operate slots.

<sup>(7)</sup> Implementation of slots dependent on the conclusion of operating agreement and construction timetable. See "Development Projects - Hastings Racecourse" and "Litigation - Hastings Racecourse".

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The following table summarizes our racetrack operations and the number of actual live race days in 2005 and those expected for 2006:

Name	Location	Live Race Days	
		2005	2006 Expected
Hastings Racecourse	Vancouver, BC	82	78
Fraser Downs	Surrey, BC	84	90
Sandown	North Saanich, BC	24	10
Georgian Downs	Innisfil, ON	117	120
Flamboro Downs	Flamborough, ON	258	259
		<u>565</u>	<u>557</u>

All our racetrack operations are outfitted for simulcast betting. This allows patrons to place wagers on live horse racing events from around the world.

#### British Columbia

##### *Market Trend and Competition*

BCLC, in its 2006-2009 service plan, is estimating BC's casino gaming win will grow to \$1.23 billion by its fiscal year ended March 31, 2009, from a level of \$893 million for its most recent fiscal year ended March 31, 2005, for a compounded annual growth rate of over 8%. The casino expansions approved by BCLC are planned to move the per capita BC gaming win to a level nearer the Canadian average.

About two thirds of the BC win comes from the Greater Vancouver area. We anticipate that much of the growth expected by BCLC will come from expansions the Company and competitors have delivered in the past two years. After two years of rapid expansion, we understand that no further expansions will occur in the Greater Vancouver area until mid-2007, at which time a competitor has announced a new casino opening in New Westminster's Queensborough area. The Company's development of the Hastings Racecourse could also open in this period.

Over the past year, the gaming environment and competitive landscape within BC has undergone significant change and expansion. From June 2004, just before we opened River Rock to December 2005, immediately after we opened Boulevard, the Greater Vancouver gaming market has seen a 3,071 increase in the number of slots and 105 increase in the number of table games. The Company's acquisitions and expansions during this period account for 1,742 of the slot increase and 93 of the tables increase. Our Greater Vancouver competitors have opened two new facilities and expanded an existing one, adding an estimated 1,329 slots and 12 table games to the market.

Based on gaming expansions to date and the subsequent growth in the casino gaming win, we believe that the market within the Greater Vancouver area will continue to support the absorption of high quality, well-located gaming facilities. We estimate that the total casino win in the Greater Vancouver area has grown from a quarterly gaming win of \$127 million in the second quarter of 2004 to \$196 million in the fourth quarter of 2005, an increase of nearly 54%.

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BCLC has also permitted slot gaming to expand into community gaming centres and horseracing facilities. For this reason, the Company acquired Hastings Racecourse, Fraser Downs, Sandown, and Bear Mountain over the past two years. Fraser Downs and Bear Mountain currently have slots, and Hastings Racecourse and Sandown are approved to have slots.

In October 2005, the Vancouver City Council approved the public benefits package and the proposed development plan for Hastings Racecourse. The development plan includes installing approximately 600 slot machines, restaurants and other amenities. On November 2, 2005, Hastings Park Conservancy filed a petition in the Supreme Court of B.C. seeking an order to stop a City of Vancouver bylaw permitting slot machines at Hastings Racecourse. See further information in the "Litigation – Hastings Racecourse" section.

With a period of relative stability upcoming in the gaming marketplace in Greater Vancouver until mid-2007, we expect further organic growth of the market to occur within the existing casinos. The Company believes its investments in best-in-class facilities have given it a suite of properties, features and amenities that give it a competitive advantage. We expect that our River Rock and Boulevard casinos will allow us to target marketing to the underserved tourism sector.

The Company has two casinos on Vancouver Island. We have not experienced and are not expecting any changes in the competitive environment for these two casinos.

#### *Seasonality*

While the Company's BC casinos operate year-round, our racetracks are subject to seasonal variations. Live racing at Hastings Racecourse operates from mid-April to mid-November. Live racing at Fraser Downs operates from mid-October to mid-May. Simulcast racing at both locations continues to operate year-round.

#### Nova Scotia

##### *Market Trend and Competition*

In Nova Scotia, we operate the only two full service casinos in the province, however there is competition from Video Lottery Terminals ("VLTs") which are permitted in licensed liquor establishments, curling clubs and on First Nations land. Table games are permitted only at CNS Halifax and CNS Sydney and as such, there is no competition in the province for table games or full service casino experiences.

In 2005, the government of Nova Scotia announced a fully-integrated gaming strategy. The strategy contains initiatives to enhance treatment and prevention programs, as well as creating a more balanced and socially responsible gambling industry. On November 2005, 800 VLTs were removed across the province, with a further 200 to be reduced through attrition. On January 2006, the speed of play on VLTs was reduced by 30% and the VLT's stop feature was disabled.

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The Company is fully supportive of the province's strategy and contributes \$1 million per year towards the province's responsible gambling initiatives.

#### *Seasonality*

The gaming industry in Nova Scotia has historically peaked during the summer months, primarily as a result of the influx of tourists. As a result, revenues in these months are normally higher than in others.

#### Ontario

##### *Market Trend and Competition*

There are currently four commercial casinos, six charity casinos, sixteen racetracks with slot machines and two racetracks without slot machines in Ontario. In 2005, the Ontario government announced that no further gaming facilities will be approved and there will be an increased focus on responsible gaming and a commitment to ensuring the competitiveness of Ontario's gaming industry.

The Company operates two live horseracing facilities (with slots operated by OLG) that are located within a one hour drive of the Greater Toronto Area ("GTA"). The GTA has a population of approximately 5.3 million, or about 42% of the province of Ontario. The GTA's only live horseracing and slot venue is Woodbine Racetrack. The Company's Georgian Downs property is approximately 70 kilometres north of the GTA and has no competition in its immediate area, except for Casino Rama, a commercial casino, which is 60 kilometres further to the north. The Company's Flamboro Downs property is approximately 75 kilometres southwest of the GTA and is the closest gaming facility to a large resident population of Burlington, Hamilton, and Oakville. Flamboro Downs' competitors within a one hour radius include Brantford Charity Casino, Casino Niagara, Niagara Fallsview Resort, and Mohawk Racetrack.

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#### Operations in Washington State

##### Washington

The following table summarizes the Washington gaming facilities and operating levels as at December 31, 2005:

<b>Name</b>	<b>Location</b>	<b>Table Games</b>	<b>Daily Operational Hours</b>
Great American Casino Everett	Everett, WA	15	20
Great American Casino Kent	Kent, WA	15	20
Great American Casino Lakewood	Lakewood, WA	15	20
Great American Casino Tukwila	Tukwila, WA	15	20
		<u>60</u>	

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##### *Market Trend and Competition*

The competitive environment in Washington is highly regulated but does not have the same significant barriers to entry for commercial casinos as in BC, ON and NS. Competition among commercial casinos is abundant and widely spread out among mostly single and several multi-location operators. Tribal casinos, with their ability to offer electronic gaming devices such as slots, are at a significant advantage to commercial casino operators. Additionally, tribal casinos are not subject to the same taxation level as non-tribal casinos, which allows for a competitive advantage in terms of supporting marketing and overhead expenses.

In December 2005, a state-wide smoking ban was implemented, which could impact the Company's casinos as well as other commercial casinos. Tribal casinos are not expected to be affected by the smoking ban. It is uncertain how the ban will affect the future operations of the Company's casinos over the long term.

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## ACQUISITIONS AND DEVELOPMENTS PROJECTS

The following significant events occurred in 2005 that affected the consolidated statement of operations. Discussion of the effect of these events on our financial performance is in the "Results of Operations" section.

### Acquisitions

#### Summary of 2005 Acquisitions

Company Name	Operations	Acquisition Date	% Ownership Acquired	% Ownership Achieved	Purchase Price <sup>(1)</sup>
Flamboro Downs	Racetrack	19-Oct-05	100%	100%	35,632
Georgian Downs	Racetrack	2-Jul-05	100%	100%	27,378
MEG	Casino	31-May-05	100%	100%	94,992
Orangeville	Racetrack	18-Mar-05	100%	100%	40,305
TBC	Teletheatre	18-Mar-05	25%	50%	<sup>(2)</sup>
Weinlager	Food & Beverage	10-Jan-05	50%	100%	1,328
Total					<b>199,635</b>

<sup>(1)</sup> Includes cash consideration, working capital adjustment and acquisition costs. Excludes debt assumed.

<sup>(2)</sup> The 25% additional ownership in TBC was acquired as part of the Orangeville acquisition.

#### Acquisition of Flamboro Downs Holdings Limited in ON

On July 6, 2005, the Company entered into an agreement, subject to regulatory approval, to acquire Flamboro Downs Holdings Limited, which owns and operates Flamboro Downs, a standardbred racetrack, and siteholder for over 750 slot machines operated by the OLG in Flamborough, ON.

Flamboro Downs is located 75 kilometres southwest of Toronto and occupies approximately 230 acres in the town of Flamborough, ON. The facility offers year-round live harness racing five days a week (approximately 260 live racing days per year) and daily simulcast wagering on-track. It also has five teletheatre/off-track betting locations.

On October 19, 2005, after obtaining the required regulatory approvals, the Company completed the purchase of Flamboro Downs for a total purchase price of \$35,632, plus the assumption of existing debt of \$44,194.

#### Acquisition of Georgian Downs Limited in ON

On July 2, 2005, Great Canadian Gaming (Ontario) Ltd. ("GCGO") acquired Georgian Downs as a bare trustee for the Company until all regulatory approvals were received. Georgian Downs, located in Innisfil, Ontario, just north of Toronto, is an operator of a standardbred racing facility and a siteholder of over 450 slot machines operated by the OLG. Georgian Downs offers live standardbred horseracing on approximately 115 live racing days, and simulcast wagering 364 days a year.

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On September 30, 2005, following receipt of all regulatory approvals, the bare trustee arrangement was cancelled and the Company received legal title to all of the outstanding shares of GCGO. The purchase of the outstanding common shares of Georgian Downs was completed for a total purchase price of \$27,378 plus the assumption of an earlier cash advance to the bare trustee of \$22,308. The Company has consolidated Georgian Downs' financial position as at September 30, 2005. For the period from July 2, 2005 to September 30, 2005, the Company included the operating results of Georgian Downs under the equity method as the Company had significant influence.

As part of this acquisition, the Company has agreed to pay a consultant a finder's fee based on a notional equity interest in Georgian Downs. The fee is based on the consultant's notional equity interest in the operating results of Georgian Downs after deduction of interest on a notional level of debt and of preferred returns paid to the Company. The consultant also has an option to sell the notional equity interest back to the Company. As at December 31, 2005, there were no fees due the consultant or value in the option.

#### Acquisition of Metropolitan Entertainment Group in NS

On May 31, 2005, the Company completed the acquisition of 100% of the partnership interests in MEG, a Nova Scotia Partnership which owns the CNS Halifax and the CNS Sydney, for a total purchase price of \$94,992. CNS Halifax and CNS Sydney operate pursuant to a casino operating contract with the NSGC.

CNS Halifax, which operates 24 hours a days, is located on the downtown waterfront area and contains over 32,000 square feet of casino space featuring over 750 slot machines and 39 table games, two licensed restaurants, a lounge and 9,000 square feet of convention space.

CNS Sydney is attached to a local sports arena and features approximately 16,000 square feet of gaming space with over 375 slot machines and 7 table games, a licensed restaurant and a lounge.

The Company has received approval of its business plan for MEG, which contains a capital budget of approximately \$22,000, principally for the upgrade and replacement of slot technology and surveillance equipment to facilitate operational improvements to the gaming floor. The Company expects that the full cost of the capital plan will be reimbursed under the Capital Reserve Account ("CRA").

#### Acquisition of Orangeville Raceway Limited in BC

On March 18, 2005, the Company acquired Orangeville for a total purchase price of \$40,305 plus the assumption of existing debt of \$6,099. As additional consideration, the Company agreed to contingent payments for a period of up to four years following the effective date based on defined levels of net gaming and racing revenues of the acquired operations.

Orangeville operates two standardbred horseracing facilities in BC: Fraser Downs in Surrey and Sandown Park in North Saanich. The acquisition of Orangeville allows the Company to pursue various synergies and complements the previous acquisition of Hastings Racecourse. As a

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result of these acquisitions, the Company is the largest thoroughbred and standardbred racing operator in BC, and is able to operate year round horseracing and related activities.

Fraser Downs currently offers live standardbred horseracing nine months of the year, and operates over 400 slot machines and off-track betting year-round. Sandown operates approximately twenty live race days per year, and features off-track betting year-round. North Saanich council has approved the installation of up to 200 slot machines at Sandown, subject to a definitive proposal from the Company for the redevelopment of Sandown.

In October 2005, the renovation and expansion of Fraser Downs was completed. The facility features a new simulcast area, a modern atrium-styled welcome centre, a major show lounge with state-of-the-art audio-visual technology, a renovated grandstand area, and a parking lot with modern landscaping. The majority of the capital expenditures on this project will qualify for reimbursement under the FDIF.

#### TBC Teletheatre B.C.

As a result of the acquisition of Orangeville, the Company increased its existing 25% interest in TBC to 50%. The initial 25% interest was acquired through the acquisition of HEI in 2004 and was previously accounted for using the equity method. The Company has consolidated TBC's financial position and the operating results and cash flows from March 18, 2005 in the Annual Financial Statements.

TBC's principal business activity is the operation of tele-theatre, telephone and internet wagering facilities in BC, which broadcast horseracing from Hastings Racecourse, Fraser Downs and other racetracks in Canada and throughout the world.

#### Acquisition of Weinlager & Amici Caffè (Coquitlam) Ltd. and Weinlager & Amici Caffè (Victoria) Ltd.

On January 10, 2005, the Company acquired the remaining 50% interest in Weinlager for a total purchase price of \$1,328, and terminated the management agreement held by Tiara Food & Beverage Concepts Ltd. Weinlager owns the food and beverage assets at the Company's Boulevard, Holiday Inn, Nanaimo and View Royal casinos.

#### Variable Interest Entity Accounting for Mayfield Consulting Canada Inc. ("Mayfield")

Mayfield and certain associated companies of Mayfield have been contracted by the Company to provide food and beverage, and hotel management services in certain locations. Under the terms of the various management services contracts, the Company is the primary beneficiary of Mayfield, even though the Company has no share ownership interest in Mayfield. Mayfield's results of operations are consolidated with the Company from the inception date of each management services contract, but only so far as the results of operations relate to the Company. This accounting is required under Canadian generally accepted accounting principles for variable interest entities.

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## Development Projects

### Summary of 2005 Capital Expansions

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<u>Project</u>	<u>Completion Date</u>
First phase of Boulevard expansion, which includes 80,000 sq. ft. of casino floor, lounge, deli, restaurant, and 1,654 vehicle parkade with direct access to the casino.	17-Nov-05
Renovation and expansion of Fraser Downs, which includes a gaming floor with over 400 slot machines, a simulcast area, a modern atrium-style welcome centre, a bistro, restaurant, lounge and additional parking space.	14-Oct-05
River Rock 1,000-seat theatre	9-Sep-05
River Rock expansion, which includes a 222-room hotel and additional food and beverage and other facilities.	19-Aug-05

### Coquitlam Boulevard Casino

The Boulevard casino expansion opened on November 17, 2005. The projected construction budget for the Boulevard expansion is \$111,000, which includes a 1,100-seat theatre. These expenditures are expected to be fully FDIF recoverable. As at December 31, 2005, approximately \$91,200 of the total construction budget project had been spent.

### Fraser Downs Racetrack and Casino

Fraser Downs opened its new casino in the fourth quarter of 2004, prior to acquisition by the Company. Since the casino opening, Fraser Downs has renovated and expanded the racing grandstand, simulcast area, main entrance, parking lot and food and beverage facilities. Its grand opening was on October 14, 2005.

### River Rock Casino Resort

The final phase of River Rock expansion added a 222 room all-suite hotel, additional restaurants, guest facilities, and a 1,000 seat multi-use theatre to the resort. The hotel opened on August 19, 2005, along with additional food and beverage facilities and followed by the theatre on September 9, 2005. The total projected expenditure for construction was \$205,000, of which approximately \$202,300 was spent as at December 31, 2005. The costs of this project, less an agreed reduction for the hotel costs, are recoverable under the FDIF.

### Hastings Racecourse

The City of Vancouver Council has approved a by-law permitting the deployment of slots and the public benefits package for the racetrack and surrounding community. The approval of Council was a requisite condition in the development process. The City of Vancouver Development Board has approved development plans for the installation of 600 slot machines at Hastings, together

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with associated improvements to the facility

The actual construction and development of Hastings Racecourse remains subject to the issuance of building permits and concluding an operating agreement with the City of Vancouver. The Company expects to spend approximately \$40,000 to expand the Hastings Racecourse site, which is expected to be fully FDIF recoverable.

On November 2, 2005, Hastings Park Conservancy filed a petition in the Supreme Court of B.C. seeking an order to quash a City of Vancouver bylaw permitting slot machines at Hastings Racecourse. See further information in the “Litigation – Hastings Racecourse” section.

The majority of Hastings Racecourse employees are unionized and are members of UNITE HERE!, covering food and beverage workers, or COPE, covering pari-mutuel workers. The Company and the unions concluded negotiations and ratified new three-year collective agreements during 2005.

#### Bear Mountain Community Gaming Centre

In 2005, the Company acquired land in Dawson Creek to build a larger replacement community gaming centre that will include a bingo hall, an additional 45 slot machines (in addition to the current 80 slot machines), entertainment, food and beverage facilities and a teletheatre. Bear Mountain will continue to operate in its present facility during construction of the new facility, which is expected to be completed in the third quarter of 2006. The estimated construction cost is \$11,000, all of which is expected to be recoverable under the FDIF. As at December 31, 2005, approximately \$1,800 of the construction project costs had been spent.

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## RESULTS OF OPERATIONS

Discussion of the consolidated results of operations is covered in three sections of the MD&A. Discussions of Operating Results in Canada and Operating Results in Washington focus on revenues and expenses included in EBITDA for each of those respective locations. Discussion of Consolidated Results of Operations focuses on consolidated income and expenses that are excluded from EBITDA.

In our Annual Financial Statements and this MD&A, revenues are now reported net of promotional allowances. Previously, these allowances, which are complimentary amenities provided to gaming customers, were included in marketing and promotion expenses. Expenses are now further clarified with a new category, "General and administration". Property by property results have been adjusted to reflect updated management estimates, allocations and adjustments among Corporate and the properties. Comparatives have been restated to conform to the current presentation.

### Operating Results in Canada

	Three Months Ended December 31,			Years Ended December 31,		
	2005	2004	% Chg	2005	2004	% Chg
Gaming revenues	\$ 57,813	\$ 41,371	40%	\$ 195,332	\$ 132,253	48%
Racetrack revenues	7,180	2,629	173%	22,601	8,902	154%
Food & beverage revenues	12,269	2,927	319%	30,684	6,557	368%
Hotel revenues	1,766	-	n/a	2,165	-	n/a
Other income	1,472	931	58%	4,390	2,947	49%
	<b>80,500</b>	<b>47,858</b>	<b>68%</b>	<b>255,172</b>	<b>150,659</b>	<b>69%</b>
Less: Promotional allowances	(2,036)	(558)	265%	(5,305)	(927)	472%
	<b>78,464</b>	<b>47,300</b>	<b>66%</b>	<b>249,867</b>	<b>149,732</b>	<b>67%</b>
Human resources	42,815	22,567	90%	125,814	72,295	74%
Marketing and promotion, occupancy costs, operating supplies and G&A	27,326	8,038	240%	63,996	23,661	170%
	<b>70,141</b>	<b>30,605</b>	<b>129%</b>	<b>189,810</b>	<b>95,956</b>	<b>98%</b>
EBITDA	8,323	16,695	(50%)	60,057	53,776	12%
EBITDA % of revenues	11%	35%		24%	36%	
Stock-based compensation	1,951	910	114%	5,215	2,183	139%
Amortization	5,888	953	518%	10,899	2,557	326%
Restructuring costs	-	-	-	-	4,034	(100%)
Termination of legal proceedings	-	2,275	(100%)	-	2,275	(100%)
Income from operations	\$ 484	\$ 12,557	(96%)	\$ 43,943	\$ 42,727	3%

In order to consolidate the Canadian operating results with Washington State operating results, the following elimination adjustment is required:

Other income	\$ -	\$ -	\$ -	\$ (388)
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## GREAT CANADIAN GAMING CORPORATION

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#### Discussion of Results

The following table summarizes the key events and the approximate period of their impact on the operating results in Canada:

	Three Months Ended December 31,		Years Ended December 31,	
	2005	2004	2005	2004
River Rock Casino opening	3 months	3 months	12 months	6 months
River Rock hotel, theatre, and additional F&B outlets expansion	3 months	0 months	3.5 months	0 months
HEI acquisition	100% 3 months	60% 1 month, 100% 2 months	100% 12 months	60% 7 months, 100% 2 months
Orangeville acquisition	3 months	0 months	9.5 months	0 months
MEG acquisition	3 months	0 months	7 months	0 months
Georgian Downs acquisition	3 months consolidated	0 months	3 months equity method, 3 months consolidated	0 months
Flamboro Downs acquisition	2.5 months	0 months	2.5 months	0 months
Boulevard expansion	1.5 months	0 months	1.5 months	0 months

With acquisitions during 2005, the Company has expanded geographically across Canada, growing beyond British Columbia into Nova Scotia and Ontario. In addition, the expansions of the River Rock and Boulevard casinos have provided increased gaming and non-gaming revenues in our home market. While providing desired diversification of revenues, there have been added costs of starting-up and managing these new operations. These added costs are expected to reduce during 2006 and/or be offset by operational efficiency improvements, greater use of shared and head office functions, and revenue growth that we can generate from the acquired and expanded operations.

The Company's revenues have broadened beyond casino gaming into horseracing, food and beverage, hospitality and entertainment. Approximately 23% of our revenues (before promotional allowances) are derived from non-gaming activities as compared to 12% in 2004. These non-gaming activities are offered primarily to increase the customer traffic in our core casino business. These non-gaming activities have higher operating costs and do not generate the same EBITDA as a percentage of revenues as our casino business.

Our EBITDA as a percentage of revenues is expected to improve, but at a slower pace than previously anticipated as we digest our rapid growth in a short period of time. We have taken actions to control labour and other discretionary costs, and are implementing initiatives to help growth, consolidate functions, achieve steady state and operating efficiencies, and improve management resources.

In the discussion below, our five BC casinos are: River Rock, Boulevard, Holiday Inn, View Royal and Nanaimo. The 2004 comparatives in this section include the predecessor casinos to River Rock: the Renaissance and the Richmond casinos.

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#### *Gaming Revenues*

Gaming revenues for 2005 have increased 48% over the prior year. Gaming revenues for the fourth quarter of 2005 have increased 40% from the fourth quarter of 2004 and 11% from the third quarter of 2005.

The BC casinos contributed gaming revenues of \$152,750 for 2005, an increase of 16% from 2004. Gaming revenues for the fourth quarter of 2005 were \$39,549, a decrease of 4% from the fourth quarter of 2004 and an 8% increase from the third quarter of 2005. The year over year increase in gaming revenues is primarily due to a full year of operation of the River Rock casino in 2005, compared to six months in 2004.

The decrease in gaming revenues from the fourth quarter of 2004 to fourth quarter of 2005 is primarily due to increased gaming competition in the Greater Vancouver area during 2005, which reduced revenues at both River Rock and Holiday Inn. The increase in gaming revenues from the third quarter to the fourth quarter of 2005 is due to increased gaming revenues at both River Rock, from increased customer traffic following the opening of the food, beverage, theatre and hotel facilities, and at Boulevard, following the opening of its expansion and cessation of the disruption from construction.

The two Vancouver Island casinos at View Royal and Nanaimo experienced growth in gaming revenues in the current year over the prior year and in the fourth quarter of 2005 over the fourth quarter of 2004.

Flamboro Downs contributed gaming revenues of \$2,215 since its acquisition date of October 19, 2005. Georgian Downs contributed gaming revenues of \$2,507 since its consolidation date of September 30, 2005. The Company receives a fixed percentage of the slot revenues generated at these two racetracks from slot machines owned and operated by OLG.

MEG contributed gaming revenues of \$28,629 since its acquisition date of May 31, 2005, of which \$10,795 was recorded in the fourth quarter, a decrease of 14% from the third quarter. The decrease in fourth quarter gaming revenues compared to the third quarter is primarily due to a seasonal winter slowdown in customer traffic.

Orangeville contributed gaming revenues of \$7,431 since its acquisition date of March 18, 2005, of which \$2,330 was recorded in the fourth quarter, an increase of 5% from the third quarter. The increase in gaming revenues is consistent with the resumption of live horseracing in the fourth quarter.

#### *Racetrack Revenues*

Racetrack revenues for 2005 increased 154% over 2004. Racetrack revenues for the fourth quarter of 2005 increased 173% from the fourth quarter of 2004 and 17% from the third quarter of 2005.

Flamboro Downs contributed racetrack revenues of \$1,130 since its acquisition date of October 19, 2005.

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Georgian Downs contributed racetrack revenues of \$670 since its consolidation date of September 30, 2005.

Orangeville contributed racetrack revenues of \$3,242 since its acquisition date of March 18, 2005, of which \$1,269 was recorded in the fourth quarter, an increase of 29% from the third quarter. The increase in racetrack revenues is consistent with the resumption of live horseracing in the fourth quarter.

HEI contributed racetrack revenues of \$12,098 for the year, an increase of 36% from 2004, when the Company had partial ownership of HEI for a portion of the year. HEI contributed racetrack revenues of \$2,565 in the fourth quarter of 2005, a decrease of 2% from the fourth quarter of 2004 and a 24% decrease from the third quarter of 2005. Live racing at HEI shuts down for the winter season in the fourth quarter and resumes in the second quarter.

TBC contributed racetrack revenues of \$5,461 since the date of its consolidation of March 18, 2005, of which \$1,546 was recorded in the fourth quarter, a decrease of 12% from the third quarter.

#### *Food, Beverage, Hotel and Other Revenues*

Food, beverage, hotel and other revenues (collectively "other revenues" in this section) for 2005 increased 292% over 2004. Other revenues for the fourth quarter of 2005 increased 302% from the fourth quarter of 2004 and 63% from the third quarter of 2005.

The BC casinos contributed other revenues of \$22,777 for 2005, an increase of 288% from 2004. The other revenues for the fourth quarter of 2005 were \$8,889, an increase of 189% from the fourth quarter of 2004 and a 72% increase from the third quarter of 2005. The increase in other revenues is primarily due to a full year of operation of the River Rock casino in 2005, compared to six months in 2004, and the opening of the River Rock hotel and additional food and beverage operations in the third quarter of 2005.

Flamboro Downs contributed other revenues of \$1,125 since its acquisition date of October 19, 2005.

Georgian Downs contributed other revenues of \$1,353 since its consolidation date of September 30, 2005.

MEG contributed other revenues of \$4,797 since its acquisition date of May 31, 2005, of which \$1,971 was recorded in the fourth quarter, an increase of 3% from the third quarter.

Orangeville contributed other revenues of \$2,332 since its acquisition date of March 18, 2005, of which \$1,038 was recorded in the fourth quarter, an increase of 74% from the third quarter.

HEI contributed other revenues of \$3,913 for the year, an increase of 28% from 2004, when the Company had partial ownership of HEI for a portion of the year. HEI contributed other revenues of \$738 in the fourth quarter of 2005, an increase of 17% from the fourth quarter of 2004 and a

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53% decrease from the third quarter of 2005.

#### *Promotional Allowances*

Promotional allowances are complimentary amenities, such as food, beverage and hotel rooms provided to gaming customers. Previously, these amenities were recorded as a marketing and promotion expense in the statement of income. They are now presented as an offset to revenues. Promotional allowances have increased in the current year over the prior year and in the fourth quarter of 2005 over the fourth quarter of 2004 primarily from the acquisition of MEG, which has a player loyalty program, and the BC casinos, which now provide complimentary drinks to be provided to customers.

#### *Human Resources*

Human resource costs for 2005 have increased 74% over the prior year. The majority of human resource costs are variable with the level of revenues. Revenues increased 69% over the same year over year period. Human resource costs for the fourth quarter of 2005 increased 90% from the fourth quarter of 2004 (68% increase in revenues over the same period) and 29% from the third quarter of 2005 (19% increase in revenues over the same period).

Labour efficiency (human resource costs divided by revenues) was 49% for 2005, compared with 48% for 2004. Labour efficiency was 53% for the fourth quarter of 2005, compared to 47% for the fourth quarter of 2004 and 49% for the third quarter of 2005.

The increase in revenues from non-gaming activities, such as racetrack, food, beverage, entertainment and hotel operations has reduced the overall labour efficiency, as these products have higher human resource costs relative to the revenue they generate as compared to our gaming operations.

Also, human resource costs have increased and labour efficiency has decreased due to pre-opening hiring, training and deployment of labour for the Boulevard expansion, and post-opening start-up inefficiencies in labour at Boulevard casino. In addition, labour inefficiency was high at River Rock's food, beverage and hotel operations, and human resource costs increased at head office due to increases in staffing to manage the Company's growth and expansion.

Revenues referred to in this human resources section are revenues shown on the operating results in Canada before deducting promotional allowances.

#### *Other Costs*

Other costs consist of marketing and promotion, occupancy costs, operating supplies, and general and administration. For 2005, these costs have increased 170% over the prior year. The costs for the fourth quarter of 2005 increased 240% from the fourth quarter of 2004 and 90% from the third quarter of 2005. The increase in other costs is primarily from the acquisitions and expansions during the year.

Marketing and promotion has increased in the fourth quarter of 2005 to promote the opening of

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the final phase of the River Rock Casino Resort, the expansion of the Boulevard Casino and the ongoing entertainment line-up at the River Rock theatre. Occupancy costs have increased with the expanded facilities at River Rock and Boulevard. Operating supplies consists of gaming supplies, which are variable with the level of gaming revenues, and the cost of food and beverage, which is variable with the level of food and beverage revenues.

#### *EBITDA*

We estimate that approximately \$4,964 of unusual costs affected the Company's EBITDA for the fourth quarter of 2005.

These costs included:

- \$1,379 at River Rock. This amount includes initial marketing and advertising for the new hotel and theatre, food and beverage start-up costs, and theatre opening gala and entertainment costs.
- \$1,320 at Boulevard. This amount includes initial marketing and promotion costs, and pre-opening hiring, training, and labor costs at the facility, which opened later than originally scheduled.
- \$2,265 of corporate costs. This amount includes a \$1,357 adjustment relating to the BCLC FDIF. The remaining additional corporate costs are related to integration activities, professional and consulting fees and third party training programs.

Food and beverage operations particularly at River Rock and Coquitlam, and hotel and theatre operations at River Rock recorded low EBITDA in the fourth quarter. The food and beverage operations at River Rock and Boulevard recorded a 0% EBITDA margin and hotel operations at River Rock recorded a 6% EBITDA margin after adjustment for occupancy and unusual costs in the fourth quarter of 2005. These low EBITDA margins reflect decisions to offer below market pricing on rooms, and promotion of food and beverage during the fourth quarter. The theatre recorded a loss of \$889, after adjustment for unusual costs in the fourth quarter of 2005.

In reconciling the change in EBITDA from the third quarter of 2005 to the fourth quarter of 2005, the primary factors include: \$4,964 in unusual costs as discussed above negatively affecting the fourth quarter; \$3,094 in additional EBITDA from the acquisitions of Georgian Downs and Flamboro Downs positively affecting the fourth quarter; \$2,201 net lower EBITDA due to seasonality at the two Nova Scotia casinos, Hastings Racecourse, Orangeville and TBC negatively impacting the fourth quarter; \$889 in EBITDA theatre loss negatively impacting the fourth quarter; \$2,558 in EBITDA for one time recovery of premises rent under FDIF that positively affected the third quarter; and \$2,628 in lower EBITDA attributed to the overall increases in staff labour and lower labour efficiency overhead costs.

Following a period of rapid expansion, the Company is focused on operations and improving profitability in 2006. Management has targeted improving labour efficiency at expanded and acquired operations and at head office. Discretionary spending is curtailed, staffing is reduced primarily through natural attrition, and the hiring of new staff is restricted. The Company is working with Mayfield to establish operational and financial objectives to improve profits in food, beverage and hotel operations. Management is also reviewing operational and financial processes and systems to improve efficiency and effectiveness.

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#### Operating Results in Washington

	Three Months Ended December 31,			Year Ended December 31,		
	2005	2004	% Chg	2005	2004	% Chg
Gaming revenues	\$ 5,856	\$ 6,002	(2%)	\$ 23,772	\$ 21,455	11%
Food & beverage revenues	1,431	1,336	7%	5,292	4,915	8%
Other income	120	102	18%	511	509	0%
	7,407	7,440	0%	29,575	26,879	10%
Less: Promotional allowances	(312)	(138)	126%	(1,338)	(553)	142%
	7,095	7,302	(3%)	28,237	26,326	7%
Human resources	3,680	3,973	(7%)	15,161	15,854	(4%)
Marketing and promotion, occupancy costs, operating supplies and G&A	2,135	2,185	(2%)	7,770	8,668	(10%)
	5,815	6,158	(6%)	22,931	24,522	(6%)
EBITDA	1,280	1,144	12%	5,306	1,804	194%
EBITDA % of revenues	18%	16%		19%	7%	
Stock-based compensation	37	26	42%	97	26	273%
Amortization	459	606	(24%)	1,889	2,268	(17%)
Restructuring costs	-	-	n/a	-	1,523	(100%)
Income (loss) from operations	\$ 784	\$ 512	53%	\$ 3,320	\$ (2,013)	265%

In order to consolidate the Canadian operating results with Washington State operating results, the following elimination adjustment is required:

Human Resources	\$ -	\$ -	\$ -	\$ (388)
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#### Discussion of Results

The Washington operations recorded \$3,320 in income from operations for the year ended December 31, 2005, compared to a loss from operations of \$2,013 in the same period in 2004. This turnaround in the income from operations resulted from implementing restructuring initiatives and making process improvements, after we acquired the non-controlling interests in 2004.

Gaming revenues for the year ended December 31, 2005 increased 11% compared to the same period in the previous year. This increase is mainly due to the acquisition of the remaining non-controlling interests in the US subsidiaries in July 2004. The US subsidiaries were proportionately consolidated prior to the acquisitions of the non-controlling interests and are now fully consolidated. Gaming revenues for the fourth quarter of 2005 are at about the same level as in the fourth quarter of 2004 and the third quarter of 2005.

For the year ended December 31, 2005, human resources costs decreased 4% from the same period in the prior year, compared to an increase in revenues of 7%. Human resources costs for the year ended December 31, 2005, are 54% of revenues compared to 60% for the same

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period last year.

For the fourth quarter of 2005, human resources costs decreased by 7% compared to the same quarter in the prior year, while revenues decreased by 3%. Human resources costs improved to 52% of revenues in the fourth quarter of 2005 compared to 54% of revenues in the fourth quarter of 2004.

Overall, operating expenses in the fourth quarter of 2005 decreased 7% compared to the same quarter in the prior year. Operating expenses, excluding restructuring costs, for the year ended December 31, 2005 decreased 7% from the same period in the prior year.

EBITDA as a percentage of revenues for the fourth quarter of 2005 was 18%, compared to 16% for the same period in 2004. Similarly, EBITDA as a percentage of revenue for the year ended December 31, 2005 was 19%, a significant improvement from 7% for the same period last year.

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### Consolidated Results of Operations

	Three Months Ended December 31,			Years Ended December 31,		
	2005	2004	% Chg	2005	2004	% Chg
Gaming revenues	\$ 63,669	\$ 47,373	34%	\$ 219,104	\$ 153,708	43%
Racetrack revenues	7,180	2,629	173%	22,601	8,902	154%
Food and beverage revenues	13,700	4,263	221%	35,976	11,472	214%
Hotel revenues	1,766	-	n/a	2,165	-	n/a
Other income	1,592	1,033	54%	4,901	3,068	60%
	<b>87,907</b>	<b>55,298</b>	<b>59%</b>	<b>284,747</b>	<b>177,150</b>	<b>61%</b>
Less: promotional allowances	(2,348)	(696)	237%	(6,643)	(1,480)	349%
	<b>85,559</b>	<b>54,602</b>	<b>57%</b>	<b>278,104</b>	<b>175,670</b>	<b>58%</b>
Human resources	46,495	26,540	75%	140,975	87,761	61%
Marketing and promotion, occupancy costs, operating supplies, and G&A	29,461	10,223	188%	71,766	32,329	122%
	<b>75,956</b>	<b>36,763</b>	<b>107%</b>	<b>212,741</b>	<b>120,090</b>	<b>77%</b>
EBITDA	9,603	17,839	(46%)	65,363	55,580	18%
EBITDA % of revenues	11%	33%		24%	32%	
Stock-based compensation	1,988	936	112%	5,312	2,209	140%
Amortization	6,347	1,559	307%	12,788	4,825	165%
Restructuring costs	-	-	n/a	-	5,557	(100%)
Termination of legal proceedings	-	2,275	(100%)	-	2,275	(100%)
Income from operations	1,268	13,069	(90%)	47,263	40,714	16%
Non-operating expense	570	231	(147%)	993	60	(1555%)
Loss (gain) on investment and properties	8,178	(1,847)	543%	8,200	(1,874)	538%
Interest and financing, net	3,874	1,158	235%	9,368	2,201	326%
Accretive income	(2,253)	(1,365)	65%	(7,548)	(1,365)	453%
Income taxes	64	5,206	(99%)	16,671	14,967	11%
Net income (loss)	\$ (9,165)	\$ 9,686	(195%)	\$ 19,579	\$ 26,725	(27%)
Earnings per common share:						
Basic	\$ (0.12)	\$ 0.14	(186%)	\$ 0.26	\$ 0.41	(37%)
Diluted	\$ (0.12)	\$ 0.13	(192%)	\$ 0.25	\$ 0.38	(34%)
Weighted average number of common shares:						
Basic	79,406,692	68,328,530		76,626,504	65,913,320	
Diluted	80,549,482	72,010,590		78,402,986	70,652,658	

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#### Operating Results – Items Excluded From EBITDA

##### *Stock-Based Compensation*

Stock-based compensation has increased in the current year over the prior year and in the fourth quarter of 2005 over the fourth quarter of 2004 due to the amortization of 4,906,250 stock options issued in 2005 and 2004. Stock based compensation in 2004 related only to amortization of stock options issued in 2004 as the fair value of all stock options issued prior to January 1, 2004 were recognized in the prior years. The estimated value of stock options granted is expensed over an estimated life of three years.

##### *Amortization*

Amortization expense has increased in the current year over the prior year and in the fourth quarter of 2005 over the fourth quarter of 2004 because of the increase in property, plant, equipment and intangible assets acquired during 2005. Amortization expense in the fourth quarter of 2005 increased 124% from the third quarter of 2005 primarily as a result of the acquisitions of Georgian Downs, which was consolidated from September 30, 2005, and Flamboro Downs, which was consolidated from October 19, 2005.

Property, plant and equipment increased from \$125,352 at December 31, 2004 to \$283,071 at December 31, 2005, as a result of business acquisitions and capital expansions. Intangible assets increased from \$28,629 at December 31, 2004 to \$195,767 at December 31, 2005, as a result of business acquisitions. The intangible assets acquired are amortized over their estimated useful lives, primarily 20 years.

##### *Prior Year Items*

Other items that affected the comparative financial results include a restructuring provision of \$5,557 that was recorded in the third quarter of 2004 and a \$2,275 payment to Allegiance Capital Corporation to terminate legal proceedings against the Company and its officers in the fourth quarter of 2004.

##### *Disposition of Investments and Properties*

The majority of the 2005 loss on investments and properties occurred in the fourth quarter, and consisted primarily of a write-down of the Company's investment in Creation for \$7,490.

On June 15, 2005, the Company converted \$6,816 in promissory notes receivable, \$101 in accrued interest, and \$483 in capital lease obligation guaranteed by the Company into preference shares of Creation. As a condition of the conversion, Creation was required to raise equity capital of approximately \$3,000, which was completed in May 2005. Creation has one director who is also part of the senior management of the Company and has shareholders who are insiders of the Company.

On February 27, 2006, Creation announced that it ceased operations of its only operating asset, a casino in Lithuania, pending the outcome of a previously announced arbitration with its business

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partner. The Company has fully written down the carrying values of its investment in Creation's common shares of \$90 and preference shares of \$7,400. Notwithstanding the write-down, the Company will pursue all commercially reasonable means to recover its investment in Creation.

Other transactions during 2005 included a gain on disposition of surplus Washington State land of \$274, a loss of \$999 on the disposition of interests in Queen of Diamonds Cruises (VCC) Limited and Queen of Diamonds Cruises Ltd., and a valuation allowance of \$400 on a promissory note due from Queen of Diamonds Cruises (VCC) Limited. The promissory note receivable is secured by a limited recourse pledge of the proceeds from the sale of the vessel, M.V. Queen of Diamonds, owned by Queen of Diamonds Cruises Ltd.

The prior year comparative figures include a fourth quarter gain from the sale of Creation shares of \$1,975.

#### *Interest and Financing, Net*

Interest and financing expenses increased in the current year over the prior year and in the fourth quarter of 2005 over the fourth quarter of 2004 as a result of higher levels of debt outstanding during the year. At December 31, 2005, the Company had \$441,531 in debt outstanding, compared to \$154,860 at December 31, 2004. The increase in debt resulted from the issuance of \$150,000 in Series B Notes, an increase in the use of our Credit Facility and debt assumed from acquisitions.

#### *Accretive Income*

Accretive income increased in the current year over the prior year and in the fourth quarter of 2005 over the fourth quarter of 2004 as a result of the amortization of the imputed discount applied against the FDIF receivable. As the FDIF receivable increases with each BCLC approval of the Company's qualifying expenditures, the collection period also increases, which increases the imputed discount. The imputed discount accretes to the FDIF receivable and the statement of income.

#### *Income Taxes*

The Company's income tax provision is calculated based on the statutory income tax rate adjusted primarily for the effect of income tax rate changes on future income taxes, non-deductible capital losses, and non-deductible stock based compensation. The fourth quarter of 2005 income tax provision was reduced by \$1.5 million, primarily as a result of a statutory income tax rate reduction's effect on future income taxes.

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#### CONSOLIDATED QUARTERLY RESULTS TREND

	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Revenues	\$ 85,559	\$ 72,884	\$ 67,515	\$ 52,146	\$ 54,602	\$ 50,572	\$ 37,374	\$ 33,122
EBITDA	\$ 9,603	\$ 19,749	\$ 19,427	\$ 16,584	\$ 17,839	\$ 16,898	\$ 10,614	\$ 10,229
EBITDA as a percentage of Revenues	11%	27%	29%	32%	33%	33%	28%	31%
Net income (loss)	\$ (9,165)	\$ 9,026	\$ 10,459	\$ 9,259	\$ 9,686	\$ 6,285	\$ 5,427	\$ 5,327
Earnings (loss) per common share:								
Basic	\$ (0.12)	\$ 0.12	\$ 0.14	\$ 0.13	\$ 0.14	\$ 0.09	\$ 0.08	\$ 0.08
Diluted	\$ (0.12)	\$ 0.11	\$ 0.14	\$ 0.12	\$ 0.13	\$ 0.09	\$ 0.08	\$ 0.08

Revenues increased quarter over quarter in 2004. The decline in the first quarter of 2005 from the fourth quarter of 2004 was due to a drop in the overall table games hold percentage and increased competition from two casinos that recently opened in the Greater Vancouver area. The continued growth in revenues during 2005 is due to the acquisitions in each quarter of 2005 and increased gaming and ancillary revenues in our existing casino locations.

EBITDA increased in successive quarters in 2004. The decline in the first quarter of 2005 from the fourth quarter of 2004 was mostly due to the decline in revenues in the quarter. The fourth quarter of 2005 EBITDA decreased from the prior quarter as a result of pre-opening labour and costs and start-up inefficiencies associated with expansions, higher labour and overheads to cope with the Company's rapid growth, and low EBITDA margins on non-gaming activities. As well, the third quarter of 2005 EBITDA included a one-time FDIF recovery of premises costs of approximately \$2,558.

EBITDA margins have decreased during 2005 as a result of the increased revenue contribution from non-gaming activities such as horseracing, hotel, food and beverage, and entertainment, which generate lower EBITDA margins than casino activities. EBITDA margins decreased significantly in the fourth quarter of 2005 compared to the third quarter of 2005 due to the significant costs associated with expansions, growth and non-gaming activities.

In the fourth quarter of 2005, the Company recorded an additional non-cash operating expense of \$1,357 to reflect a discount on the BCLC FDIF approval towards operating expenditures. The Company recorded an additional non-cash amortization and stock-based compensation charge of \$600 in the fourth quarter. The fourth quarter's income tax provision was reduced by \$1.5 million primarily as a result of a statutory income tax rate reduction's effect on future income taxes. The Company has considered the impact of these adjustments on current and prior periods, and has concluded that the amounts are not material. Accordingly, the adjustments are reflected in the current period.

Net income increased in successive quarters in 2004. The decline in the first quarter of 2005 from the fourth quarter of 2004 was mostly due to the decline in EBITDA in the quarter. The third quarter of 2005 net income decreased over the prior quarter mostly as a result of a loss from disposal of the investment in Queen of Diamonds and additional interest and financing costs from the debt issued at the beginning of the third quarter. The fourth quarter of 2005 loss arose from

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the significant decrease in EBITDA in the quarter and increased stock based compensation, amortization, interest and financing expense and write-downs of investments.

In addition to the quarterly impact of lower net income, earnings per share were impacted by the additional weighted average common shares outstanding from the issuance of common shares in the first quarter of 2005 and the issuance of special warrants in the second quarter of 2005.

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## LIQUIDITY AND CAPITAL RESOURCES

### Financial Position

As at December 31,	2005	2004
Cash and cash equivalents	\$ 69,812	\$ 38,946
Other current assets	70,494	30,067
Property, plant and equipment	283,071	125,352
Due from PGCs, long-term	253,485	102,065
Other assets	241,808	65,985
	<b>\$ 918,670</b>	<b>\$ 362,415</b>
Current liabilities	\$ 73,830	\$ 41,973
Long-term debt	438,279	154,000
Other long-term liabilities	88,241	12,372
Shareholders' equity	318,320	154,070
	<b>\$ 918,670</b>	<b>\$ 362,415</b>

Total assets at December 31, 2005 were \$918,670, an increase of 153% from the prior year-end, primarily due to the assets acquired from business acquisitions, an increase in amounts due from PGCs, and net additions to property, plant and equipment arising from capital expansions that occurred during the year.

Cash increased as a result of the acquired operations. Other current assets have increased mainly due to the increase of \$20,353 for the PGC current receivable. At December 31, 2005, property, plant and equipment increased to \$283,071 from \$125,352 at the prior year-end. The increase in amounts due from PGC is primarily due to the addition of the OCI and MD due from NSGC in the amount of \$28,607 (in addition to \$15,353 in other current assets) and the increase in FDIF receivable of \$122,813 mostly due to the expansion projects. The increase in other assets is mainly due to the \$184,597 increase in goodwill and intangible assets as a result of the acquisitions during the year.

Total long-term liabilities at December 31, 2005 were \$526,520, an increase of 216% from the prior year, primarily due to additional debt issued to fund acquisitions and capital expansions, debt acquired through acquisitions, and increased future income taxes associated with the acquired assets.

Shareholder's equity increased by 107% since December 31, 2004 primarily due to the treasury offering of 3,750,000 common shares in January 2005, the private placement of 3,703,704 special warrants in August 2005, the exercise of stock options and warrants, and net income for the year ended December 31, 2005.

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#### Changes in Financial Position

Cash flows:	Three Months Ended December 31,		Years Ended December 31,	
	2005	2004	2005	2004
Cash inflow from operating activities	\$ 13,933	\$ 12,986	\$ 38,411	\$ 29,643
Cash inflow from financing activities	39,217	(2,632)	377,325	142,236
Cash outflow from investing activities	(30,064)	(57,642)	(384,577)	(165,686)
Effect of foreign exchange on cash and cash equivalents	(2)	(968)	(293)	(1,440)
Increase (decrease) in cash	\$ 23,084	\$ (48,256)	\$ 30,866	\$ 4,753

The Company's cash and cash equivalents as at December 31, 2005 amounted to \$69,812 compared to \$38,946 at the end of 2004. Working capital increased by \$39,436 from \$27,040 at the end of the year 2004 to \$66,476 at the end of the year 2005.

The primary financing activities for the year ended December 31, 2005 were issuances of common shares for net cash proceeds of \$138,137, the issuance of the \$150,000 Series B Notes, and \$93,000 drawn on the credit facility.

The Company used \$384,577 for investing activities in the year ended December 31, 2005, primarily for the acquisitions of Orangeville, Weinlager, MEG, Georgian Downs, and Flamboro Downs for an aggregate cash amount of \$182,104, additions to property, plant and equipment of \$194,329 mainly for the construction of River Rock, Orangeville and the Boulevard expansion, \$28,568 to repay promissory notes and advances that were primarily associated with funding the bare trustee used to acquire Georgian Downs and \$9,262 to prepay the leases on land presently occupied by River Rock.

#### Capital Resources

##### Long-Term Debt and Equity Transactions

###### *Debt Financing*

On July 21, 2005, the Company issued 5.50% \$150,000 Series B Notes. The Series B Notes pay interest semi-annually on January 21 and July 21 of each year, commencing January 21, 2006. The Series B Notes mature on July 21, 2015. The Series B Notes rank pari passu with both the Company's Series A Notes and \$200,000 Credit Facility. The proceeds from the Series B Notes were used to reduce the amounts outstanding under the Credit Facility, which was used to fund acquisitions, and for general working capital purposes.

On June 27, 2005, the Company entered into a bond forward transaction, based on the ten-year Government of Canada bond yield rate, to hedge the interest rate associated with the issuance of the Series B Notes. The bond forward resulted in a cash receipt of \$1,731 on July 21, 2005, which is deferred and is amortized to reduce the coupon rate of interest over the ten-year term of the Series B Notes. The bond forward transaction results in reducing the effective interest rate on the Series B Notes from 5.50% to 5.38%.

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#### *Increase in Credit Facility*

On April 26, 2005, the Company entered into an agreement with a syndicate of its existing lenders to increase the limit of its revolving Credit Facility from \$100,000 to \$200,000 with no change to the security package or terms. The Credit Facility was limited to \$150,000 until September 30, 2005, the date the Georgian Downs acquisition was completed and security over the assets was provided to the lenders.

The Credit Facility is subject to annual review and renewal. The current expiry of the Credit Facility is September 27, 2007.

#### *Equity and Debt Update*

On March 27, 2006, the Company announced an equity offering subject to TSX approval, which consisted of a private placement of 6,206,361 units at a price of \$12.89 per unit for gross proceeds of \$80,000. Each unit is comprised of one common share and one share purchase warrant, which is exercisable into one common share at an exercise price of \$12.89 for a period of up to two years from the closing date. The Company's Chairman and Chief Executive Officer agreed to participate in the private placement for \$50,000 of the total offering. Each unit is subject to a four-month hold period from the closing date.

On March 27, 2006, the Company received the necessary approvals and closed the private placement on March 28, 2006.

The Company's debt arrangements require compliance with certain financial covenants. One of the financial covenants is based on a Net Debt to Adjusted EBITDA ratio (both defined terms in the underlying debt agreements). The Company was required to be at a ratio less than 3.25 to 1.00 for 2005, less than 2.75 to 1.00 for 2006, and less than 2.50 to 1.00 for 2007. The Company's financial projections indicated that, absent remedial actions, it would not meet the required 2.75 to 1.00 Net Debt / Adjusted EBITDA ratio at March 31, 2006, the first measurement date in 2006.

On March 27, 2006, the Lenders agreed to amend certain terms, including the financial covenants, related to the Notes and the Credit Facility. The Lenders agreed to increase the Company's Net Debt to Adjusted EBITDA ratio (defined terms in the debt agreements) to be: 3.50 or less at March 31, 2006, 3.25 or less at June 30, 2006, 3.00 or less at September 30, 2006, 2.75 or less at December 31, 2006 and for all of 2007, and 2.50 or less for any measurement period after January 1, 2008.

In consideration, the Company agreed with the Lenders to:

- pay amendment fees totaling \$1,250;
- increase the coupon rate on the Notes by 0.375% per annum for a period ending on the later of December 31, 2006 or the second consecutive quarter the Company maintains a Net Debt to Adjusted EBITDA ratio of 2.50 or less;
- increase the coupon rate on the Notes by an additional 0.75% over the 0.375% mentioned above, should DBRS downgrade the Company's credit rating at any time over the next two years from BBB (low), such increased coupon rate of interest period to

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end when the Company maintains a Net Debt to Adjusted EBITDA ratio of 2.50 or less for two consecutive quarters;

- agree not to make any third party acquisitions unless subsequent to the acquisition, the Company would have been in compliance with the original Net Debt to Adjusted EBITDA ratio; and
- issue sufficient equity to close by May 31, 2006 to notionally reduce the Net Debt to Adjusted EBITDA ratio to 2.75 or less at March 31, 2006.

#### *DBRS Rating*

The Company's Notes were rated BBB - Stable Trend by DBRS as at December 31, 2005. On February 20, 2006, DBRS changed the rating to BBB - Under Review with Negative Implications, following the Company's early announcement of fourth quarter results and the resignation of the Company's President.

On March 20, 2006, DBRS changed the rating to BBB (Low) – Under Review with Negative Implications, one-step down from BBB, as an interim measure. The downgrade followed the Company's announcement of its unaudited fourth quarter results and that, in the absence of remedial actions, a breach of financial covenants would occur at March 31, 2006. A trend rating would be confirmed following completion of its review.

On March 27, 2006, DBRS announced the rating of "Negative" has been assigned to the Company's BBB (Low) rating, following the Company's announcement of a negotiated solution with the Company's lenders and note holders, and an \$80,000 private equity placement.

According to DBRS's website, long-term debt rated at BBB (low) – Negative Trend is of "adequate credit quality". "Protection of interest and principal is considered acceptable, but the entity is susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present which reduce the strength of the entity and its rated securities." (Source – *dbrs.com/Rating Scales/Bond and Long-Term Debt*) Within the BBB category, there are "high" and "low" subcategories. The absence of a "high" or "low" implies the middle of the category. A ratings trend of "negative" was issued because of DBRS concern over the uncertain nature of the Company's projected earnings growth.

#### Outstanding Share Data

As at December 31, 2005, there were 79,449,720 common shares outstanding as compared to 69,989,689 common shares as at December 31, 2004.

At the TSX market opening on June 9, 2005, the Company's common shares were subdivided on a five new-for-two old basis. The shareholders of record received three additional common shares for every two common shares held. The stock options and warrants outstanding at the time were adjusted accordingly for the share subdivision. All references to the number of common shares and per share amounts in the MD&A, and the Annual Financial Statements have been retroactively restated to reflect the share subdivision.

During the year ended December 31, 2005, 981,327 shares were issued through the exercise of

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options for gross proceeds of \$3,066.

As at December 31, 2005, there were 5,624,237 stock options outstanding at a weighted average exercise price of \$13.07 and there were no warrants outstanding.

The book value of each common share at December 31, 2005, was \$4.00 calculated by dividing shareholders' equity by the 79,449,720 common shares outstanding.

#### Private Placement of Special Warrants

On August 3, 2005, the Company completed a placement of 3,703,704 special warrants (the "Special Warrants") at a price of \$20.25 per Special Warrant for gross proceeds of \$75,000. The cost of the placement, net of future income taxes, reduced the gross proceeds by \$2,291. The net proceeds were used for the acquisition of Flamboro, to reduce the funds drawn down on the credit facility for recent acquisitions and construction, and general operating activities.

Each Special Warrant was exercisable, at no additional cost, for one common share of the Company after the Company filed a short form prospectus to qualify the distribution of the common shares underlying the special warrants. The Company filed a short form prospectus and obtained final receipt on August 31, 2005. On September 8, 2005, the 3,703,704 special warrants were converted into common shares.

#### Treasury Offering of Common Shares

On January 13, 2005, the Company completed an offering of 3,750,000 common shares at \$16.60 per share for gross proceeds of \$62,250. The cost of the offering, net of future income taxes, reduced the gross proceeds by \$2,181. The net proceeds were used for the acquisition of Orangeville, Weinlager, and to reduce an operating line of credit used to fund the termination of the share purchase agreement with Wall Financial Corporation.

### Commitments

Contractual Obligations	Payments Due by Period as at December 31, 2005				
	Less than 1 year	1 - 3 years	4 - 5 years	More than 5 years	Total
Long-term debt	\$ 2,977	\$ 155,723	\$ 41,152	\$ 241,231	\$ 441,083
Capital lease obligations	275	162	11	-	448
Operating leases and contracts	4,060	6,156	5,397	22,923	38,536
Total	\$ 7,312	\$ 162,041	\$ 46,560	\$ 264,154	\$ 480,067

The long-term debt contractual obligation includes scheduled principal repayments on the Notes, the repayment of debt assumed on the Flamboro acquisition, the repayment of the HEI debt, and the maturity of the Credit Facility.

The Company has committed approximately \$52,000 towards capital expansions at Boulevard, MEG and Bear Mountain over the next 12 months. The estimated budgeted costs are approximately \$22,000 for MEG, \$20,000 for Boulevard, and \$10,000 for Bear Mountain. In

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addition, the development of Hastings Racecourse, when approved, is estimated to be \$40,000.

The Company is committed to pay a consultant a finder's fee in respect of the Georgian Downs acquisition. See "Acquisition of Georgian Downs Limited in ON".

### **Contingencies**

The Company has issued letters of credit to guarantee performance under contracts and gaming cash floats in the aggregate amount of \$25,536 at December 31, 2005.

As part of the acquisition agreements with Vetter Management Services Ltd., O'Aces LLC, Orangeville and Georgian Downs, the Company has agreed to make future trailing payments dependent on operations at these locations.

### **Litigation**

#### River Rock Casino Resort

In 2004, the Musqueam Indian Band (the "Band") issued two petitions in the Supreme Court of British Columbia (the "Court") against the City of Richmond ("Richmond"), BCLC and the Province of British Columbia. The petitions sought a judicial review of the process that was followed in approving the River Rock Casino Resort and the process that was followed in approving of the gaming operations taking place at the River Rock Casino Resort.

The petitions were heard during February and March 2005, and the reasons for judgment were released on July 18, 2005. The Court dismissed all of the Band's complaints concerning the alleged defects in the approval process, except that the Court found that BCLC had failed to meet a duty to consult with the Band when it contemplated moving the casino to its current location, based upon the Band's aboriginal title claim to those lands. No order was made against the Company.

The Band had asked the Court to set aside BCLC's decision to relocate the casino to its current location, and to prohibit BCLC from taking further steps to change the gaming facility. The Court specifically refused to do so. The Court found that it would not be appropriate to make an order that would have the effect of shutting down the casino or otherwise impairing the River Rock Casino Resort.

The time period for appeal of the decision expired on August 17, 2005, without an appeal being filed.

#### Hastings Racecourse

On November 2, 2005, the Hastings Park Conservancy filed a petition in the Supreme Court of British Columbia seeking an order to quash the City of Vancouver by-law amendment permitting slot machines at Hastings Racecourse. The Company is not a party to this action and may in the course of the litigation, seek intervener status. Management believes that proper process was followed by the City of Vancouver in amending the by-law to permit slot machines at Hastings

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Racecourse and the petition filed by the Hastings Park Conservancy is without merit.

If the Hastings Park Conservancy is successful in its petition, the Company could be required to reapply for rezoning and complete the by-law amendment and rezoning process, including undergoing the public hearings process again. This could result in a significant delay in the development of Hastings Racecourse.

#### **Future Cash Requirements**

The Company believes that its current capital plans and requirements can be funded from existing cash, cash generated from operations, credit and debt facilities, and the proceeds from the exercise of stock options or warrants or the issuance of equity. To the extent that these resources are inadequate, or the Company pursues other business opportunities, the Company may raise additional funds through the expansion, refinancing or renegotiation of its credit lines, or seek alternate public or private debt or equity financing. If additional funds are raised through the issuance of equity securities or the exercise of stock options, the percentage ownership of current shareholders will be reduced and such equity securities may have rights, preferences, or privileges senior to those of the holders of the Company's common stock. No assurance can be given that additional financing will be available, or that it can be obtained on terms favourable to the Company and its shareholders. If adequate funds are not available, the Company may be required to delay, limit, or eliminate some or all of its proposed expansions. The Company believes it will be able to meet all its debt covenants even if current capital plans and requirements are funded from debt.

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## **OTHER FINANCIAL INFORMATION**

### **Related Party Transactions**

The following related party transactions and balances are in addition to those noted elsewhere in the MD&A.

During the years ended December 31, 2005 and 2004, the Company had the following transactions with related parties:

- a) Other income includes:
  - i) interest income of \$114 (2004 - \$15) received from senior management, and Creation, a company that has a director who is a member of senior management of the Company.
  - ii) ATM revenues of \$552 (2004 - \$507) received from a company that has a director who is a member of senior management of the Company and had a director (resigned director position in April 2005) who is an officer of the Company.
  
- b) Human resource expenses include:
  - i) Dealer training services of \$1,164 (2004 - \$1,067) provided by a company controlled by a director of the Company.
  - ii) Consulting services of \$134 (2004 - \$563) provided by a director of the Company and a company controlled by a director of the Company.
  
- c) Restructuring costs include severance of \$Nil (2004 - \$715) to a former employee, who is also a director of the Company. Accounts payable and accrued liabilities include \$440 (2004 - \$678) relating to severance not yet paid to the former employee.

These related party transactions were recorded at the exchange amount, which is the amount of consideration paid or received as established and agreed to by the related parties.

### **Critical Accounting Estimates**

Our reported financial position and results of operations are dependent on our selection of accounting policies that are based on generally accepted accounting principles and accounting estimates that underlie the preparation of our financial statements. Our financial statements contain a summary of our significant accounting policies and accounting estimates.

Estimates by their nature are subject to risks, uncertainties and assumptions, which could cause our financial position and operating results to differ materially from those currently presented in our consolidated financial statements. Future changes in accounting estimates are applied on a prospective basis

The critical accounting estimates that we believe are the most judgmental or are material to our financial statements, are those relating to the FDIF, CRA, business combinations, long-lived asset and goodwill impairment, stock-based compensation, and income taxes.

## **GREAT CANADIAN GAMING CORPORATION**

### **Management Discussion & Analysis**

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#### Facility Development Improvement Fund

The Casino Operational Services Agreements (“COSAs”) at our BC casinos, the existing and expected Racing Casino Operational Services Agreements (“RCOSAs”) at our BC racetracks, and the expected Bingo Casino Operational Services Agreement (“BCOSA”) at our community gaming centre provide for the reimbursement of certain of the Company’s qualifying capital and operating expenditures. Under these agreements, qualifying expenditures under the FDIF are recorded as a receivable from BCLC and as a reduction in the historical cost of the related asset or operating expense at the time approval is given by BCLC. The FDIF is reimbursed weekly at the rate of 3% of the win amount from casino gaming activities, 3% to 5% of the win from the community gaming centre and 5% of the slot win from the racetrack casino. The FDIF receivable is drawn down based on the gaming win at the rates indicated above and is irrevocable on the assumption that the Company continues to operate under valid COSAs, RCOSAs and BCOSA.

The FDIF receivable is non-interest bearing and is discounted using a discount rate management estimates to be the market rate of interest for a similar instrument with similar terms and conditions. In addition, management estimates the amount and timing of future reimbursements from BCLC based on current and planned scope of gaming operations. The discounted FDIF receivable increases by the amount of the imputed discount over its estimated collection term. In our statement of income, this increase is recorded as “Accretive Income”. If the amount or timing of future reimbursements differs significantly from our estimates, the values of the FDIF receivable and accretive income could differ from those recorded in our consolidated financial statements.

Management estimates that the total receivable amount from BCLC will be collected over a period of approximately sixteen years. Including the renewal terms at the Company’s option, the operating agreements expire at various dates between 2021 and 2025. Full reimbursement of the FDIF receivable balance will depend on the renewal of these agreements over the estimated collection period.

#### Capital Reserve Account

The Amended and Restated Operating Contract (“AROC”) with the NSGC includes a provision for reimbursement of certain of the Company’s qualifying expenditures under the CRA. Five percent of the annual gross operating revenues from the two Nova Scotia casinos is contributed to the CRA maintained by NSGC. Beginning in year 2008, the CRA fund is subject to a minimum annual contribution of \$5,000 per annum.

Reimbursement of qualifying expenditures is received from the CRA, or if there is insufficient balance in the CRA, is recorded as a receivable from NSGC and recorded as a reduction in the historical cost of the related expenditure at the time approval is given by NSGC. At year-end December 31, 2005, the Company had not made qualifying expenditures in excess of the balance of the CRA.

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#### Business Combinations

The cost of an acquired company (“purchase price”) is assigned to the identifiable tangible and intangible assets purchased and liabilities assumed on the basis of their fair values at the date of acquisition. The identification of assets purchased and liabilities assumed and the valuation thereof is specialized and judgmental. Where appropriate, the Company engages business valuers to assist in the valuation of tangible and intangible assets acquired. Any excess of purchase price over the fair value of the identifiable tangible and intangible assets purchased and liabilities assumed is allocated to goodwill.

When a business combination involves contingent consideration, an amount equal to management’s estimate of the contingent consideration is recognized as a liability at the time of acquisition. When the contingency is resolved and the consideration is issued or becomes issuable, any difference in the fair value of the contingent consideration issued or issuable over the amount initially recognized will be recognized as an adjustment to the cost of the purchase.

Intangible assets are amortized in the statement of income over the estimated useful life of the intangible asset. Judgment is used to estimate an intangible asset’s useful life and is based on an analysis of all pertinent factors including, amongst others, our expected use of the intangible asset, contractual provisions that enable renewal or extension of the intangible asset’s legal or contractual life without substantial cost, and renewal history.

#### Long-Lived Assets and Goodwill Impairment Tests

Long-lived assets, including intangible assets, are tested for impairment whenever management believes events or circumstances indicate that the carrying values of those assets may not be fully recoverable (a “triggering event”). A long-lived asset impairment loss is recognized when the carrying value of that asset exceeds our estimate of the sum of the undiscounted cash flows expected from its use and eventual disposition. The impairment loss is measured as the excess of the carrying value of the asset over its estimated fair value.

Goodwill is tested for impairment at least annually, normally at year-end, and whenever a triggering event indicates that the carrying values of goodwill may not be fully recoverable. The excess of the goodwill’s carrying value over its estimated fair value, if any, is charged to operations in the period in which the impairment occurs. To determine whether goodwill is impaired, we use valuation techniques that involve estimating reporting units’ future earnings and applying an estimated market valuation multiple to determine fair values.

The long-lived asset and goodwill impairment tests had no impact on the Company’s results for the year ended December 31, 2005.

#### Stock-Based Compensation

Companies that issue equity based compensation, such as options, are required to record the fair value of the options granted as an operating expense in the statement of income over the expected life of the option. At the date of the option grant, the Company estimates the fair value of the option using the Black-Scholes pricing model. That model takes into account the exercise

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price of the option, an estimate of the expected life of the option, the current price of the underlying stock, an estimate of the stock's volatility, an estimate of future dividends on the underlying stock and the risk-free rate of return expected for an instrument with a term equal to the expected life of the option. Once the fair value is determined and the period of expensing established, the charge is not adjusted for subsequent changes in the original assumptions.

#### Income Taxes

We currently have deferred tax assets resulting primarily from net operating loss carry-forwards and deductible timing differences, which will reduce taxable income in future periods. A valuation allowance is required when we believe it is more likely than not that all or a portion of a deferred tax asset will not be realized. We consider future taxable income projections, historical results and ongoing tax planning strategies in assessing the recoverability of deferred tax assets.

#### **Disclosure Controls and Procedures**

The Company's Chief Executive Officer and its Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures. They are assisted in this responsibility by the Disclosure Committee, a management committee comprised of senior executives of the Company. The Disclosure Committee was formed to assist the Chief Executive Officer and Chief Financial Officer in oversight of the accuracy and timeliness of material disclosures made by the Company.

The Chief Executive Officer and the Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures as at December 31, 2005, have concluded that the Company's disclosure controls and procedures are adequate and effective to ensure that material information relating to the Company and its subsidiaries would have been made known to them.

#### **Definitions of Other Terms Used in the MD&A**

EBITDA margin – means EBITDA as a percentage of Revenues

F&B – means Food and Beverage.

G&A – means General and Administration expenses.

Non-operating (income) expense – means foreign exchange (gain) loss and non-controlling interests.

Operating expenses – means human resources, general and administration, operating supplies, occupancy costs, marketing and promotion, amortization, stock-based compensation, restructuring costs, and termination of legal proceedings.

Operating income (or income from operations) – means revenues less operating expenses.

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Provincial Gaming Corporations or PGC – means BCLC, NSGC and OLGC.

Revenues – means the sum of the following:

- Casino gaming in BC – gaming revenue is net of commissions paid to BCLC (which are 60% of the win on most table games, 75% of the slot machine win at the casino facilities, and 80% of the slot win at racetrack facilities) and is net of accruals for anticipated payouts of progressive slot machine jackpots and progressive table game payouts.
- Bingo and slots at a community gaming centre in BC – gaming revenue is net of commissions paid to BCLC (which are 75% of the win on slots, and 40% to 75% of the weekly bingo win) and is net of prizes.
- Horseracing in BC and ON – racetrack revenues represent total wagering less amounts returned as winning wagers, provincial and federal taxes, and includes the host track share of wagering on the Company's races simulcast to other associations.
- Casino gaming in Washington - gaming revenue is net of county gaming taxes at various rates ranging from 10% to 14% for card and progressive jackpot games, 5% on pull-tabs and 2% on amusement games.
- Casino gaming in Nova Scotia – from May 31, 2005 to June 30, 2005, gaming revenue is net of 20% win tax paid to the province of Nova Scotia and 1.5% for the capital replacement reserve to NSGC. From July 1, 2005, gaming revenue is equal to 52.725% of the gaming win.
- Slot commissions in ON – slot machine commissions represent 10% of the win from slot machines operated by the OLGC
- Food and beverage revenues – revenues are recorded at the retail price at the time of service. Food and beverage revenues in Nova Scotia are recorded at retail price less 47.275% to NSGC.
- Hotel revenues – revenues are recognized as services are performed.
- Other income – Consist of ATM commissions, theatre revenues, advertising revenues, and other income from ancillary services.
- Promotional allowances – the retail value of promotional allowances furnished to guests without charge, which have been included in food and beverage revenues, are deducted.

Win – the gaming win is generally the amount wagered on gaming activities, less the payout or prizes to winning customers. Win, as a percentage of the coin-in or drop, can fluctuate with the statistical variations of casino games.

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#### **Additional Information**

Additional information relating to the Company, including the Company's Annual Information Form, can be located on the SEDAR website at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.gcgaming.com](http://www.gcgaming.com).

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## SUPPLEMENTAL FINANCIAL INFORMATION

### Canada Quarterly Results Trend

#### Gaming revenues

	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
River Rock	\$ 19,142	\$ 18,159	\$ 19,082	\$ 19,270	\$ 21,294	\$ 18,315	\$ 1,363	\$ -
Boulevard	9,703	7,664	8,592	8,813	9,225	8,297	9,809	9,708
Holiday Inn	2,441	2,397	2,616	2,536	2,813	2,500	2,624	3,152
Richmond & Renaissance	-	-	-	-	-	-	5,960	6,652
View Royal	4,958	4,934	4,911	4,533	4,670	4,413	4,486	4,156
Nanaimo	3,305	3,396	3,318	2,980	3,125	3,273	2,993	2,722
Hastings Racecourse	14	5	8	8	14	4	17	-
Fraser Downs	2,330	2,224	2,456	421	-	-	-	-
Nova Scotia	10,795	12,586	5,248	-	-	-	-	-
Georgian Downs	2,507	-	-	-	-	-	-	-
Flamboro Downs	2,215	-	-	-	-	-	-	-
Other & Corporate	403	866	260	236	230	438	-	-
	\$ 57,813	\$ 52,231	\$ 46,491	\$ 38,797	\$ 41,371	\$ 37,240	\$ 27,252	\$ 26,390

#### Racetrack revenues

	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Hastings Racecourse	\$ 2,565	\$ 3,396	\$ 4,222	\$ 1,915	\$ 2,629	\$ 3,242	\$ 3,031	\$ -
Fraser Downs & Sandown	1,269	986	810	177	-	-	-	-
Georgian Downs	670	-	-	-	-	-	-	-
Flamboro Downs	1,130	-	-	-	-	-	-	-
TBC	1,546	1,763	2,027	125	-	-	-	-
	\$ 7,180	\$ 6,145	\$ 7,059	\$ 2,217	\$ 2,629	\$ 3,242	\$ 3,031	\$ -

#### Food and beverage, hotel and other income

	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
River Rock	\$ 6,546	\$ 3,371	\$ 2,430	\$ 2,562	\$ 2,506	\$ 1,779	\$ 129	\$ -
Boulevard	1,236	743	848	830	231	147	171	123
Holiday Inn	231	194	193	222	146	10	2	2
Richmond & Renaissance	-	-	-	-	-	4	12	9
View Royal	618	628	666	543	148	124	117	98
Nanaimo	258	244	230	184	45	40	17	15
Hastings Racecourse	738	1,563	1,250	362	631	1,297	1,136	-
Fraser Downs & Sandown	1,038	596	594	104	-	-	-	-
Nova Scotia	1,971	1,916	910	-	-	-	-	-
Georgian Downs	1,353	-	-	-	-	-	-	-
Flamboro Downs	1,125	-	-	-	-	-	-	-
TBC	6	7	22	-	-	-	-	-
Other & Corporate	387	248	128	144	151	170	120	124
	\$ 15,507	\$ 9,510	\$ 7,271	\$ 4,951	\$ 3,858	\$ 3,571	\$ 1,704	\$ 371

<sup>(1)</sup> Other and Corporate includes results for Jack O'Clubs Gaming Hall Ltd and Bear Mountain.

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#### EBITDA <sup>(1)</sup>

	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
River Rock	\$ 6,157	\$ 8,642	\$ 9,644	\$ 9,854	\$ 11,336	\$ 10,461	\$ 948	\$ -
Boulevard	2,643	3,883	5,000	5,343	5,676	4,941	6,230	6,580
Holiday Inn	66	221	255	385	562	473	733	1,080
Richmond & Renaissance	-	-	-	-	(6)	74	3,130	3,812
View Royal	2,391	2,361	2,537	2,313	2,351	2,143	1,964	2,059
Nanaimo	1,495	1,673	1,614	1,412	1,504	1,761	1,375	1,182
Hastings Racecourse	(293)	413	886	370	236	937	217	-
Fraser Downs & Sandown	917	729	1,235	331	-	-	-	-
Nova Scotia	1,246	2,764	1,823	-	-	-	-	-
Georgian Downs	1,522	-	-	-	-	-	-	-
Flamboro Downs	1,572	-	-	-	-	-	-	-
TBC	359	524	720	27	-	-	-	-
Other & Corporate	(9,752)	(2,732)	(5,760)	(4,733)	(4,964)	(4,456)	(3,788)	(4,775)
	\$ 8,323	\$ 18,478	\$ 17,954	\$ 15,302	\$ 16,695	\$ 16,334	\$ 10,809	\$ 9,938

<sup>(1)</sup> See "Introduction - Non-GAAP Measures" for a discussion of EBITDA.

#### Presentation of Supplemental Information

The above financial information is provided on a supplemental basis to the MD&A. Prior quarter financial information in this table has been adjusted to conform to the current presentation, which includes adjustments to reflect re-evaluations of estimates, allocations and adjustments made among Corporate and the properties. In addition, management fees charged to properties for corporate services have been reversed for this presentation and reclassified back against corporate costs.

The total revenues and EBITDA have not changed from those reported in prior MD&As. Commentary in this MD&A is based on the above revised presentation.

#### Additional Commentary

River Rock EBITDA includes casino, food and beverage, hotel and theatre operations. In the fourth quarter of 2005, the revenue increase was more than offset by the \$1,379 increase in unusual costs discussed earlier, \$889 theatre losses and low EBITDA margins on food, beverage and hotel operations. Labour costs on gaming operations have increased as a result of scheduled wage rate changes. Occupancy costs have increased as a result of the larger scale of operations with the opening of the hotel, theatre and restaurants.

Boulevard EBITDA includes an increase in revenues due primarily to the expanded facility for half of the fourth quarter. However, EBITDA was negatively affected by the \$1,320 in unusual costs discussed earlier, disruption from pre-opening construction and low EBITDA margin from food and beverage operations. Labour efficiency on gaming operations was lower than in the past due to start-up inefficiencies. Occupancy costs have increased as a result of the larger scale of operations.

Corporate EBITDA in the third quarter of 2005 includes a \$2,558 one-time recovery of premises

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rent from the FDIF, which reduced corporate costs in the quarter. Corporate EBITDA in the fourth quarter of 2005 includes the \$2,265 in unusual costs discussed earlier. In addition to the unusual costs, fourth quarter corporate costs have also increased due to higher labour and overhead costs associated with the larger scale of operations. The Company is taking active steps to reduce corporate costs during 2006.

Hastings Racecourse, Fraser Downs and Nova Scotia EBITDAs have had corporate services charges for integration and ongoing support reversed in this presentation. Nanaimo EBITDA has had corporate services charges for premises rent reversed in this presentation.