



GREAT CANADIAN GAMING CORPORATION

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2006

(Unaudited – Prepared by Management)

(Expressed in thousands, except for share and per share information)

GREAT CANADIAN GAMING CORPORATION

Interim Consolidated Balance Sheets

(Unaudited - Prepared by Management)

(In thousands, except for share and per share information)

	March 31, 2006	December 31, 2005
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 98,392	\$ 69,812
Restricted cash	5,084	6,598
Accounts receivable	8,768	13,098
Due from Provincial Gaming Corporations, current	35,061	35,353
Promissory notes receivable, current	1,178	1,329
Income taxes receivable	5,434	4,533
Future income taxes	1,528	1,875
Prepays, deposits and other assets	8,037	7,708
	163,482	140,306
Due from Provincial Gaming Corporations	259,654	253,485
Property, plant and equipment	286,697	283,071
Promissory notes receivable and other assets	9,635	8,544
Intangible assets	194,125	195,767
Goodwill	37,331	37,497
	\$ 950,924	\$ 918,670
LIABILITIES		
CURRENT		
Gaming revenues payable	\$ 10,256	\$ 10,030
Accounts payable and accrued liabilities	48,667	56,854
Income taxes payable	5,406	3,694
Long-term debt, current	3,225	3,252
	67,554	73,830
Long-term debt	Note 4 395,123	438,279
Future income taxes	79,537	82,123
Deferred credit and other liabilities	5,499	5,385
	547,713	599,617
Non-controlling interests	715	733
SHAREHOLDERS' EQUITY		
Share capital and other equity	Note 7 330,326	247,727
Cumulative foreign currency translation	(7,022)	(7,163)
Retained earnings	79,192	77,756
	402,496	318,320
	\$ 950,924	\$ 918,670
Subsequent event	Note 7(b)	

See Accompanying Notes to the Interim Consolidated Financial Statements

GREAT CANADIAN GAMING CORPORATION
Interim Consolidated Statements of Income
(Unaudited - Prepared by Management)
(In thousands, except for share and per share information)

	Three months ended March 31,			
	2006		2005	
REVENUES	\$	86,631	\$	52,146
EXPENSES				
Human resources		43,571		25,544
General and administration		7,923		2,887
Operating supplies		6,446		3,052
Occupancy costs		8,702		2,794
Marketing and promotion		2,866		1,285
Amortization		6,427		1,467
Stock-based compensation		2,194		721
Restructuring costs	Note 5	1,602		-
		79,731		37,750
INCOME FROM OPERATIONS		6,900		14,396
Gain (loss) on investments and properties		(72)		137
Interest and financing, net		(5,337)		(1,065)
Accretive income		2,652		1,424
Foreign exchange gain		155		144
INCOME BEFORE INCOME TAXES		4,298		15,036
Income taxes	Note 6	2,578		5,798
INCOME BEFORE NON-CONTROLLING INTERESTS		1,720		9,238
Non-controlling interests		284		(21)
NET INCOME	\$	1,436	\$	9,259
EARNINGS PER COMMON SHARE				
Basic	\$	0.02	\$	0.13
Diluted	\$	0.02	\$	0.12
WEIGHTED AVERAGE NUMBER OF COMMON SHARES				
Basic		79,729,025		73,918,763
Diluted		80,822,417		76,288,888

See Accompanying Notes to the Interim Consolidated Financial Statements

GREAT CANADIAN GAMING CORPORATION
Interim Consolidated Statements of Shareholders' Equity

(Unaudited - Prepared by Management)

(In thousands, except for share and per share information)

	Common Shares		Additional Paid-up Capital And Other Equity Amount	Share Capital And Other Equity Amount	Cumulative Foreign Currency Translation Adjustments	Retained Earnings	Shareholders' Equity
	Number	Amount					
At December 31, 2004	69,989,689	\$ 97,312	\$ 4,489	\$ 101,801	\$ (5,908)	\$ 58,177	\$ 154,070
Exercise of incentive stock options	981,327	\$ 4,973	\$ (1,907)	\$ 3,066	\$ -	\$ -	\$ 3,066
Treasury offering	3,750,000	60,069	-	60,069	-	-	60,069
Issuance of common shares, upon exercise of special warrants	3,703,704	72,709	-	72,709	-	-	72,709
Stock based compensation	-	-	5,312	5,312	-	-	5,312
Exercise of warrants	1,025,000	4,770	-	4,770	-	-	4,770
Effect of foreign currency translation	-	-	-	-	(1,255)	-	(1,255)
Net income, January 1 to March 31, 2005	-	-	-	-	-	9,259	9,259
Net income, April 1 to December 31, 2005	-	-	-	-	-	10,320	10,320
At December 31, 2005	<u>79,449,720</u>	<u>\$ 239,833</u>	<u>\$ 7,894</u>	<u>\$ 247,727</u>	<u>\$ (7,163)</u>	<u>\$ 77,756</u>	<u>\$ 318,320</u>
Exercise of incentive stock options	4,000	\$ 215	\$ (181)	\$ 34	\$ -	\$ -	\$ 34
Treasury offering, net of tax effected issuance costs of \$178	6,206,361	79,821	-	79,821	-	-	79,821
Stock based compensation and restructuring costs	-	-	2,744	2,744	-	-	2,744
Effect of foreign currency translation	-	-	-	-	141	-	141
Net income	-	-	-	-	-	1,436	1,436
At March 31, 2006	<u>85,660,081</u>	<u>\$ 319,869</u>	<u>\$ 10,457</u>	<u>\$ 330,326</u>	<u>\$ (7,022)</u>	<u>\$ 79,192</u>	<u>\$ 402,496</u>

GREAT CANADIAN GAMING CORPORATION

Interim Consolidated Statements of Cash Flows

(Unaudited - Prepared by Management)

(In thousands, except for share and per share information)

	Three months ended March 31,	
	2006	2005
Cash Flows from Operating Activities		
Net income	\$ 1,436	\$ 9,259
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	6,427	1,467
Accretive income	(2,652)	(1,424)
Stock-based compensation	2,744	721
FDC qualified operating expenses, net of discount	(273)	(2,361)
Other activities	389	1,381
Future income taxes	(2,141)	-
Changes in non-cash operating working capital	(1,378)	(9,065)
Note 8		
Net cash provided by operating activities	4,552	(22)
Cash Flows from Financing Activities		
Proceeds from long-term debt	-	13,536
Repayment of long-term debt	(43,183)	(458)
Deferred financing costs	(1,350)	-
Common shares issued for cash, net of issuance costs	79,762	63,898
Net cash provided by financing activities	35,229	76,976
Cash Flows from Investing Activities		
Restricted cash	1,514	(1,061)
Funds received from Provincial Gaming Corporations	12,027	3,707
Purchase of property, plant and equipment, net of related accounts payable	(24,925)	(31,110)
Acquisitions, net of cash acquired	-	(34,505)
Note 3		
River Rock prepaid lease	-	(9,262)
Promissory notes and advances receivable, net	151	(5,765)
Net cash used in investing activities	(11,233)	(77,996)
Effect of foreign exchange on cash and cash equivalents	32	(13)
Net Cash Inflow (Outflow)	28,580	(1,055)
Cash and cash equivalents, Beginning of the period	69,812	38,946
Cash and cash equivalents, End of the period	\$ 98,392	\$ 37,891
Supplemental Disclosure		
Interest received	\$ 1,005	\$ 394
Interest paid	\$ 11,173	\$ 2,482
Income taxes paid	\$ 4,106	\$ 7,123
Non-Cash Investing and Financing Activities		
FDC allocated to assets	\$ 13,985	\$ 20,505

See Accompanying Notes to the Interim Consolidated Financial Statements

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

For the three months ended March 31, 2006

(Unaudited – Prepared by Management)

(Expressed in thousands, except for share and per share information)

1. NATURE OF BUSINESS

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These unaudited interim consolidated financial statements include the accounts of the Company, its subsidiaries, and variable interest entities subject to control. The interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and accordingly, certain information and note disclosures normally included in the audited annual consolidated financial statements have been omitted. As a result, these unaudited interim consolidated financial statements should be read in conjunction with the Company’s most recent audited annual consolidated financial statements. These interim financial statements have been prepared using the same accounting principles as set out in the audited annual consolidated financial statements of the Company for the year ended December 31, 2005.

b) Deferred Financing Costs

Amounts paid to lenders in connection with the modification of a debt instrument are included in deferred financing costs and are amortized on a straight-line basis over the remaining term of the amended instrument. Amounts paid to other parties are expensed.

Deferred financing costs existing at the time of a modification of a debt instrument are amortized over the remaining term of the amended debt.

c) Comparative Figures

Certain of the prior period's comparative figures have been reclassified to conform to the current period's presentation.

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

For the three months ended March 31, 2006

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3. ACQUISITIONS

Acquisitions are accounted for using the purchase method, whereby the purchase price is allocated to the fair value of assets and liabilities at the acquisition date, and the results of operations are included in the consolidated financial statements from the date of acquisition. To the extent that certain acquisition agreements provide for contingent consideration based on future financial performance, these payments, if any, will be treated as additional costs of the purchase. In the March 31, 2005 interim financial statements, the purchase prices of the acquisitions were allocated to the fair value of the assets and liabilities using preliminary estimates. These estimates were finalized in the December 31, 2005 annual financial statements based on assistance from independent valuers. Any adjustments were recorded on a prospective basis.

There were no acquisitions in the three months ended March 31, 2006. The following acquisitions were made in the three months ended March 31, 2005.

a) *Orangeville Raceway Limited*

On March 18, 2005, the Company completed the purchase of 100% of the outstanding common shares of Orangeville Raceway Limited (“Orangeville”) for cash consideration of \$40,000 plus additional payments based on the net gaming and racing revenues earned over the first four years following the acquisition. The Company paid a refundable deposit of \$4,000 towards this acquisition, which was included in other assets as at December 31, 2004. Orangeville operates two standardbred racing facilities in BC: Fraser Downs Racetrack & Casino in Surrey, and Sandown Park in North Saanich on Vancouver Island.

The preliminary allocation of the purchase price to the fair value of the net assets acquired was as follows:

Cash	\$	40,000
Acquisition costs		<u>185</u>
Total purchase price	\$	<u>40,185</u>
Cash	\$	3,149
FDC receivable		14,988
Other current assets		1,611
Property, plant and equipment		26,487
Intangible assets		21,278
Accounts payable and accrued liabilities		(5,115)
Long-term debt		(6,093)
Future income taxes		<u>(16,120)</u>
Net assets acquired	\$	<u>40,185</u>

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Notes to the Interim Consolidated Financial Statements

For the three months ended March 31, 2006

(Unaudited – Prepared by Management)

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3. ACQUISITIONS (Continued)

b) TBC Teletheatre B.C.

As a result of the acquisition of Orangeville, the Company increased its existing 25% interest in TBC (acquired through the acquisition of Hastings Entertainment Inc. and previously accounted for using the equity method) to 50% and consolidated TBC's financial position, operating results and cash flows as at and for the thirteen days ended March 31, 2005.

TBC's principal business activity is the operation of teletheatre wagering facilities in BC, which broadcasts horseracing from Hastings Racecourse, Fraser Downs and other racetracks in Canada and throughout the world.

c) Weinlager & Amici Caffè (Coquitlam) Ltd. and Weinlager & Amici Caffè (Victoria) Ltd.

On January 10, 2005, the Company purchased the remaining 50% interest in Weinlager & Amici Caffè (Coquitlam) Ltd. and Weinlager & Amici Caffè (Victoria) Ltd. (collectively "Weinlager") for cash consideration of \$1,225 and acquisition costs of \$101. The transaction resulted in the Company owning 100% of Weinlager. Weinlager operated the food and beverage at the Company's Coquitlam, Holiday Inn, Nanaimo and View Royal casinos.

The preliminary allocation of the purchase price to the fair value of the net assets acquired was as follows: \$812 to property, plant and equipment, \$1,425 to goodwill, \$298 to other assets, reduced by \$143 of bank indebtedness, \$375 of other liabilities, and \$691 due to the Company.

4. LONG-TERM DEBT

On March 27, 2006, the holders of the Company's Series A Senior Secured Notes and Series B Senior Secured 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 allowable Net Debt to Adjusted EBITDA ratio (defined terms in the debt agreements) to 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.

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4. LONG-TERM DEBT (Continued)

In consideration, the Company agreed with the Lenders to:

- pay amendment fees of approximately \$1,350;
- 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 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 amendment fees are included in deferred financing costs in other assets and are amortized on a straight-line basis over approximately nine years, being the remaining term of the Notes.

5. RESTRUCTURING COSTS

The Company has begun to implement restructuring initiatives to improve its operational efficiencies. During the three month period ended March 31, 2006, the Company recorded restructuring costs of \$1,602, which consists of \$1,052 for severance related payments and other obligations, and \$550 for stock based compensation related to stock options held by departed employees. As at March 31, 2006, restructuring costs of \$801 remain in accounts payable and accrued liabilities.

6. INCOME TAXES

The Company's income tax expense is as follows:

	Three Months Ended March 31,	
	2006	2005
Canadian basic statutory tax rate	34.63%	35.62%
Expected income tax provision for the period	\$ 1,488	\$ 5,356
Non-deductible stock-based compensation	950	257
Other	140	185
	\$ 2,578	\$ 5,798

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7. SHARE CAPITAL

a) *Private placement*

On March 28, 2006, the Company completed 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 net proceeds of the unit have been allocated between the common share and share purchase warrant based on the residual value method. The fair value of the common share component was determined to be \$12.89 based on its trading price prior to closing. A residual value of \$nil was assigned to the share purchase warrant component. Each unit is subject to a four-month hold period from the closing date. The Company incurred total share issue costs of \$238 on the private placement.

The Company's Chairman and Chief Executive Officer participated in the private placement for \$50,000 of the total offering.

These share purchase warrants were the only warrants outstanding at March 31, 2006.

b) *Stock options*

	Options	Weighted Average Exercise Price
Outstanding at December 31, 2005	5,624,237	\$ 13.07
Granted	-	-
Exercised	(4,000)	9.04
Cancelled/Expired	(340,625)	18.07
Outstanding at March 31, 2006	5,279,612	\$ 12.75

Subsequent to March 31, 2006, officers of the Company forfeited 725,000 stock options that were exercisable at a price of \$17.96 and 212,500 stock options that were exercisable at a price of \$18.47.

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8. CHANGES IN NON-CASH WORKING CAPITAL

	Three Months Ended	
	March 31,	
Changes in non-cash operating working capital	2006	2005
Accounts receivable	\$ 4,483	\$ 2,125
Prepays, deposits and other assets	(326)	(1,651)
Accounts payable and accrued liabilities	(6,503)	(7,990)
Income taxes receivable	(898)	-
Income taxes payable	1,866	(1,549)
	\$ (1,378)	\$ (9,065)