



GREAT CANADIAN GAMING CORPORATION

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three month and nine month periods ended
September 30, 2006 and 2005

(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)

		September 30, 2006	December 31, 2005
ASSETS			
CURRENT			
Cash and cash equivalents		\$ 86,876	\$ 69,812
Restricted cash		6,553	6,598
Accounts receivable		8,306	13,098
Income taxes receivable		2,774	4,533
Due from Nova Scotia Gaming Corporation, current	Note 4 / 6	13,039	15,353
Promissory notes receivable, current		619	1,329
Future income taxes		2,227	1,875
Prepays, deposits and other assets		17,246	7,708
		137,640	120,306
Due from Nova Scotia Gaming Corporation	Note 4 / 6	26,442	28,607
Property, plant and equipment	Note 4 / 7	537,191	518,807
Promissory notes receivable and other assets	Note 8 / 9	4,412	8,544
Intangible assets	Note 4	204,485	209,888
Goodwill		38,360	37,497
		\$ 948,530	\$ 923,649
LIABILITIES			
CURRENT			
Gaming revenues payable		\$ 9,403	\$ 10,030
Accounts payable and accrued liabilities		48,557	56,854
Income taxes payable		2,630	3,694
Deferred credit and other liabilities, current		1,817	-
Long-term debt, current	Note 9	42,946	3,252
		105,353	73,830
Long-term debt	Note 9	368,785	438,279
Future income taxes	Note 4	70,551	83,821
Deferred credit and other liabilities		2,211	5,385
		546,900	601,315
Non-controlling interests		41	733
SHAREHOLDERS' EQUITY			
Share capital and other equity	Note 10	334,326	247,727
Cumulative foreign currency translation		(6,665)	(7,163)
Retained earnings	Note 4	73,928	81,037
		401,589	321,601
		\$ 948,530	\$ 923,649
Contingencies, commitments and litigation	Note 17 / 18		

See Accompanying Notes to the Interim Consolidated Financial Statements

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

		Three months ended September 30,		Nine months ended September 30,	
		2006	2005	2006	2005
REVENUES	Note 4	\$ 100,220	\$ 77,247	\$ 287,182	\$ 204,920
EXPENSES	Note 4				
Human resources		45,625	37,839	133,532	97,092
General and administration		8,021	5,004	24,487	12,746
Operating supplies		7,012	5,309	20,126	13,032
Occupancy costs		8,218	5,293	25,080	12,374
Marketing and promotion		4,359	3,506	11,154	7,963
Amortization		9,502	5,317	27,586	13,177
Stock-based compensation		1,291	1,418	4,984	3,324
Restructuring costs	Note 11	427	-	3,023	-
		84,455	63,686	249,972	159,708
INCOME FROM OPERATIONS		15,765	13,561	37,210	45,212
Impairment of investments and long-lived assets	Note 14	(201)	(62)	(2,487)	(23)
Interest and financing, net	Note 4 / 12	(34,874)	(2,624)	(44,435)	(5,527)
Foreign exchange gain (loss)		94	18	(1,602)	102
INCOME (LOSS) BEFORE INCOME TAXES		(19,216)	10,893	(11,314)	39,764
Income taxes	Note 4 / 13	(5,733)	4,272	(5,544)	14,475
INCOME (LOSS) BEFORE NON-CONTROLLING INTERESTS		(13,483)	6,621	(5,770)	25,289
Non-controlling interests		629	217	1,339	524
NET INCOME (LOSS)		\$ (14,112)	\$ 6,404	\$ (7,109)	\$ 24,765
EARNINGS (LOSS) PER COMMON SHARE	Note 4				
Basic		\$ (0.16)	\$ 0.08	\$ (0.08)	\$ 0.33
Diluted		\$ (0.16)	\$ 0.08	\$ (0.08)	\$ 0.32
WEIGHTED AVERAGE NUMBER OF COMMON SHARES					
Basic		86,087,373	77,933,301	83,911,096	75,689,590
Diluted		86,087,373	79,532,208	83,911,096	77,898,824

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		Contributed Surplus	Share Capital And Other Equity	Cumulative Foreign Currency Translation Adjustments	Retained Earnings	Shareholders' Equity
	Number	Amount	Amount	Amount			
At December 31, 2004, as previously reported	69,989,689	\$ 97,312	\$ 4,489	\$ 101,801	\$ (5,908)	\$ 58,176	\$ 154,069
Cumulative effect due to changes in accounting policy (note 4)	-	-	-	-	-	7,191	7,191
At December 31, 2004, as adjusted	69,989,689	97,312	4,489	101,801	(5,908)	65,367	161,260
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	-	-	-	-	-	7,801	7,801
Net income, April 1 to June 30, 2005	-	-	-	-	-	10,560	10,560
Net income, July 1 to Sept 30, 2005	-	-	-	-	-	6,404	6,404
Net loss, Oct 1 to Dec 31, 2005	-	-	-	-	-	(9,095)	(9,095)
At December 31, 2005	79,449,720	239,833	7,894	247,727	(7,163)	81,037	321,601
Exercise of incentive stock options	473,050	1,238	(376)	862	-	-	862
Treasury offering, net of tax effected issuance costs of \$295	6,206,361	79,705	-	79,705	-	-	79,705
Stock based compensation and restructuring costs	-	-	6,032	6,032	-	-	6,032
Effect of foreign currency translation	-	-	-	-	498	-	498
Net income, January 1 to March 31, 2006	-	-	-	-	-	915	915
Net income, April 1 to June 30, 2006	-	-	-	-	-	6,088	6,088
Net loss, July 1 to September 30, 2006	-	-	-	-	-	(14,112)	(14,112)
At September 30, 2006	86,129,131	\$ 320,776	\$ 13,550	\$ 334,326	\$ (6,665)	\$ 73,928	\$ 401,589

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 September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Cash Flows from Operating Activities				
Net income (loss)	\$ (14,112)	\$ 6,404	\$ (7,109)	\$ 24,765
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization	9,502	5,317	27,586	13,177
Impairment of investments and long-lived assets	Note 14	201	62	2,487
Non-cash interest and financing costs	5,930	746	7,062	978
Stock-based compensation and non-cash restructuring costs	1,291	1,418	6,032	3,324
Foreign exchange (gain) loss	(94)	(18)	1,602	(102)
Non-controlling interest and others	(42)	309	(214)	1,834
Future income taxes	(10,883)	(1,357)	(13,509)	(2,268)
Changes in non-cash operating working capital	Note 16	146	(1,104)	(5,222)
Net cash provided by (used in) operating activities	(8,061)	11,777	12,060	36,509
Cash Flows from Financing Activities				
Proceeds from long-term debt	396,823	203,000	396,823	379,243
Repayment of long-term debt	(330,876)	(176,543)	(426,623)	(177,179)
Deferred financing costs	(2,522)	(2,993)	(3,871)	(3,609)
Bond forward	-	1,736	-	1,736
Common shares issued for cash, net of issuance costs	337	72,005	80,411	137,916
Net cash provided by financing activities	63,762	97,205	46,740	338,107
Cash Flows from Investing Activities				
Restricted cash	921	(2,576)	45	(7,148)
Investment in and advances to equity investees	-	(393)	-	(614)
Funds received from Nova Scotia Gaming Corporation	5,937	2,877	18,511	2,877
Funds advanced to Nova Scotia Gaming Corporation to purchase plant and equipment	(1,769)	-	(15,006)	-
Purchase of property, plant and equipment, net of related accounts payable	(17,365)	(69,351)	(44,099)	(146,570)
Proceeds from disposal of property, plant and equipment	-	2,382	-	2,382
Acquisitions, net of cash acquired	-	(31,895)	(1,100)	(178,435)
River Rock prepaid lease	-	-	-	(9,262)
Promissory notes	1,604	(2,005)	8	(29,869)
Net cash used in investing activities	(10,672)	(100,961)	(41,641)	(366,639)
Effect of foreign exchange on cash and cash equivalents	96	(350)	(95)	(196)
Net Cash Inflow	45,125	7,671	17,064	7,781
Cash and cash equivalents, Beginning of the period	41,751	39,056	69,812	38,946
Cash and cash equivalents, End of the period	\$ 86,876	\$ 46,727	\$ 86,876	\$ 46,727
Supplemental Disclosure				
Interest received	\$ 1,282	\$ 1,249	\$ 3,390	\$ 1,951
Interest and Series A and B Notes prepayment fees paid	\$ 37,343	\$ 5,768	\$ 50,460	\$ 10,674
Income taxes (received) paid	\$ (3,623)	\$ 4,526	\$ 6,551	\$ 15,622
Non-Cash Investing and Financing Activities				
Conversion of promissory note to preferred shares	\$ -	\$ -	\$ -	\$ 6,917

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

For the three month and nine month periods ended September 30, 2006 and 2005

(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 (“BC”), Ontario and Nova Scotia in Canada and Washington State in the United States of America. The Company operates fourteen casinos, a thoroughbred racetrack, four standardbred racetracks, a community gaming centre, a hotel, two show theatres and numerous associated food and beverage and entertainment facilities.

2. INTERIM CONSOLIDATED FINANCIAL STATEMENTS – 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 consolidated 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 consolidated 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, except as described in Notes 3 and 4. The prior periods’ comparative figures have been presented with retrospective application of the change in accounting policy described in Note 4.

3. SIGNIFICANT ACCOUNTING POLICY

Facility Development Commission & Revenue Recognition

The Facility Development Commission (“FDC”, formerly known as the Facility Development Improvement Fund) is a compensation component of the Company’s Casino Operational Services Agreements (“COSAs”) with British Columbia Lottery Corporation (“BCLC”). FDC is earned (payable by BCLC to the Company) as a fixed percentage of gaming win, subject to the Company incurring sufficient Approved Amounts (a defined term in the COSAs and generally consists of approved capital or operating expenditures related to the development or improvement of gaming properties), and is paid weekly to the Company. Approved Amounts are reduced by the FDC receipts.

FDC is recorded as part of “Revenues” on the statement of income (loss) when earned (when it is payable by BCLC to the Company), limited to the extent that sufficient Approved Amounts have previously been made by the Company. If there is sufficient Approved Amounts, the FDC earned in any one period from BCLC is based on certain percentages of the win from gaming activities of that period at the Company’s British Columbia casinos, community gaming centre and racetrack with slot machines. Currently, these FDC percentages range from 3% to 5% of the win from gaming activities.

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICY (Continued)

As at September 30, 2006, the Company has \$355,246 (2005 - \$342,246) in Approved Amounts to be recovered by future FDC payments from BCLC. These Approved Amounts have not been reflected in “Revenues”.

4. CHANGE IN ACCOUNTING POLICY

In the three-month period ended September 30, 2006, the Company changed its accounting policy for the FDC and records FDC as “Revenues” as it is earned (when it is payable by BCLC to the Company), limited to the extent that sufficient Approved Amounts exist. Approved Amounts to be recovered through future FDC payments from BCLC will be disclosed in the notes to the consolidated financial statements.

The Company has elected to adopt the new accounting policy as it believes it more accurately reflects the nature of the current compensation arrangements with BCLC, provides better information on the cash flows of the Company and portrays “Property, plant and equipment” on the balance sheet at amortized historical cost.

Previously, the FDC was accounted for as a form of government assistance upon approval by the BCLC of the Approved Amounts. Approved Amounts were recorded at the time of BCLC’s approval as “Due from Provincial Gaming Corporation” on the balance sheet and reduced the cost of the related asset or operating expense. The “Due from Provincial Gaming Corporation” that was recorded on a discounted basis using a discount rate that management believed to be the market rate of interest for a similar instrument with similar terms and conditions. The FDC received reduced the “Due from Provincial Gaming Corporation” receivable. The “Accretive income” recognized increased the “Due from Provincial Gaming Corporation” receivable.

The Company’s former accounting policy for the FDC, while in accordance with Canadian generally accepted accounting principles, had increased in complexity, both in its application and in user understanding, and required significant management estimates, as a result of increases in the amount of the Company’s capital expenditures and Approved Amounts. In considering these factors, management initiated a review of the then applicable accounting policy for FDC.

The Canadian Institute of Chartered Accountants Handbook Section on “Accounting Changes”, effective January 1, 2007 with earlier adoption encouraged, requires where entities consider a voluntary change in accounting policies that the new policy result in more reliable and more relevant information about the effects of transactions on the entity’s financial position, financial performance or cash flows.

GREAT CANADIAN GAMING CORPORATION
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4. CHANGE IN ACCOUNTING POLICY (Continued)

The Company believes the new change in accounting policy for FDC is preferable to the prior method employed, and results in more reliable and more relevant presentation in the financial statements. The new policy does not require the significant management estimates inherent in the old policy. These estimates affected the determination of the “Due from Provincial Gaming Corporation” receivable, amortization expense, and accretive income.

This new accounting policy has been applied on a retrospective basis to prior periods, with the opening balance of retained earnings and other financial information and amounts disclosed in the financial statements presented as if the new accounting policy had always been applied.

The following table outlines the impact of the change in accounting policy on the accounts in the 2006 interim consolidated financial statements:

	Increase (Decrease)		
	September 30, 2006	June 30, 2006	March 31, 2006
<u>Consolidated Balance Sheets</u>			
<u>Assets</u>			
Due from Provincial Gaming Corporation ⁽¹⁾	\$ (252,059)	\$(251,782)	\$(249,485)
Property, plant and equipment	240,012	240,202	239,737
Intangible and other assets	14,722	14,925	13,937
	<u>2,675</u>	<u>3,345</u>	<u>4,189</u>
<u>Liabilities and Shareholders' Equity</u>			
Future income taxes	923	1,141	1,429
Retained earnings	1,752	2,204	2,760
	<u>\$ 2,675</u>	<u>\$ 3,345</u>	<u>\$ 4,189</u>

⁽¹⁾ With the change in accounting policy for FDC, all amounts in “Due from Provincial Gaming Corporation” are due from the Nova Scotia Gaming Corporation. Accordingly, the caption “Due from Provincial Gaming Corporation” has been amended to “Due from Nova Scotia Gaming Corporation”.

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

For the three month and nine month periods ended September 30, 2006 and 2005

(Unaudited – Prepared by Management)

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

4. CHANGE IN ACCOUNTING POLICY (Continued)

Consolidated Statements of Income (Loss)	Increase (Decrease)			
	3-Months Ended		9-Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Revenues	\$ 4,913	\$ 4,119	\$ 14,243	\$ 12,127
Expenses:				
Human resources	-	662	-	2,364
General and administration	-	-	6	-
Operating supplies	6	-	37	644
Occupancy costs	127	2,739	347	2,829
Marketing and promotion	23	173	(6)	339
Amortization	2,705	2,479	8,075	6,736
	<u>2,861</u>	<u>6,053</u>	<u>8,459</u>	<u>12,912</u>
	2,052	(1,934)	5,784	(785)
Interest and financing, net	-	-	-	(34)
Accretive income	(2,722)	(2,093)	(8,088)	(5,295)
Income (loss) before income taxes	(670)	(4,027)	(2,304)	(6,114)
Income taxes	(218)	(1,404)	(775)	(2,133)
Net income (loss)	<u>\$ (452)</u>	<u>\$ (2,623)</u>	<u>\$ (1,529)</u>	<u>\$ (3,981)</u>

Consolidated Statements of Income (Loss)	Increase (Decrease)			
	3-Months Ended		3-Months Ended	
	March 31,		June 30,	
	2006	2005	2006	2005
Revenues	\$ 4,650	\$ 3,707	\$ 4,680	\$ 4,301
Expenses:				
Human resources	-	1,629	-	73
General and administration	6	-	-	-
Operating supplies	3	638	28	6
Occupancy costs	144	52	76	38
Marketing and promotion	(50)	166	21	-
Amortization	2,685	2,039	2,685	2,218
	<u>2,788</u>	<u>4,524</u>	<u>2,810</u>	<u>2,335</u>
	1,862	(817)	1,870	1,966
Interest and financing, net	-	-	-	(34)
Accretive income	(2,652)	(1,424)	(2,714)	(1,778)
Income (loss) before income taxes	(790)	(2,241)	(844)	154
Income taxes	(269)	(782)	(288)	53
Net income (loss)	<u>\$ (521)</u>	<u>\$ (1,459)</u>	<u>\$ (556)</u>	<u>\$ 101</u>

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

For the three month and nine month periods ended September 30, 2006 and 2005

(Unaudited – Prepared by Management)

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

4. CHANGE IN ACCOUNTING POLICY (Continued)

	Increase (Decrease)			
	3-Months Ended September 30,		9-Months Ended September 30,	
	2006	2005	2006	2005
<u>Consolidated Statements of Cash Flow</u>				
Net cash provided by operating activities	\$ 4,913	\$ 4,119	\$ 14,243	\$ 12,127
Net cash used in investing activities	(4,913)	(4,119)	(14,243)	(12,127)
Net cash inflow	\$ -	\$ -	\$ -	\$ -

	Increase (Decrease)			
	3-Months Ended March 31,		3-Months Ended June 30,	
	2006	2005	2006	2005
<u>Consolidated Statements of Cash Flow</u>				
Net cash provided by operating activities	\$ 4,650	\$ 3,707	\$ 4,680	\$ 4,301
Net cash used in investing activities	(4,650)	(3,707)	(4,680)	(4,301)
Net cash inflow	\$ -	\$ -	\$ -	\$ -

	Increase (Decrease)			
	3-Months Ended September 30,		9-Months Ended September 30,	
	2006	2005	2006	2005
<u>Earnings (Loss) per Common Share</u>				
Basic	\$ (0.01)	\$ (0.03)	\$ (0.02)	\$ (0.05)
Diluted	\$ (0.01)	\$ (0.03)	\$ (0.02)	\$ (0.05)

	Increase (Decrease)			
	3-Months Ended March 31,		3-Months Ended June 30,	
	2006	2005	2006	2005
<u>Earnings (Loss) per Common Share</u>				
Basic	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ -
Diluted	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ -

GREAT CANADIAN GAMING CORPORATION
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(Unaudited – Prepared by Management)

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4. CHANGE IN ACCOUNTING POLICY (Continued)

The following table outlines the impact of the change in accounting policy for FDC on the accounts contained in the 2005 annual consolidated financial statements.

<u>Consolidated Balance Sheets</u>	<u>Increase (Decrease)</u>	
	<u>December 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
<u>Assets</u>		
Due from Provincial Gaming Corporation ⁽¹⁾	\$ (244,878)	\$ (117,065)
Property, plant and equipment	235,736	128,037
Intangible and other assets	14,121	197
	<u>4,979</u>	<u>11,169</u>
<u>Liabilities and Shareholders' Equity</u>		
Future income taxes	1,698	3,978
Retained earnings	3,281	7,191
	<u>\$ 4,979</u>	<u>\$ 11,169</u>

⁽¹⁾ With the change in accounting policy for FDC, all amounts in “Due from Provincial Gaming Corporation” are due from the Nova Scotia Gaming Corporation. Accordingly, the caption “Due from Provincial Gaming Corporation” has been amended to “Due from Nova Scotia Gaming Corporation”.

<u>Consolidated Statements of Income (Loss)</u>	<u>Increase (Decrease)</u>	
	<u>Year Ended December 31,</u> <u>2005</u>	<u>2004</u>
Revenues	\$ 16,340	\$ 12,455
Expenses:		
Human resources	1,563	2,326
General and administration	-	42
Operating supplies	452	2,566
Occupancy costs	2,905	1,115
Marketing and promotion	214	2,317
Amortization	9,828	4,700
	<u>14,962</u>	<u>13,066</u>
	1,378	(611)
Interest and financing, net	(20)	(1,354)
Accretive income	(7,548)	(1,365)
Income (loss) before income taxes	<u>(6,190)</u>	<u>(3,330)</u>
Income taxes	(2,280)	(1,187)
Net income (loss)	<u>\$ (3,910)</u>	<u>\$ (2,143)</u>

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4. CHANGE IN ACCOUNTING POLICY (Continued)

<u>Consolidated Statements of Cash Flow</u>	Increase (Decrease)	
	Year Ended December 31,	
	<u>2005</u>	<u>2004</u>
Net cash provided by operating activities	\$ 16,340	\$ 12,455
Net cash used in investing activities	(16,340)	(12,455)
Net cash inflow	<u>\$ -</u>	<u>\$ -</u>
<u>Earnings (Loss) per Common Share</u>		
Basic	\$ (0.05)	\$ (0.03)
Diluted	\$ (0.05)	\$ (0.03)

5. ACQUISITIONS

Acquisitions are accounted for using the purchase method, whereby the cost of the purchase 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, this consideration, if any, will be treated as an additional cost of the purchase.

There were no acquisitions in the nine months ended September 30, 2006. The following acquisitions were made in the nine months ended September 30, 2005.

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

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5. ACQUISITIONS (Continued)

Significant 2005 Acquisitions

Company	Georgian Downs	MEG	Orangeville	Weinlager
Operations	Racetrack ⁽¹⁾	Casino	Racetrack & Casino	Food & Beverage
Acquisition date	2-Jul-05	31-May-05	18-Mar-05	10-Jan-05
% Ownership acquired	100%	100%	100%	50%
% Ownership achieved	100%	100%	100%	100%
Cash	\$ 25,842	\$ 93,117	\$ 40,000	\$ 1,225
Working capital adjustment	281	-	-	-
Acquisition costs	1,255	1,875	305	103
Total purchase price	\$ 27,378	\$ 94,992	\$ 40,305	\$ 1,328
Cash and cash equivalents	\$ 1,358	\$ 8,207	\$ 3,603	\$ (143)
Net working capital	(339)	(7,079)	(3,726)	298
Due from Nova Scotia Gaming Corporation	-	50,856	-	-
Property, plant and equipment	22,524	24,205	20,266	812
Intangible assets	37,000	34,881	44,670	-
Goodwill	854	-	-	1,427
Long-term debt	(279)	-	(6,099)	-
Due to the Company	(22,308)	-	-	(691)
Other liabilities	-	-	(1,392)	(375)
Future income taxes	(11,432)	(16,078)	(17,017)	-
Net assets acquired	\$ 27,378	\$ 94,992	\$ 40,305	\$ 1,328

⁽¹⁾ Georgian Downs has a siteholder agreement with OLGC to host slot machines at its premises.

a) Georgian Downs

On July 2, 2005, Great Canadian Gaming (Ontario) Ltd. (“GCGO”) acquired all of the outstanding shares of Georgian Downs Limited and Georgian Downs Holdings Inc. (collectively “Georgian Downs”) as a bare trustee for the Company until regulatory approval was received. Georgian Downs, located in Innisfil, Ontario, is an operator of a standardbred racing facility and a siteholder for the Ontario Lottery Gaming Corporation (“OLGC”) for slot machines.

On September 30, 2005, following receipt of all regulatory approvals, the bare trustee arrangement was cancelled and the Company received legal title to all of the outstanding shares of GCGO. The Company has consolidated Georgian Downs’ financial position and operating results from September 30, 2005. For the period from July 2, 2005 to September 30, 2005, the Company included the operating results of Georgian Downs under the equity method, which is included in “Impairment of investments and long-lived assets”, as the Company had significant influence.

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5. ACQUISITIONS (Continued)

As part of the acquisition, the Company provided a consultant a finder's fee equal to a notional equity interest in that company. The notional equity interest entitles the consultant to future finder's fee remuneration depending on the operating results of the company.

b) Metropolitan Entertainment Group

On May 31, 2005, the Company completed the purchase of the partnership interests of MEG, a Nova Scotia partnership which owned Casino Nova Scotia Halifax and Casino Nova Scotia Sydney. At acquisition, Company initiated its integration plan to improve operations and reduce costs. As a result, the Company included \$2,364 of accrued liabilities related to the restructuring, primarily severance, as part of the identifiable liabilities acquired. As at September 30, 2006, no amount of this restructuring accrual remains in accounts payable and accrued liabilities.

c) Orangeville Raceway Limited

On March 18, 2005, the Company completed the purchase of the outstanding common shares of Orangeville. Orangeville owns and operates two standardbred racing facilities in BC: Fraser Downs Racetrack & Casino in Surrey ("Fraser Downs"), and Sandown Park in North Saanich ("Sandown") on Vancouver Island.

At the date of acquisition, the net of the amounts assigned to assets acquired and liabilities assumed exceeded the cost of the purchase ("excess"- sometimes referred to as "negative goodwill"). In its final allocation of the purchase price, the Company included in other liabilities a provision for the contingent consideration equivalent to the lesser of the maximum amount of the contingent consideration and the excess.

As at September 30, 2006, based on net gaming and racing revenues earned from the date of acquisition, additional payments of \$2,319 are required. The additional payments required have been charged to the provision for contingent consideration and the amount in excess of the provision has been recorded as goodwill.

d) TBC Teletheatre BC ("TBC")

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

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

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5. ACQUISITIONS (Continued)

e) *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”). Weinlager owns the food and beverage assets at the Company’s Coquitlam, Holiday Inn, Nanaimo and View Royal casinos.

6. DUE FROM NOVA SCOTIA GAMING CORPORATION

Due from Nova Scotia Gaming Corporation (“NSGC”) consists of the operator’s capital investment (“OCI”), mandatory deferrals (“MD”) and Capital Reserve Account (“CRA”) receivable.

	September 30, 2006	December 31, 2005
Total	\$ 39,481	\$ 43,960
Less: current portion	13,039	15,353
	\$ 26,442	\$ 28,607

On July 1, 2005, the Company entered into an Amended and Restated Operating Contract (“AROC”) with NSGC to operate the two Nova Scotia casinos. The Company is entitled to the repayment of MEG’s initial capital investment in building the casinos through the OCI and MD.

The OCI and MD receivables accrue interest on the outstanding balance at 12% and prime plus 1% per annum, respectively. Since the OCI receivable accrues interest at a rate higher than the rate which management believes to be the market rate of interest for a similar instrument with similar terms and conditions at the time, the OCI receivable balance acquired at acquisition includes a premium. The premium on the OCI receivable is amortized over the term of the OCI to result in an effective interest rate of approximately 2.91%.

The OCI is repaid in monthly instalments of \$1,094 to April 2007, and the MD is repaid in monthly instalments of \$100 to April 2007, monthly instalments of \$900 from May 2007 to April 2009, and \$200 in May 2009.

The CRA receivable accrues interest on the outstanding balance at prime plus 2% per annum, and is repaid based on 5% of the annual gross operation revenues from the two Nova Scotia casinos.

Interest earned on the OCI, MD and CRA and the amortization of the premium on OCI are included in “Interest and financing, net” on the statement of income.

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7. PROPERTY, PLANT AND EQUIPMENT

As at September 30, 2006

	Historical Cost	Less: Accumulated Amortization	Net Book Value
Land	\$ 28,447	\$ -	\$ 28,447
Buildings	460,222	22,092	438,130
Properties under development	4,291	-	4,291
Aircraft	6,112	252	5,860
Equipment	61,125	33,971	27,154
Enterprise Resource Planning systems	7,048	3,605	3,443
Equipment under capital lease	2,916	2,149	767
Leasehold improvements	29,157	4,191	24,966
Leasehold interests	6,898	2,765	4,133
	\$ 606,216	\$ 69,025	\$ 537,191

As at December 31, 2005

	Historical Cost	Less: Accumulated Amortization	Net Book Value
Land	\$ 29,501	\$ -	\$ 29,501
Buildings	422,275	14,139	408,136
Properties under development	19,717	-	19,717
Aircraft	6,859	115	6,744
Equipment	56,191	30,125	26,066
Enterprise Resource Planning systems	5,138	2,660	2,478
Equipment under capital lease	2,921	2,025	896
Leasehold improvements	24,712	2,894	21,818
Leasehold interests	6,070	2,619	3,451
	\$ 573,384	\$ 54,577	\$ 518,807

See Note 12 for interest and financing costs capitalized to property, plant and equipment.

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8. OTHER ASSETS

As at September 30, 2006, the Company had entered into agreements to purchase land for possible future expansion. Included in “Promissory notes receivable and other assets” are initial deposits and other payments related to land acquisitions of \$2,975.

9. LONG-TERM DEBT

On September 29, 2006, the Company closed on a \$450,000 Bridge Credit Facility consisting of two tranches: a \$250,000 non-amortizing credit facility and a \$200,000 revolving credit facility. The new revolving credit facility replaces the Company’s former \$200,000 credit facility. The Bridge Credit Facility expires on October 1, 2007 and, among other covenants, requires the Company to maintain a Net Debt to Adjusted EBITDA (defined terms in the Bridge Credit Facility agreement) ratio of 4.25 or less, to be measured quarterly. Other covenants in the Bridge Credit Facility agreement include limiting the Company’s ability to make investments, incur additional indebtedness or sell assets. The Bridge Credit Facility is guaranteed by the Company and its principal subsidiaries, and is secured by the Company’s principal assets.

The interest rate for both tranches of the Bridge Credit Facility is based on the Company’s Net Debt to Adjusted EBITDA ratio and is adjusted quarterly. The initial advances under the Bridge Credit Facility bear interest at either the Toronto-Dominion Bank’s Canadian prime rate or the Canadian banker’s acceptance rate plus 1.50%. The maximum rate of interest occurs at a Net Debt to Adjusted EBITDA ratio of 4.25 and would be the prime rate plus 0.375% or banker’s acceptance rate plus 1.875%. The interest rates otherwise determined by the Net Debt to Adjusted EBITDA ratio increase by 0.25% after 90, 180 and 270 days from September 29, 2006.

Amounts accrued or paid that are associated with the issuance of new debt instruments or establishment of new debt or credit facilities are deferred, included in “Prepays, deposits, and other assets” on the balance sheet, and are amortized on a straight-line basis over the term of the related debt to “Interest and financing costs, net” on the statement of income. Costs of \$2,522 associated with establishing the Bridge Credit Facility are deferred and amortized over the one year term of the facility.

On September 29, 2006, using proceeds provided by the Bridge Credit Facility, the Company redeemed and cancelled its Series A Senior Secured Notes and Series B Senior Secured Notes (collectively, the “Notes”). In redeeming the Notes, the Company paid \$300,000 in principal, \$25,214 in prepayment fees, and \$6,309 in accrued interest.

Amounts accrued or paid to lenders in connection with a settlement of debt instruments are expensed to “Interest and financing costs, net”. Deferred financing costs existing at the time of a settlement of debt are expensed to “Interest and financing costs, net”.

The prepayment fees, accrued interest, previously deferred financing costs and an

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9. LONG-TERM DEBT (Continued)

unrecognized interest rate hedge gain of \$5,690 associated with the redeemed Notes are included in “Interest and financing costs” on the statement of income.

Prior to the redemption of the Notes, on March 27, 2006, the holders of the Company’s 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.

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 defined period, not make any third party acquisitions unless certain conditions were met, and issue sufficient equity to notionally reduce the Net Debt to Adjusted EBITDA ratio to 2.75 or less at March 31, 2006.

Amounts accrued or paid to lenders in connection with a modification of debt instruments not representing a settlement of debt were deferred, included in “Promissory notes receivable and other assets”; and are amortized on a straight-line basis over the remaining term of the amended debt to “Interest and financing costs”. Amounts accrued or paid to non-lenders are expensed to “Interest and financing costs”.

10. 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. The Company incurred 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 September 30, 2006.

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10. SHARE CAPITAL (Continued)

b) *Stock options*

	Options	Weighted Average Exercise Price
Outstanding at December 31, 2005	5,624,237	\$ 13.07
Granted	1,650,000	11.89
Exercised	(473,050)	1.83
Cancelled/Expired	(1,517,250)	17.85
Outstanding at September 30, 2006	5,283,937	\$ 12.33

c) *Weighted average number of common shares*

In a period where there is a net loss, the diluted weighted average number of common shares is equivalent to the basic weighted average number of common shares, as the effect of the conversion of options and warrants would be anti-dilutive to the loss per common share.

11. RESTRUCTURING COSTS

The Company continues ongoing restructuring initiatives to improve its operational efficiencies. The following restructuring costs have been incurred:

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Severance and related payments	\$ 427	\$ 1,975
Stock based compensation	-	1,048
	<u>\$ 427</u>	<u>\$ 3,023</u>

During the three and nine months ended September 30, 2006, severance and related costs of \$699 and \$1,489 were paid; and \$471 remains in accounts payable and accrued liabilities at September 30, 2006.

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12. INTEREST AND FINANCING COSTS

Interest and financing costs consists of:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Interest expense	\$ (5,161)	\$ (3,395)	\$ (16,411)	\$ (7,124)
Interest income	1,245	771	3,390	1,597
Amortization of financing costs	(54)	-	(510)	-
Interest expense, net	(3,970)	(2,624)	(13,531)	(5,527)
Series A and B Notes prepayment fees	(25,214)	-	(25,214)	-
Series A and B Notes deferred financing costs	(7,233)	-	(7,233)	-
Series B Note interest rate hedge gain	1,543	-	1,543	-
Series A and B Notes redemption costs	(30,904)	-	(30,904)	-
	\$ (34,874)	\$ (2,624)	\$ (44,435)	\$ (5,527)

Interest and financing costs capitalized to property, plant and equipment for the three months ended September 30, 2006 were \$nil (2005 - \$2,467) and the nine months ended September 30, 2006 were \$2,365 (2005 - \$4,664).

13. INCOME TAXES

The Company's income tax expense is as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Statutory tax rate	34.41%	35.85%	33.61%	35.80%
Expected income tax (recovery) provision for the period	(6,614)	3,905	(3,804)	14,236
Effect of change in statutory tax rates on future income taxes	-	-	(5,200)	-
Non-deductible capital losses	91	341	1,273	341
Non-deductible stock-based compensation	440	500	2,054	1,181
Tax benefit of loss carry forward	-	-	-	(397)
Other	350	(474)	133	(886)
	(5,733)	4,272	(5,544)	14,475

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14. IMPAIRMENT OF INVESTMENTS AND LONG-LIVED ASSETS

Impairment of investments and long lived assets for the nine-month period ended September 30, 2006 consists of the write-down to estimated fair value of equipment and investments of \$700 and \$1,787 respectively.

15. RELATED PARTY TRANSACTIONS

The following related party transactions and balances are in addition to those noted elsewhere in the financial statements.

During the three and nine months ended September 30, 2006 and 2005, the Company had the following transactions with related parties:

- a) Other income includes ATM revenues for the three months ended September 30, 2006 of \$352 (2005 - \$219) and the nine months ended September 30, 2006 of \$1,056 (2005 - \$772) received from a company that has a director who is a member of senior management of the Company.
- b) Human resource expenses include dealer training services for the three months ended September 30, 2006 of \$305 (2005 - \$286) and the nine months ended September 30, 2006 of \$719 (2005 - \$714) provided by a company controlled by a director of the Company.
- c) Accounts payable and accrued liabilities at September 30, 2006 include \$275 (December 31, 2005 - \$440) relating to severance not yet paid to a former employee who is also a director of the Company.
- d) Promissory notes receivable and other assets at September 30, 2006 include \$248 (December 31, 2005 - \$257) due from senior management of the Company.
- e) Accounts receivable at September 30, 2006 includes \$185 (December 31, 2005 - \$65) due from a company that has a director who is a member of 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.

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16. CHANGES IN NON-CASH WORKING CAPITAL

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Accounts receivable	\$ 551	\$ (232)	\$ 4,890	\$ (795)
Prepays, deposits and other assets	(799)	857	(7,090)	(6,785)
Gaming revenues payable	392	5,968	(627)	5,500
Accounts payable and accrued liabilities	(8,165)	(8,957)	(9,745)	(4,420)
Income tax receivable	7,368	-	1,759	-
Income tax payable	799	1,260	(1,064)	1,278
	\$ 146	\$ (1,104)	\$ (11,877)	\$ (5,222)

17. CONTINGENCIES AND COMMITMENTS

The Company has issued letters of credit to guarantee performance under contracts and gaming cash floats in the aggregate amount of \$25,226 at September 30, 2006.

The Company has commitments to purchase land in connection with the option payments described in Note 8 for an aggregate \$30,400. These land purchase commitments are expected to close by December 31, 2006. See Note 19 (b)

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.

18. LITIGATION

Hastings Park Conservancy

On September 15, 2006, the Hastings Park Conservancy filed a petition in the Court of Appeal for British Columbia to appeal the decision reached by the Supreme Court of British Columbia on August 28, 2006. The Supreme Court of British Columbia had dismissed a petition filed by the Hastings Park Conservancy 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 appeal filed by the Hastings Park Conservancy is without merit. If the Hastings Park Conservancy is successful in its appeal, the Company could be required to undertake the processes for by-law amendment and rezoning again.

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19. SUBSEQUENT EVENTS

(a) *Termination of Mayfield Management Contracts*

On October 17, 2006, the Company and Mayfield Consulting Canada Inc. (“Mayfield”) entered into an agreement for the voluntary buy-out of all hotel, food and beverage services and to terminate all management agreements between the parties. Subject to the terms of the transition agreement, Mayfield will cease to operate hotel, food and beverage services for the Company, in phases, between October 31, 2006 and February 1, 2007, and provide orderly transition of such services to the Company. The Company will assume employment obligations for most of the existing Mayfield staff and pay the non-controlling interest of Mayfield a buy-out payment of \$5,600 for services that otherwise would have been provided in the future. The buy-out payment will be expensed in the fourth quarter of 2006 and is payable in two equal instalments on November 2, 2006 and January 2, 2007.

(b) *Acquisition of Ontario Land*

On October 24, 2006, the Company completed the acquisition of land adjacent to its Georgian Downs property for an aggregate total cost of \$28,875.