



# GREAT CANADIAN GAMING CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three Months Ended March 31, 2006

*As at May 10, 2006*

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

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Three Months Ended March 31, 2006

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#### FINANCIAL REVIEW SUMMARY

	Three Months Ended					
	March 31, 2006	December 31, 2005	% Change	March 31, 2005	% Change	
Revenues	\$ 86,631	\$ 85,559	1%	\$ 52,146	66%	
EBITDA*	\$ 17,123	\$ 9,603	78%	\$ 16,584	3%	
Net income	\$ 1,436	\$ (9,165)	n/a	\$ 9,259	(84%)	
Earnings per common share:						
Basic	\$ 0.02	\$ (0.12)	n/a	\$ 0.13	(85%)	
Diluted	\$ 0.02	\$ (0.12)	n/a	\$ 0.12	(83%)	

\* EBITDA is defined in the Introduction – Non-GAAP Measures section of this MD&A. EBITDA excludes the restructuring charge recorded in the first quarter of 2006.

For the three month period ended March 31, 2006 (the “first quarter of 2006”), Great Canadian Gaming Corporation (the “Company”, “we”, “our”) recorded revenues of \$86.6 million, an increase of 66% from the first quarter of 2005 and 1% from the fourth quarter of 2005 despite having 2.2% fewer operating days. There were 90 operating days in the first quarters of 2006 and 2005, compared to 92 operating days in the fourth quarter of 2005.

The operating results in the first quarter of 2006 include the results of operations from acquisitions and expansions completed during 2005, which, for the most part, were completed subsequent to the end of the first quarter of 2005. These acquisitions and expansions account primarily for the increase in revenues in the first quarter of 2006 compared to the first quarter of 2005.

The acquisitions made during 2005 were: Orangeville Raceway Limited (“Orangeville”) on March 18, 2005; Metropolitan Entertainment Group (“MEG”) on May 31, 2005; Georgian Downs Limited (“Georgian”) on July 2, 2005; and Flamboro Downs Holdings Limited (“Flamboro”) on October 19, 2005. The expansions completed during 2005 were: River Rock Casino Resort (“River Rock”) hotel, theatre, and food and beverage operations on August 19, 2005; Fraser Downs Racetrack and Casino (“Fraser Downs”) complex expansion on October 14, 2005; and Boulevard Casino (“Boulevard”) expanded casino on November 17, 2005.

Revenues in the first quarter of 2006 increased \$1.1 million compared to the fourth quarter of 2005 as a result of a \$2.8 million increase in gaming revenues, offset by a decrease in non-gaming revenues of \$1.7 million.

The increase in gaming revenues in the first quarter of 2006 compared to the fourth quarter of 2005 resulted primarily from a full quarter of operation at the expanded Boulevard Casino, offset by a decline in Washington State revenues resulting from a state-wide smoking ban, a decrease in table games hold percentage at River Rock, and a seasonal decline at the Nova Scotia casinos (MEG). The decrease in non-gaming revenues in the first quarter of 2006 compared to the fourth quarter of 2005 resulted primarily from the seasonal closure of live racing at the Hastings Racecourse and reduced food and beverage revenues from Hastings, Georgian and the Nova Scotia casinos.

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EBITDA (defined under "Introduction – Non-GAAP Measures"), excluding the restructuring charge of \$1.6 million in the first quarter of 2006, was \$17.1 million, an increase of 3% from the first quarter of 2005 and 78% from the fourth quarter of 2005. If the fourth quarter of 2005 EBITDA of \$9.6 million were adjusted for \$5.0 million in unusual costs incurred in that quarter, the percentage EBITDA increase from the fourth quarter of 2005 to the first quarter of 2006 would be 17%.

The \$5.0 million in unusual costs recorded in the fourth quarter of 2005 included:

- \$1.4 million at River Rock. This amount included 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 included 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 included a \$1.4 million adjustment to reflect a discount on the British Columbia Lottery Corporation ("BCLC") Facility Development Commission ("FDC") approval towards operating expenditures. The remaining additional corporate costs were related to integration activities, professional and consulting fees and third party training programs.

The increase in revenues in the first quarter of 2006 compared to the first quarter of 2005 did not yield a proportionate increase in EBITDA, as costs increased at nearly the same rate. The revenue increase from the first quarter of 2005 to the first quarter of 2006 came primarily from business acquisitions and casino facilities expansions which led to an increase in non-casino activities such as horse racing, food, beverage, hotel and entertainment. Non-casino activities generally have a higher labour and cost structure and generate lower EBITDA as a percentage of revenues compared to pure casino operations. In the first quarter of 2006, non-casino operations accounted for 25% of revenues before deducting promotional allowances compared to 16% in the first quarter of 2005.

In addition to the lower EBITDA from non-casino activities, following the acquisitions and expansions undertaken in 2005, the Company's fixed costs and overhead structure expanded rapidly to accommodate the growth. EBITDA in the fourth quarter of 2005 was also impacted by increasing fixed costs and overheads, and \$5.0 million in unusual costs associated primarily with pre-opening and start-up activities. Since that time, cost reduction and efficiency improvement initiatives have been implemented to reduce operating costs and improve EBITDA as a percentage of revenue for our operations.

In the first quarter of 2006, we have started to see financial benefits from the above initiatives. The first quarter of 2006 results show reductions in most operating costs, with the exception of occupancy costs, when compared to the fourth quarter of 2005. Staff levels at head office reached a peak in October 2005 with 170 employees. At March 31, 2006, head office staff levels were 152 employees. Human resources costs decreased \$2.9 million to 50% of revenues in the first quarter of 2006, compared to 54% of revenues in the fourth quarter of 2005. The human resources cost decrease was partly due to the seasonal decline in some of our operations resulting in lower hourly staff requirements during the first quarter of 2006.

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Marketing and promotion, occupancy cost, operating supplies, and general and administration expenses decreased \$3.5 million in the first quarter of 2006 compared to the fourth quarter of 2005. The decrease is due primarily to significant pre-opening costs associated with the expanded facilities' advertising and promotions program and other unusual corporate costs that were incurred in the fourth quarter of 2005. These reductions were partly offset by the full quarter impact of operating the expanded Boulevard casino (expanded November 17, 2005) and higher property taxes assessed for the expanded properties at River Rock and Boulevard.

The Company recorded a restructuring charge of \$1.6 million in the first quarter of 2006 to reflect severance, stock based compensation, and other obligations associated with departed employees.

Non-cash amortization expense increased in the first quarter of 2006 compared to the first quarter of 2005 as a result of additions to property, plant and equipment and intangible assets from acquired businesses and from capital expansion projects during 2005. Amortization in the first quarter of 2006 was consistent with amortization in the fourth quarter of 2005.

The increase in non-cash stock-based compensation expense in the first quarter of 2006 compared to the first quarter of 2005 is due to stock options granted by the Company subsequent to the first quarter of 2005.

Interest expense increased in the first quarter of 2006 compared to the fourth quarter of 2005 due primarily to a cessation of the capitalization of interest charges to development projects which were completed. The higher interest expense in the first quarter of 2006 compared to the first quarter of 2005 is due to higher levels of overall debt incurred to fund acquisitions and expansions in 2005.

Accretive income increased in the first quarter of 2006 over the fourth quarter of 2005 and the first quarter of 2005 due to higher amounts due from provincial gaming corporations, which leads to a higher discount and higher accretion of the discount.

The loss on investments decreased in the first quarter of 2006 compared to the fourth quarter of 2005 due to a write-down of non-core investments recorded in the fourth quarter.

Net income was \$1.4 million in the first quarter of 2006 compared to net income of \$9.3 million in the first quarter of 2005, and a net loss of \$9.2 million in the fourth quarter of 2005. The fully diluted earnings (loss) per share was \$0.02 for the first quarter of 2006 compared to \$0.12 in the first quarter of 2005 and (\$0.12) in the fourth quarter of 2005.

Total assets increased to \$950.9 million at March 31, 2006 compared to \$918.7 million at December 31, 2005. The Company received net proceeds from a private placement equity issue during the first quarter of 2006 of \$79.8 million and used a portion of those proceeds to reduce amounts outstanding under the Credit Facility.

On March 27, 2006, the Company renegotiated certain terms, including the financial covenants, on its Series A Senior Secured Notes and Series B Secured Notes (collectively, the "Notes"), and its Credit Facility to avoid a potential default on a financial covenant. Amendment fees of

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approximately \$1.4 million are being amortized over the remaining term of the Notes.

The Company will continue to focus on reducing costs and improving the efficiency of its operations over the next several quarters. Variable costs, such as hourly labour and operating supplies, are expected to vary as the seasonal operations ramp-up for the summer and live racing resumes at Hastings Racecourse. Additional restructuring costs are expected in future quarters as the Company continues to review expenses, and evaluate, improve and upgrade business processes and systems.

On the development front, the Company will continue current projects, primarily the construction of the theatre at Boulevard, the replacement community gaming centre at Dawson Creek and capital improvements at MEG. Hastings Racecourse development is expected to commence when necessary approvals are obtained.

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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 May 10, 2006. This MD&A should be read in conjunction with our unaudited interim consolidated financial statements for the three months ended March 31, 2006 and the accompanying notes ("Interim Financial Statements"), and our audited consolidated financial statements for the year ended December 31, 2005 and the accompanying notes ("Annual Financial Statements").

Our discussion in this MD&A is based on the Interim Financial Statements. The Interim Financial Statements are prepared under Canadian Generally Accepted Accounting Principles ("GAAP") for interim financial statements and accordingly, certain information and note disclosures normally included in the audited annual financial statements are omitted. Unless expressly stated otherwise, all financial information is presented in Canadian dollars. Certain of the prior period comparative figures have been restated to the current period's presentation.

### **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, 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 "Consolidated 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 not guarantees, but only predictions. Although these statements are based on information and assumptions which the Company believes 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.

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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 numerous 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). In addition, further information on operations can be found in the MD&A for the year ended December 31, 2005.

### **Operations in Canada**

#### British Columbia

##### *Market Trend and Competition*

The Company operates four casinos and two horseracing tracks in the Greater Vancouver area. Based on information from BCLC, about two thirds of the BC casino gaming win comes from the Greater Vancouver area. We anticipate that much of the growth projected by BCLC in its service plan will come from expansions the Company and competitors have delivered in the past two years. After two years of rapid expansion, based on public announcements from our competitors, we understand that no further expansions will occur in the Greater Vancouver area until late 2007, at which time a competitor has announced it will open a new casino in New Westminster's Queensborough area.

With a period of relative stability upcoming in the gaming marketplace in Greater Vancouver, 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.

We believe the Company's other main BC casino properties, namely View Royal and Nanaimo on Vancouver Island, are in stable marketplaces and face limited competition. The Company's BC horseracing tracks are not expected to face further competition.

The Company has operated a seasonal casino in Wells, BC that has been unprofitable over the years. The casino is closed for the winter season and management does not plan to reopen it this summer. This casino is not a material component of the Company's operations.

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#### *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. There is, however, 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 MEG's Casino Nova Scotia Halifax and Casino Nova Scotia 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. In November 2005, 800 VLTs were removed across the province, with a further 200 to be reduced through attrition. In January 2006, the speed of play on VLTs was reduced by 30% and the VLT's stop feature was disabled.

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*

The Company operates two live horseracing facilities (with slots operated by Ontario Lottery and Gaming Corporation) 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

There are currently four commercial casinos, six charity casinos, seventeen racetracks with slot machines and two racetracks without slot machines in Ontario. The GTA's only live horseracing and slot venue is Woodbine Racetrack. There are no casinos in the GTA. 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.

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#### *Seasonality*

The Company is not aware of any significant seasonality issues impacting its Ontario operations other than influences from the winter weather conditions.

#### **Operations in Washington State**

##### *Market Trend and Competition*

The Company operates four table only casinos in the Greater Seattle area. The competitive environment in Washington is highly regulated but does not have the same significant barriers to entry for commercial casinos as in British Columbia, Ontario and Nova Scotia. Competition among commercial casinos in Washington State 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. Tribal casinos were exempted from the smoking ban. It is uncertain how the ban will affect the future operations of the Company's casinos over the long term. However, in the short term, as mentioned earlier, we did experience a \$713 decline in revenues in the first quarter of 2006 compared to the fourth quarter of 2005, likely due to the state-wide smoking ban.

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## **DEVELOPMENT PROJECTS**

### Coquitlam Boulevard Casino

The first phase of the Boulevard casino expansion opened on November 17, 2005. The Boulevard 1,100-seat theatre is expected to open in the third quarter of 2006. The cost of expansion is expected to be substantially FDC recoverable. As at March 31, 2006, approximately \$103,000 of construction and equipment costs had been spent on this project and an estimated \$13,000 is remaining.

### 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 City of Vancouver Development Board has approved development plans for the installation of 600 slot machines at Hastings, together 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 substantially FDC recoverable. As at March 31, 2006, approximately \$3,700 had been spent.

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. No decision has been reached on this petition. See further information in the "Litigation – Hastings Racecourse" section.

### Casino Nova Scotia

The Company is implementing its business plan for MEG for the upgrade and replacement of slot technology and surveillance equipment, and for other 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"). As at March 31, 2006, approximately \$10,600 of construction and equipment costs had been spent on this project and an estimated \$14,200 is remaining. These facility upgrades are expected to be substantially completed by start of the third quarter of 2006.

### Bear Mountain Community Gaming Centre

The Company owns land in Dawson Creek and is building a replacement community gaming centre that will include a bingo hall, larger slot gaming and entertainment floor, 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. As at March 31, 2006, approximately \$3,900 of construction and equipment costs had been spent on this project and an estimated \$7,900 is remaining. These costs are expected to be substantially FDC recoverable.

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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 locations. Discussion of Consolidated Results of Operations focuses on consolidated income and expenses that are excluded from EBITDA.

### Operating Results in Canada

	Three Months Ended				
	March 31, 2006	December 31, 2005	% Change	March 31, 2005	% Change
Gaming revenues	\$ 60,977	\$ 57,813	5%	\$ 38,797	57%
Racetrack revenues	6,408	7,180	(11%)	2,217	189%
Food & beverage revenues	11,483	12,269	(6%)	4,198	174%
Hotel revenues	1,842	1,766	4%	-	n/a
Other non-gaming revenues	1,438	1,472	(2%)	753	91%
	<b>82,148</b>	<b>80,500</b>	<b>2%</b>	<b>45,965</b>	<b>79%</b>
Less: Promotional allowances	(1,899)	(2,036)	(7%)	(762)	149%
Revenues	<b>80,249</b>	<b>78,464</b>	<b>2%</b>	<b>45,203</b>	<b>78%</b>
Human resources	40,028	42,815	(7%)	21,727	84%
Marketing and promotion, occupancy costs, operating supplies and G&A	24,320	27,326	(11%)	8,174	198%
	<b>64,348</b>	<b>70,141</b>	<b>(8%)</b>	<b>29,901</b>	<b>115%</b>
EBITDA*	15,901	8,323	91%	15,302	4%
EBITDA % of revenues	20%	11%		34%	
Stock-based compensation	2,142	1,951	10%	710	202%
Amortization	5,916	5,888	0%	991	497%
Restructuring costs	1,602	-	n/a	-	n/a
Income from operations	\$ 6,241	\$ 484	1189%	\$ 13,601	(54%)

\* EBITDA is defined in the Introduction – Non-GAAP Measures section of this MD&A

### Discussion of Results

The operating results in the first quarter of 2006 include the results of operations from acquisitions and expansions completed during 2005, which for the most part were completed subsequent to the end of the first quarter of 2005. These acquisitions and expansions primarily account for most of the increase in revenues in the first quarter of 2006 compared to the first quarter of 2005.

The acquisitions during 2005 were: Orangeville on March 18, 2005; MEG on May 31, 2005; Georgian on July 2, 2005; and Flamboro on October 19, 2005. The expansions completed during 2005 were: River Rock hotel, theatre, and food and beverage operations on August 19, 2005; Fraser Downs complex expansion on October 14, 2005; and Boulevard casino expansion on November 17, 2005.

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Our five BC casinos consists of River Rock, Boulevard and Casino on Broadway (formerly known as "Holiday Inn on Broadway") in the Greater Vancouver area and View Royal and Nanaimo on Vancouver Island (collectively, the "BC Casinos").

#### *Gaming Revenues*

The following section uses the casino gaming terms "table drop", "table hold", "table hold percentage" and "slot win". These are non-GAAP measures. Table drop means the collective amount of money customers are willing to wager on table games against the casino, and is commonly computed as the aggregate of money counted in the casino drop boxes. Table hold is calculated as the table drop less the payout to winning customers and change in chip inventory. Table hold percentage is the ratio of table hold divided by table drop. Table hold percentage fluctuates with the statistical variations or volatility inherent in casino games. As a result, we believe table drop is a more meaningful measure of our long-term casino performance. Slot win is the aggregate of money customers have placed into slots or electronic machines (the coin-in) less the payout or prizes to winning customers.

The table drop, table hold and slot win figures are derived from management gaming reports and are shown before the revenue split between BCLC and the Company. Our portion of the revenue split is reported as gaming revenues and represents the commission we earn on the table hold and slot win, plus additional commission earned on craps and poker games.

Canadian gaming revenues in the first quarter of 2006 increased by \$22,180 or 57% from the first quarter of 2005, and \$3,164 or 5% from the fourth quarter of 2005. There were 90 operating days in the first quarters of 2006 and 2005, and 92 operating days in the fourth quarter of 2005. Thus, results for the first quarter compared to the fourth quarter should consider the 2.2% reduction in the number of operating days.

The largest component of Canadian gaming revenues is from the five BC Casinos. The five BC Casinos contributed gaming revenues of \$42,352 for the first quarter of 2006, an increase of 11% from the first quarter of 2005 and an increase of 7% from the fourth quarter of 2005. The increase in BC gaming revenues from the first quarter of 2005 to the first quarter of 2006 and fourth quarter of 2005 is attributable largely to additional revenues from the first phase of the Boulevard casino expansion completed in November 2005 offset by reduced revenues at River Rock.

The five BC Casinos achieved an average table hold percentage of 23.4% in the first quarter of 2006, compared to 23.6% in the first quarter of 2005 and 24.6% in the fourth quarter of 2005. Table drop was \$219.5 million in the first quarter of 2006, compared to \$217.5 million in the first quarter of 2005 and \$196.3 million in the fourth quarter of 2005.

We believe the decline in the Company's table drop experienced in the first three quarters of 2005 was likely caused by the rapid increase in the number of table games and slots that occurred in the Greater Vancouver marketplace in 2005. The declining trend has reversed for the past two quarters as the market absorbs the new capacity. We expect that our table business volumes will generally continue to grow as a result of limited new competition expected for the next two years in our key market area, Greater Vancouver, and the introduction of new games such as hand-held baccarat, which appeals to VIP high-end players. The Company plans a measured increase in

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the number of hand-held baccarat games to help long-term revenue growth. Hand-held baccarat has a more volatile table hold percentage than our other table games, as players tend to bet in concert as opposed to independently, and could result in an increase in table hold volatility over short periods of time, such as a reporting quarter.

The five BC Casinos recorded slot win of \$83.3 million in the first quarter of 2006, compared to \$66.3 million in the first quarter of 2005 and \$77.1 million in the fourth quarter of 2005. We expect that our slot business volume will also continue to grow as a result of limited new competition in our key market areas and our expansion of non-gaming amenities at our casinos to attract a broader group of customers.

River Rock, our largest BC casino, achieved a table drop of \$115.7 million and a table hold percentage of 24.6% in the first quarter of 2006, compared to a table drop of \$126.7 million and a hold percentage of 24.6% in the first quarter of 2005 and a table drop of \$107.0 million and a hold percentage of 26.7% in the fourth quarter of 2005. River Rock's slot win was \$26.0 million in the first quarter of 2006, compared to \$23.6 million in the first quarter of 2005 and \$26.4 million in the fourth quarter of 2005.

River Rock's gaming revenues declined by \$686 in the first quarter of 2006 compared to the fourth quarter of 2005. Despite increased table drop, which indicates greater numbers of customers, the revenue decline was due to the reduced table hold percentage in the quarter and reduced play on craps and poker. The Company has seen some of its poker customers move to our expanded Boulevard casino.

Boulevard achieved a table drop of \$58.6 million and a table hold percentage of 22.2% in the first quarter of 2006, compared to a table drop of \$46.8 million and a hold percentage of 22.0% in the first quarter of 2005, and a table drop of \$43.9 million and a hold percentage of 22.6% in the fourth quarter of 2005. Boulevard's slot win was \$28.8 million in the first quarter of 2006, compared to \$18.6 million in the first quarter of 2005 and \$23.3 million in the fourth quarter of 2005.

Boulevard's gaming revenues increased \$3,182 in the first quarter of 2006 compared to the fourth quarter of 2005 due to a full quarter of the expanded casino's operations (expansion opened November 17, 2005).

The other three BC Casinos achieved a total table drop of \$45.2 million and a table hold percentage of 21.9% in the first quarter of 2006, compared to a table drop of \$43.9 million and a hold percentage of 22.5% in the first quarter of 2005 and a table drop of \$45.4 million and a hold percentage of 21.6% in the fourth quarter of 2005. These casinos generated a total slot win of \$28.6 million in the first quarter of 2006, compared to \$24.1 million in the first quarter of 2005 and \$27.4 million in the fourth quarter of 2005.

The other three BC Casino's gaming revenues increased \$307 in the first quarter of 2006 compared to the fourth quarter of 2005. Two of these casinos are on Vancouver Island, which is a relatively mature market without competition.

The acquisitions made in fiscal 2005, which include Fraser Downs, MEG, Georgian and

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Flamboro, contributed gaming revenues of \$18,057 in the first quarter of 2006 compared to \$17,829 in the fourth quarter of 2005. The gaming revenues for these locations were generally stable with a seasonal decline at MEG offset by a full quarter of revenues from Flamboro.

The two MEG casinos achieved a table drop of \$16.7 million and a table hold percentage of 17% in the first quarter of 2006, compared to a table drop of \$17.3 million and a hold percentage of 20% in the fourth quarter of 2005. Their slot win was \$16.6 million in the first quarter of 2006, compared to \$17.1 million in the fourth quarter of 2005.

#### *Racetrack Revenues*

Racetrack revenues in the first quarter of 2006 increased by \$4,191 or 189% from the first quarter of 2005 and declined by \$772 or 11% from the fourth quarter of 2005.

The 2005 acquisitions of Orangeville, Georgian and Flamboro, and our increased ownership interest in TBC, contributed racetrack revenues of \$4,553 in the first quarter of 2006 compared to \$302 in the first quarter of 2005. The racetrack revenues for the first quarter of 2006 from these acquisitions declined by 1% when compared to the fourth quarter of 2005. Increased revenues from additional live racing days at Fraser Downs in the first quarter of 2006 as compared to the fourth quarter of 2005, were offset by lower revenues from a reduction of live racing days at Georgian Downs during the same period.

The primary reason for the decline in racetrack revenues in the first quarter of 2006 compared to the fourth quarter of 2005 was the seasonal cessation of live racing at the Hastings Racecourse. Live racing at Hastings Racecourse ended in November, with 18 live race days in the fourth quarter of 2005, and resumed in April 2006, with no race days in the first quarter of 2006.

#### *Food, Beverage, Hotel and Other non-gaming revenues*

Food, beverage, hotel and other non-gaming revenues (collectively "Other Revenues" for this section) were \$14,763 for the first quarter of 2006, an increase of 198% from the first quarter of 2005 and a decline of 5% from the fourth quarter of 2005.

The increase in Other Revenues in the first quarter of 2006 compared to the first quarter of 2005 was generated primarily by the 2005 acquisitions of Orangeville, Georgian, Flamboro and MEG. These properties contributed \$4,988 of Other Revenues in the first quarter of 2006. The increased scope of food, beverage and hotel operations at our River Rock and Boulevard casinos that were expanded subsequent to the first quarter of 2005 contributed an additional \$4,936 of Other Revenues in the first quarter of 2006.

The decrease in Other Revenues in the first quarter of 2006 compared to the fourth quarter of 2005 is due to sales declines in food and beverage at Hastings Racecourse (seasonal cessation of live racing), Nova Scotia (seasonal drop in business over the winter), and Georgian Downs (reduction in the number of live race days). These declines were partially mitigated by an increase in food and beverage at the expanded Boulevard Casino.

River Rock's hotel operations have seen a 4% revenue increase in the first quarter of 2006 as

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compared to the fourth quarter of 2005, due primarily to a 5% increase in the hotel's average daily room rate. The hotel's average occupancy rate has remained stable following the cessation of the initial opening promotional pricing, which is a sign of property awareness and a building customer base.

#### *Promotional Allowances*

Promotional allowances are complimentary amenities, such as food, non-alcoholic beverage and hotel rooms provided to gaming customers. Promotional allowances have increased in the first quarter of 2006 compared to 2005 primarily due to the acquisition of MEG, which has a player loyalty program, and certain BC casinos, which now provide complimentary non-alcoholic drinks to customers. Promotional allowances in the first quarter of 2006 declined by 7% from the fourth quarter of 2005 due to increased costs for the promotion of the Boulevard expansion in 2005.

#### *EBITDA (a Non-GAAP Measure defined in the Introduction section of this MD&A)*

EBITDA in the first quarter of 2006 increased \$599 or 4% from the first quarter of 2005 and increased \$7,578 or 91% from the fourth quarter of 2005. If the fourth quarter of 2005 EBITDA were adjusted for \$4,964 in unusual costs, the percentage increase in EBITDA from the fourth quarter of 2005 to the first quarter of 2006 would be 20%.

The \$4,964 unusual costs recorded in the fourth quarter of 2005 included:

- \$1,379 at River Rock. This amount included 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 included initial marketing and promotion costs and pre-opening hiring, training and labour costs at the facility, which opened later than originally scheduled.
- \$2,265 of corporate costs. This amount included a \$1,357 adjustment to reflect a discount on the BCLC FDC approval towards operating expenditures. The remaining additional corporate costs were related to integration activities, professional and consulting fees and third party training programs.

The increase in revenues in the first quarter of 2006 compared to the first quarter of 2005 did not yield a proportionate increase in the EBITDA, as costs increased at nearly the same rate. The Company's Canadian operations, including head office, generated an aggregate EBITDA margin (EBITDA as a percentage of revenues) of 20% in the first quarter of 2006 compared to 34% in the first quarter of 2005 and 11% in the fourth quarter of 2005.

The revenue increase from the first quarter of 2005 to the first quarter of 2006 was primarily from 2005 business acquisitions and casino facilities expansions which led to an increase in non-casino activities such as horse racing, food, beverage, hotel and entertainment. These non-casino activities generally have a higher labour and cost structure and generate lower EBITDA as a percentage of revenue compared to pure casino operations. In the first quarter of 2006, the Canadian non-casino operations accounted for 25% of revenues before promotional allowances compared to 16% in the first quarter of 2005.

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Following the acquisitions and expansions undertaken in 2005, the Company's fixed costs and overhead structure expanded rapidly to accommodate the growth. Since that time, cost reduction and efficiency improvement initiatives have been and will continue to be underway to reduce operating costs and improve the EBITDA as a percentage of revenue.

In the first quarter of 2006, we have started to see the financial benefits of the initiatives. The first quarter of 2006 results show reductions in most operating costs, except occupancy costs, when compared to the fourth quarter of 2005. The Company will continue to focus on reducing costs and improving the efficiency of its operations over the next several quarters. We continue to work with our food, beverage and hotel operator to improve both the marketing and promotion of the product, and operating efficiencies. Our River Rock show theatre improved its operations with increased pricing on event tickets, increased theatre day rentals for events such as conventions, reductions in the number of complimentary tickets, reduced marketing and promotion expenses, and a \$600 contribution from the BCLC marketing trust account. The Company is continuing discussions with BCLC for further funding towards entertainment programs. During the first quarter of 2006, the Company's casino operations recorded \$837 in marketing expenses based on BCLC's confirmation of expenditures made from the marketing trust account during the period.

#### *Human Resources*

A large proportion of human resource costs is variable with the level of revenues. Human resource costs for the first quarter of 2006 increased by \$18,301 or 84% over the first quarter of 2005 and decreased by \$2,787 or 7% from the fourth quarter of 2005. The human resources costs decrease in the first quarter of 2006 compared to the fourth quarter of 2005 was partly due to the seasonal decline in some of our operations resulting in lower hourly staff requirements during the first quarter of 2006.

Human resource costs have increased significantly from the acquisitions and expansions completed during 2005, and from increased head office staff hired to manage the Company's growth. As mentioned above, we are focusing on reducing costs and improving operations. Overall staff levels have continued to decrease from a peak in October 2005, when we reached 5,481 employees, to 5,169 employees at March 31, 2006. Staff levels at head office reached a peak in October 2005 at 170 employees. At March 31, 2006, there were 152 head office employees.

Human resource costs as a percentage of revenues was 50% in the first quarter of 2006, compared with 48% in the first quarter of 2005 and 55% in the fourth quarter of 2005. Human resource costs as a percentage of revenues improved as costs related to the pre-opening hiring, training and deployment of labour at the Boulevard expansion incurred in the fourth quarter of 2005 were non-recurring, post-opening efficiencies in labour at Boulevard and River Rock Casino have been improving and there has been a concerted effort by all management to restrict hiring and improve human resource costs as a percentage of revenues.

#### *Other Costs*

Other costs consist of marketing and promotion, occupancy costs, operating supplies and general and administration. Other costs for the first quarter of 2006 increased by \$16,146 or 198% from

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the first quarter of 2005 and decreased by \$3,006 or 11% from the fourth quarter of 2005. The increase over the first quarter of 2005 is due to acquisitions made during 2005, and the expanded scope of operations at River Rock and Boulevard casinos, including food, beverage, hotel and entertainment activities. The decrease from the fourth quarter of 2005 is due primarily to significant pre-opening costs associated with the expanded facilities' advertising and promotions program and other unusual corporate costs that were incurred in 2005. This was partly offset by the full quarter impact of operating the expanded Boulevard casino (expanded November 17, 2005) and higher property taxes assessed for the expanded properties at River Rock and Boulevard.

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#### Operating Results in Washington

	Three Months Ended					
	March 31, 2006	December 31, 2005	% Change	March 31, 2005	% Change	
Gaming revenues	\$ 5,461	\$ 5,856	(7%)	\$ 5,810	(6%)	
Food & beverage revenues	1,162	1,431	(19%)	1,334	(13%)	
Other non-gaming revenue	93	120	(23%)	118	(21%)	
	<b>6,716</b>	<b>7,407</b>	<b>(9%)</b>	<b>7,262</b>	<b>(8%)</b>	
Less: Promotional allowances	<b>(334)</b>	<b>(312)</b>	<b>7%</b>	<b>(319)</b>	<b>5%</b>	
	<b>6,382</b>	<b>7,095</b>	<b>(10%)</b>	<b>6,943</b>	<b>(8%)</b>	
Human resources	3,542	3,680	(4%)	3,817	(7%)	
Marketing and promotion, occupancy costs, operating supplies, and general & administration	1,618	2,135	(24%)	1,844	(12%)	
	<b>5,160</b>	<b>5,815</b>	<b>(11%)</b>	<b>5,661</b>	<b>(9%)</b>	
EBITDA*	1,222	1,280	(5%)	1,282	(5%)	
EBITDA % of revenues	19%	18%		18%		
Stock-based compensation	52	37	41%	11	373%	
Amortization	510	459	11%	476	7%	
Income from operations	\$ 660	\$ 784	(16%)	\$ 795	(17%)	

\* EBITDA is defined in the Introduction – Non-GAAP Measures section of this MD&A

#### Discussion of Results

Revenues in the first quarter of 2006 declined by 8% from the same period in 2005 and declined by 10% from the fourth quarter of 2005. We believe the revenue decline is due primarily to a state-wide smoking ban that was implemented in December 2005. This smoking ban does not affect competing native casinos.

Human resources costs in the first quarter of 2006 declined by 7% from the first quarter of 2005 and by 4% from the fourth quarter of 2005. The decline in human resource costs is largely attributable to reductions in staffing levels in response to reduced revenues. Human resource costs as a percentage of revenues after deducting promotional allowances were 55% in the first quarter of 2006, 55% in the first quarter of 2005 and 52% in the fourth quarter of 2005.

Other costs consisting of marketing and promotion, occupancy costs, operating supplies and general and administration decreased by 12% in the first quarter of 2006 from the same period in the prior year and by 24% from the fourth quarter of 2005. The decrease was primarily a result of a managed reduction in other operating costs in response to the anticipated decline in revenue from the state-wide smoking ban.

EBITDA as a percentage of revenues for the first quarter of 2006 was 19%, compared to 18% for the same period in 2005 and 18% in the fourth quarter of 2005.

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### Consolidated Results of Operations

	Three Months Ended				
	March 31, 2006	December 31 2005	% Change	March 31, 2005	% Change
Gaming revenues	\$ 66,439	\$ 63,669	4%	\$ 44,607	49%
Racetrack revenues	6,408	7,180	(11%)	2,217	189%
Food and beverage revenues	12,644	13,700	(8%)	5,532	129%
Hotel revenues	1,842	1,766	4%	-	n/a
Other non-gaming revenues	1,531	1,592	(4%)	871	76%
	<b>88,864</b>	<b>87,907</b>	<b>1%</b>	<b>53,227</b>	<b>67%</b>
Less: promotional allowances	(2,233)	(2,348)	(5%)	(1,081)	107%
	<b>86,631</b>	<b>85,559</b>	<b>1%</b>	<b>52,146</b>	<b>66%</b>
Human resources	43,571	46,495	(6%)	25,544	71%
Marketing and promotion, occupancy costs, operating supplies, and G&A	25,937	29,461	(12%)	10,018	159%
	<b>69,508</b>	<b>75,956</b>	<b>(8%)</b>	<b>35,562</b>	<b>95%</b>
EBITDA	17,123	9,603	78%	16,584	3%
EBITDA % of revenues	20%	11%		32%	
Stock-based compensation	2,194	1,988	10%	721	204%
Amortization	6,427	6,347	1%	1,467	338%
Restructuring costs	1,602	-	n/a	-	n/a
Income from operations	6,900	1,268	444%	14,396	(52%)
Non-operating (income) expense	129	570	(77%)	(165)	n/a
Loss (gain) on investment and properties	72	8,178	(99%)	(137)	n/a
Interest and financing, net	5,337	3,874	38%	1,065	401%
Accretive income	(2,652)	(2,253)	18%	(1,424)	86%
Income taxes	2,578	64	3928%	5,798	(56%)
Net income	\$ 1,436	\$ (9,165)	n/a	\$ 9,259	(84%)
Earnings per common share:					
Basic	\$ 0.02	\$ (0.12)	n/a	\$ 0.13	(85%)
Diluted	\$ 0.02	\$ (0.12)	n/a	\$ 0.12	(83%)
Weighted average number of common shares:					
Basic	79,729,025	79,406,692		73,918,763	
Diluted	80,822,417	80,549,482		76,288,888	

\* EBITDA is defined in the Introduction – Non-GAAP Measures section of this MD&A

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#### Gross Revenues

The Company presents gaming revenues net of commissions paid to BCLC, taxes paid to Washington State, commissions paid to the Nova Scotia Gaming Corporation ("NSGC"), and accruals for anticipated payouts of progressive slot machine jackpots and certain progressive table games.

The Company presents wagering revenue from race tracks net of amounts for provincial and federal taxes, and purses for wagering. Wagering revenue also includes the net amount of the host track share of wagering on races simulcast to other associations.

The following schedule presents the revenues of the Company's activities on a gross basis.

	Three months ended		
	March 31, 2006	December 31, 2005	March 31, 2005
Gross table win	\$ 60,399	\$ 58,207	\$ 58,118
Gross slot win	118,898	111,857	67,683
Gross racetrack	25,026	27,427	6,092
Food and beverage	13,455	14,594	5,532
Hotel revenues	1,842	1,766	-
Other gaming revenues	585	737	311
	<b>220,205</b>	214,588	137,736
Less: Gaming and other commissions and taxes	(114,254)	(108,026)	(81,505)
Racetrack purses	(18,618)	(20,247)	(3,875)
	<b>87,333</b>	86,315	52,356
Other non-gaming revenues	1,531	1,592	871
	<b>88,864</b>	87,907	53,227
Less: Promotional allowances	(2,233)	(2,348)	(1,081)
	<b>\$ 86,631</b>	\$ 85,559	\$ 52,146

#### Discussion of Results – Items Excluded From EBITDA

##### *Stock-Based Compensation*

Stock based compensation increased by 204% in the first quarter of 2006 as compared to the same period in 2005 and increased by 10% over the fourth quarter of 2005. The increase in the first quarter of 2006 compared to the first quarter of 2005 is due to the amortization of stock options issued during 2005.

##### *Amortization*

Amortization increased by 338% in the first quarter of 2006 as compared to the same period in 2005 due largely to the increase in plant, property, equipment and intangible assets acquired in 2005 business acquisitions and capital expansion projects. Amortization in the first quarter of 2006 was consistent with amortization charges in the fourth quarter of 2005.

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#### *Restructuring Costs*

Restructuring costs consists of severances, stock based compensation and other obligations associated with departed employees. Management continues to review operations for further opportunities to improve efficiency and effectiveness, achieve optimal staffing levels at expanded operations and reduce costs.

#### *Interest and Financing*

Interest expenses increased in the first quarter of 2006 over the first quarter of 2005 and the fourth quarter of 2005. The increase over the same period in 2005 is the result of higher levels of outstanding debt to finance acquisitions and development projects in 2005. The increase in the first quarter of 2006 compared to the fourth quarter of 2005 was due primarily to a cessation of the capitalization of interest charges to development projects that were completed and the expensing of non-lender costs incurred related to modification of the Notes and Credit Facility.

#### *Accretive income*

Accretive income increased in the first quarter of 2006 as compared to the first quarter of 2005, and the fourth quarter of 2005 as a result of higher amounts due from provincial gaming corporations, which leads to a higher discount and higher accretion of the discount.

#### *Other Items*

In the fourth quarter of 2005, the Company recorded a write-down of non-core investments of approximately \$7,890, which contributed to the net loss for that quarter.

#### *Income Taxes*

The Company's income tax provision is calculated based on the statutory income tax rate adjusted primarily for non-deductible stock based compensation.

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#### CONSOLIDATED QUARTERLY RESULTS TREND

	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004
Revenues	\$ 86,631	\$ 85,559	\$ 72,884	\$ 67,515	\$ 52,146	\$ 54,602	\$ 50,572	\$ 37,374
EBITDA*	\$ 17,123	\$ 9,603	\$ 19,749	\$ 19,427	\$ 16,584	\$ 17,839	\$ 16,898	\$ 10,614
EBITDA as a percentage of Revenues	20%	11%	27%	29%	32%	33%	33%	28%
Net income (loss)	\$ 1,436	\$ (9,165)	\$ 9,026	\$ 10,459	\$ 9,259	\$ 9,686	\$ 6,285	\$ 5,427
Earnings (loss) per common share:								
Basic	\$ 0.02	\$ (0.12)	\$ 0.12	\$ 0.14	\$ 0.13	\$ 0.14	\$ 0.09	\$ 0.08
Diluted	\$ 0.02	\$ (0.12)	\$ 0.11	\$ 0.14	\$ 0.12	\$ 0.13	\$ 0.09	\$ 0.08

\*EBITDA is defined in the Introduction – Non-GAAP Measures section of this MD&A

Revenues in the first quarter of 2006 increased \$1.1 million compared to the fourth quarter of 2005 as a result of a \$3.2 million increase in Canadian gaming revenues, primarily from the expanded Boulevard Casino, offset by a \$0.8 million decline in racetrack revenues, primarily from the seasonal closure of live racing at the Hastings Racecourse, a \$0.7 million net decline in food and beverage revenues, primarily from seasonal decreases at Hastings Racecourse, Georgian and MEG, and a \$0.7 million decline in the Washington State operations, primarily from the state-wide smoking ban imposed in December 2005.

EBITDA in the first quarter of 2006 increased 78% from the fourth quarter of 2005. EBITDA for the fourth quarter of 2005 was impacted by \$5.0 million in unusual costs associated primarily with acquisition and expansion activities, and higher human resource and overhead costs incurred to cope with the Company's growth in a short period of time. If the fourth quarter of 2005 EBITDA was adjusted for the \$5.0 million in unusual costs previously described, the percentage EBITDA increase from the first quarter of 2006 compared to the fourth quarter of 2005 would be 17%.

In the first quarter of 2006, the Company has continued to focus on cost reduction and efficiency improvement initiatives. These initiatives will continue through the next several quarters and are expected to reduce operating costs and improve EBITDA as a percentage of revenues. In the first quarter of 2006, we have started to see some of the benefits of the initiatives.

Weighted average common shares and fully diluted common shares outstanding during the first quarter of 2006 were 79,729,025 and 80,822,417, respectively compared to 79,406,692 and 80,549,482 in the fourth quarter of 2005, respectively.

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## LIQUIDITY AND CAPITAL RESOURCES

### Financial Position

	As at March 31, 2006	As at December 31, 2005	% change
Cash and cash equivalents	\$ 98,392	\$ 69,812	41%
Due from PGCs, current	35,061	35,353	(1%)
Other current assets	30,029	35,141	(15%)
Property, plant and equipment	286,697	283,071	1%
Due from PGCs, long-term	259,654	253,485	2%
Other assets	241,091	241,808	(0%)
	<b>\$ 950,924</b>	<b>\$ 918,670</b>	<b>4%</b>
Current liabilities	\$ 67,554	\$ 73,830	(9%)
Long-term debt	395,123	438,279	(10%)
Other long-term liabilities	85,751	88,241	(3%)
Shareholders' equity	402,496	318,320	26%
	<b>\$ 950,924</b>	<b>\$ 918,670</b>	<b>4%</b>

Total assets at March 31, 2006 increased 4% from December 31, 2005..

Cash and cash equivalents increased over the first quarter of 2006 primarily from operations and the proceeds of the private placement equity offering completed on March 28, 2006, less the portion of proceeds used to reduce amounts outstanding under the Credit Facility.

Due from Provincial Gaming Corporations ("PGC", consisting of BCLC, Nova Scotia Gaming Corporation, and OLG) has increased due to additional approval of government assistance associated with the FDC in British Columbia and the CRA in Nova Scotia. See the supplemental table on the next page.

Property, plant and equipment has increased net of the FDC discount and related depreciation due primarily to additional capital spending on development projects at Boulevard, MEG and Bear Mountain.

Long-term debt has decreased due to repayment of certain amounts outstanding under the Credit Facility.

Shareholders' equity has increased due primarily to \$79,821 in net proceeds received on the private placement equity offering.

The Company's working capital at March 31, 2006 was \$95,928, compared to \$66,476 at December 31, 2005.

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#### Changes in Cash Flows

	March 31, 2006	December 31, 2005	% Change	March 31, 2005	% Change
Cash inflow from operating activities	\$ 4,552	\$ 13,933	(67%)	\$ (22)	n/a
Cash inflow from financing activities	35,229	39,217	(10%)	76,976	(54%)
Cash outflow from investing activities	(11,233)	(30,064)	(63%)	(77,996)	(86%)
Effect of foreign exchange on cash and cash equivalents	32	(2)	n/a	(13)	n/a
Increase (decrease) in cash	\$ 28,580	\$ 23,084	24%	\$ (1,055)	n/a

The Company's cash and cash equivalents as at March 31, 2006 amounted to \$ 98,392 compared to \$69,812 at the end of 2005.

The Company's private placement of units, comprised of one common share and one share purchase warrant, on March 27, 2006 resulted in proceeds of \$79,762, of which \$43,183 was used to repay the Credit Facility.

Investing activities in the first quarter of 2006 comprised primarily the purchase of \$24,925 of property, plant and equipment, net of related accounts payable, offset by \$12,027 in funds received from PGC's.

#### Capital Resources

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

	As at March 31, 2006	As at December 31, 2005	% Change
Series A Senior Secured Notes	\$ 150,000	\$ 150,000	0%
Series B Senior Secured Notes	150,000	150,000	0%
Credit Facility	50,000	93,000	(46%)
Flamboro Promissory Note	44,194	44,194	0%
HEI Promissory Note	3,772	3,889	(3%)
Obligations under capital lease and other debt	382	448	(15%)
	\$ 398,348	\$ 441,531	(10%)
Less: current portion	3,225	3,252	(1%)
	\$ 395,123	\$ 438,279	(10%)

##### *Debt and Equity Update*

On March 27, 2006, the Company announced an equity offering consisting 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 participated 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.

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

The Company's Notes and Credit Facility 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 of 3.25 or less for 2005, 2.75 or less for 2006, and 2.50 or less for 2007. The Company's financial projections indicated that, absent remedial actions, it would not meet the required 2.75 Net Debt / Adjusted EBITDA ratio at March 31, 2006, the first measurement date in 2006.

On March 27, 2006, the lenders holding the Company's Notes and providing our Credit Facility 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 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.

In consideration, the Company agreed with the lenders to:

- pay amendment fees totaling \$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 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.

#### *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.

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On March 27, 2006, DBRS announced the assignment of the rating of "Negative" 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.

#### Outstanding Share Data

As at March 31, 2006, there were 85,660,081 common shares outstanding as compared to 79,449,720 common shares as at December 31, 2005. As at May 10, 2006, there were 85,687,381 common shares outstanding.

As at March 31, 2006, there were 5,279,612 stock options outstanding at a weighted average exercise price of \$12.75 and there were 6,206,361 warrants outstanding at a weighted average exercise price of \$12.89. As at May 10, 2006, there were 4,329,812 stock options and 6,206,361 warrants outstanding.

The book value of each common share at March 31, 2006 was \$4.70, calculated by dividing shareholders' equity by the 85,660,081 common shares outstanding.

Subsequent to March 31, 2006, certain 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. These forfeitures will reduce the Company's future stock-based compensation charges.

#### **Commitments**

<b>Contractual Obligations</b>	<b>Payments Due by Period as at March 31, 2006</b>				
	Less than 1 year	1 - 3 years	4 - 5 years	More than 5 years	Total
Long-term debt	\$ 2,984	\$ 122,761	\$ 41,194	\$ 231,027	\$ 397,966
Capital lease obligations	241	141	# -	-	382
Operating leases and contracts	3,956	5,979	5,305	22,047	37,287
<b>Total</b>	<b>\$ 7,181</b>	<b>\$ 128,881</b>	<b>\$ 46,499</b>	<b>\$ 253,074</b>	<b>\$ 435,635</b>

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 estimated remaining construction and equipment project costs to be spent during the remainder of 2006 are approximately \$14,200 for MEG, \$13,000 for Boulevard, and \$7,900 for Bear Mountain. In addition, the estimated remaining capital expenditure to develop Hastings Racecourse, when approved, is \$36,300.

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

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#### **Contingencies**

The Company has issued letters of credit to guarantee performance under contracts and gaming cash floats in the aggregate amount of \$25,529 at March 31, 2006.

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**

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. Management believes that proper process was followed by the City of Vancouver in amending the by-law to permit slot machines at Hastings Racecourse and the petition filed by the Hastings Park Conservancy is without merit. The petition was heard in court in April and May 2006. The court reserved its judgment on May 5, 2006 and no date has been set for a decision.

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. To the extent that these resources are inadequate, or the Company pursues other business opportunities and has increased requirements, 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 or warrants, 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 plans. 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 financial statements.

During the three months ended March 31, 2006 and 2005, the Company had the following transactions with related parties:

- a) Other income includes:
  - i) ATM revenues of \$349 (2005 - \$217) received from a company that has a director who is a member of senior management of the Company.
- b) Human resource expenses include:
  - i) Dealer training services of \$205 (2005 - \$328) provided by a company controlled by a director of the Company.
  - ii) Consulting services of \$nil (2005 - \$110) provided by a director of the Company.
- c) Accounts payable and accrued liabilities include:
  - i) \$385 (December 31, 2005 - \$440) relating to severance not yet paid to a former employee who is also a director of the Company.
  - ii) \$115 (December 31, 2005 - \$nil) relating to amounts due to a dealer training company controlled by a director of the Company.
- d) Promissory notes receivable and other assets include \$257 (December 31, 2005 - \$257) due from senior management of the Company.

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 FDC, CRA, business combinations, long-lived asset and goodwill impairment, stock-based compensation, and income taxes.

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There have been no changes to our commentary, methods, or estimates on these critical accounting estimates to those presented in our MD&A for the year ended December 31, 2005, except as follows.

In regards to the Capital Reserve Account in Nova Scotia, the Company has begun to incur approved expenditures for reimbursement in excess of the balance in the CRA account. The Company's accounting for these approved expenditures is similar to the Company's accounting for FDC. Included in the amounts due from PGC, is approximately \$4.4 million due from NSGC under the CRA program. This amount is not discounted as the estimated collection period from NSGC is less than one year.

Interested readers should refer to our MD&A for the year ended December 31, 2005 for further details.

#### **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.

#### **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 Revenues by Location

Gaming revenues									
	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	
River Rock	\$ 18,456	\$ 19,142	\$ 18,159	\$ 19,082	\$ 19,270	\$ 21,294	\$ 18,315	\$ 1,363	
Boulevard	12,885	9,703	7,664	8,592	8,813	9,225	8,297	9,809	
Holiday Inn	2,565	2,441	2,397	2,616	2,536	2,813	2,500	2,624	
Richmond & Renaissance	-	-	-	-	-	-	-	5,960	
View Royal	5,316	4,958	4,934	4,911	4,533	4,670	4,413	4,486	
Nanaimo	3,130	3,305	3,396	3,318	2,980	3,125	3,273	2,993	
Hastings Racecourse	7	14	5	8	8	14	4	17	
Fraser Downs	2,429	2,330	2,224	2,456	421	-	-	-	
Nova Scotia	10,474	10,795	12,586	5,248	-	-	-	-	
Georgian Downs	2,531	2,507	-	-	-	-	-	-	
Flamboro Downs	2,671	2,215	-	-	-	-	-	-	
Other & Corporate <sup>(1)</sup>	514	403	866	260	236	230	438	-	
	\$ 60,978	\$ 57,813	\$ 52,231	\$ 46,491	\$ 38,797	\$ 41,371	\$ 37,240	\$ 27,252	

Racetrack revenues									
	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	
Hastings Racecourse	\$ 1,855	\$ 2,565	\$ 3,396	\$ 4,222	\$ 1,915	\$ 2,629	\$ 3,242	\$ 3,031	
Fraser Downs & Sandown	1,353	1,269	986	810	177	-	-	-	
Georgian Downs	597	670	-	-	-	-	-	-	
Flamboro Downs	1,190	1,130	-	-	-	-	-	-	
TBC	1,413	1,546	1,763	2,027	125	-	-	-	
	\$ 6,408	\$ 7,180	\$ 6,145	\$ 7,059	\$ 2,217	\$ 2,629	\$ 3,242	\$ 3,031	

Food and beverage, hotel and other non-gaming revenues									
	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	
River Rock	\$ 6,622	\$ 6,546	\$ 3,371	\$ 2,430	\$ 2,562	\$ 2,506	\$ 1,779	\$ 129	
Boulevard	1,706	1,236	743	848	830	231	147	171	
Holiday Inn	245	231	194	193	222	146	10	2	
Richmond & Renaissance	-	-	-	-	-	-	4	12	
View Royal	590	618	628	666	543	148	124	117	
Nanaimo	271	258	244	230	184	45	40	17	
Hastings Racecourse	287	738	1,563	1,250	362	631	1,297	1,136	
Fraser Downs & Sandown	1,073	1,038	596	594	104	-	-	-	
Nova Scotia	1,486	1,971	1,916	910	-	-	-	-	
Georgian Downs	1,042	1,353	-	-	-	-	-	-	
Flamboro Downs	1,387	1,125	-	-	-	-	-	-	
TBC	(64)	6	7	22	-	-	-	-	
Other & Corporate <sup>(1)</sup>	117	387	248	128	144	151	170	120	
	\$ 14,762	\$ 15,507	\$ 9,510	\$ 7,271	\$ 4,951	\$ 3,858	\$ 3,571	\$ 1,704	

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

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The Company's BC operations, including head office, generated an aggregate EBITDA margin of 20% in the first quarter of 2006 compared to 33% in the first quarter of 2005 and 7% in the fourth quarter of 2005. The Company's Ontario operations generated an EBITDA margin of 30% in the first quarter of 2006 compared to 34% in the fourth quarter of 2005. The Company's Nova Scotia operations generated an EBITDA margin of 9% in the first quarter of 2006 compared to 10% in the fourth quarter of 2005.

An area of particular focus during the first quarter of 2006 has been our food, beverage, hotel and entertainment operations. Food and beverage EBITDA as a percentage of food and beverage revenue at River Rock and Boulevard improved to 9% in the first quarter of 2006, compared to 0% in the fourth quarter of 2005. The hotel's EBITDA as a percentage of hotel revenue improved to 35% in the first quarter of 2006, compared to 6% in the fourth quarter of 2005 (adjusted for the unusual marketing and promotion costs in the fourth quarter of 2005). We continue to work with our food, beverage and hotel operator to improve both the marketing and promotion of the product, and operating efficiencies.

The theatre recorded EBITDA of \$0.3 million for the first quarter of 2006 compared to an EBITDA loss of \$1.2 million in the fourth quarter of 2005. The improvement was as a result of increased pricing on event tickets, increased theatre day rentals for events such as conventions, reductions in the number of complimentary tickets, reduced marketing and promotion expenses, and a \$0.6 million contribution from the British Columbia Lottery Corporation ("BCLC") marketing trust account. The Company is continuing discussions with BCLC for future contributions towards the operating expenses of the theatre. In the first quarter of 2006, the Company's casino operations recorded \$0.8 million in marketing expenses based on BCLC's confirmation of expenditures made from the marketing trust account during the period.