



# GREAT CANADIAN GAMING CORPORATION

## INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three month and six month periods ended  
June 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)

	June 30, 2006	December 31, 2005
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 41,751	\$ 69,812
Restricted cash	7,474	6,598
Accounts receivable	8,820	13,098
Due from Provincial Gaming Corporations, current	37,404	35,353
Promissory notes receivable, current	823	1,329
Income taxes receivable	10,115	4,533
Future income taxes	1,180	1,875
Prepays, deposits and other assets	13,967	7,708
	<b>121,534</b>	<b>140,306</b>
Due from Provincial Gaming Corporations	258,281	253,485
Property, plant and equipment	290,171	283,071
Promissory notes receivable and other assets	11,534	8,544
Intangible assets	191,935	195,767
Goodwill	37,355	37,497
	<b>\$ 910,810</b>	<b>\$ 918,670</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Gaming revenues payable	\$ 9,011	\$ 10,030
Accounts payable and accrued liabilities	58,800	56,854
Income taxes payable	1,804	3,694
Deferred credit and other liabilities, current	829	-
Long-term debt, current	42,376	3,252
	<b>112,820</b>	<b>73,830</b>
Long-term debt	303,408	438,279
Future income taxes	79,249	82,123
Deferred credit and other liabilities	3,456	5,385
	<b>498,933</b>	<b>599,617</b>
Non-controlling interests	45	733
<b>SHAREHOLDERS' EQUITY</b>		
Share capital and other equity	332,694	247,727
Cumulative foreign currency translation	(6,698)	(7,163)
Retained earnings	85,836	77,756
	<b>411,832</b>	<b>318,320</b>
	<b>\$ 910,810</b>	<b>\$ 918,670</b>

See Accompanying Notes to the Interim Consolidated Financial Statements

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

	Three months ended June,		Six months ended June,	
	2006	2005	2006	2005
REVENUES	\$ 91,001	\$ 67,513	\$ 177,632	\$ 119,659
EXPENSES				
Human resources	44,336	32,005	87,907	57,549
General and administration	8,537	4,854	16,460	7,741
Operating supplies	6,637	4,027	13,083	7,079
Occupancy costs	7,940	4,194	16,642	6,988
Marketing and promotion	3,958	3,006	6,824	4,291
Amortization	6,287	2,136	12,714	3,603
Stock-based compensation	1,499	1,185	3,693	1,906
Restructuring costs	Note 6 994	-	2,596	-
	80,188	51,407	159,919	89,157
INCOME FROM OPERATIONS	10,813	16,106	17,713	30,502
Impairment of investments and long-lived assets	Note 9 (2,214)	(98)	(2,286)	39
Interest and financing, net	(4,224)	(1,804)	(9,561)	(2,869)
Accretive income	2,714	1,778	5,366	3,202
Foreign exchange (loss) gain	(1,851)	(60)	(1,696)	84
INCOME BEFORE INCOME TAXES	5,238	15,922	9,536	30,958
Income taxes	Note 7 (1,832)	5,135	746	10,933
INCOME BEFORE NON-CONTROLLING INTERESTS	7,070	10,787	8,790	20,025
Non-controlling interests	426	328	710	307
NET INCOME	\$ 6,644	\$ 10,459	\$ 8,080	\$ 19,718
EARNINGS PER COMMON SHARE				
Basic	\$ 0.08	\$ 0.14	\$ 0.10	\$ 0.26
Diluted	\$ 0.08	\$ 0.14	\$ 0.10	\$ 0.26
WEIGHTED AVERAGE NUMBER OF COMMON SHARES				
Basic	85,847,019	75,172,593	82,804,922	74,549,141
Diluted	86,560,019	77,263,628	83,870,703	76,766,826

See Accompanying Notes to the Interim Consolidated Financial Statements

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

	Common Shares		Contributed Surplus And Other Equity	Share Capital And Other Equity	Cumulative Foreign Currency Translation Adjustments	Retained Earnings	Shareholders' Equity
	Number	Amount	Amount	Amount			
At December 31, 2004	69,989,689	\$ 97,312	\$ 4,489	\$ 101,801	\$ (5,908)	\$ 58,177	\$ 154,070
Exercise of incentive stock options	981,327	\$ 4,973	\$ (1,907)	\$ 3,066	\$ -	\$ -	\$ 3,066
Treasury offering	3,750,000	60,069	-	60,069	-	-	60,069
Issuance of common shares, upon exercise of special warrants	3,703,704	72,709	-	72,709	-	-	72,709
Stock based compensation	-	-	5,312	5,312	-	-	5,312
Exercise of warrants	1,025,000	4,770	-	4,770	-	-	4,770
Effect of foreign currency translation	-	-	-	-	(1,255)	-	(1,255)
Net income, January 1 to March 31, 2005	-	-	-	-	-	9,259	9,259
Net income, April 1 to June 30, 2005	-	-	-	-	-	10,459	10,459
Net income, July 1 to Sept 30, 2005	-	-	-	-	-	9,026	9,026
Net income, Oct 1 to Dec 31, 2005	-	-	-	-	-	(9,165)	(9,165)
At December 31, 2005	79,449,720	\$ 239,833	\$ 7,894	\$ 247,727	\$ (7,163)	\$ 77,756	\$ 318,320
Exercise of incentive stock options	397,800	\$ 779	\$ (259)	\$ 520	\$ -	\$ -	\$ 520
Treasury offering, net of tax effected issuance costs of \$293	6,206,361	79,706	-	79,706	-	-	79,706
Stock based compensation and restructuring costs	-	-	4,741	4,741	-	-	4,741
Effect of foreign currency translation	-	-	-	-	465	-	465
Net income, January 1 to March 31, 2006	-	-	-	-	-	1,436	1,436
Net income, April 1 to June 30, 2006	-	-	-	-	-	6,644	6,644
At June 30, 2006	86,053,881	\$ 320,318	\$ 12,376	\$ 332,694	\$ (6,698)	\$ 85,836	\$ 411,832

**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 June		Six months ended June	
	2006	2005	2006	2005
<b>Cash Flows from Operating Activities</b>				
Net income	\$ 6,644	\$ 10,459	\$ 8,080	\$ 19,718
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization	6,287	2,136	12,714	3,603
Impairment of investments and long-lived assets	2,214	98	2,286	(39)
Accretive income	(2,714)	(1,778)	(5,366)	(3,202)
Stock-based compensation and non-cash restructuring costs	1,997	1,185	4,741	1,906
FDC qualified operating expenses, net of discount	45	(200)	(228)	(2,561)
Foreign exchange loss (gain)	1,851	60	1,696	(84)
Other activities	642	360	959	1,878
Future income taxes	73	(184)	(2,068)	(184)
Changes in non-cash operating working capital	(10,645)	4,750	(12,023)	(4,315)
Net cash provided by operating activities	6,394	16,886	10,791	16,720
<b>Cash Flows from Financing Activities</b>				
Proceeds from long-term debt	-	162,708	-	176,244
Repayment of long-term debt	(52,564)	(178)	(95,747)	(636)
Deferred financing costs	-	(616)	(1,350)	(616)
Common shares issued for cash, net of issuance costs	311	2,013	80,073	65,911
Net cash (used in) provided by financing activities	(52,253)	163,927	(17,024)	240,903
<b>Cash Flows from Investing Activities</b>				
Restricted cash	(2,390)	(3,509)	(876)	(4,570)
Investment in and advances to equity investees	-	(221)	-	(221)
Funds received from Provincial Gaming Corporations	9,876	4,301	21,903	8,008
Purchase of property, plant and equipment, net of related accounts payable	(15,046)	(46,109)	(39,971)	(77,219)
Advance on acquisition of Georgian Downs	-	(48,124)	-	(48,124)
Acquisitions, net of cash acquired	(1,100)	(86,220)	(1,100)	(120,725)
River Rock prepaid lease	-	-	-	(9,262)
Promissory notes and other assets	(1,746)	209	(1,595)	(5,556)
Net cash used in investing activities	(10,406)	(179,673)	(21,639)	(257,669)
Effect of foreign exchange on cash and cash equivalents	(376)	27	(189)	158
<b>Net Cash (Outflow) Inflow</b>	<b>(56,641)</b>	<b>1,167</b>	<b>(28,061)</b>	<b>112</b>
<b>Cash and cash equivalents, Beginning of the period</b>	<b>98,392</b>	<b>37,891</b>	<b>69,812</b>	<b>38,946</b>
<b>Cash and cash equivalents, End of the period</b>	<b>\$ 41,751</b>	<b>\$ 39,058</b>	<b>\$ 41,751</b>	<b>\$ 39,058</b>
<b>Supplemental Disclosure</b>				
Interest received	\$ 1,103	\$ 307	\$ 2,108	\$ 701
Interest paid	\$ 1,944	\$ 2,424	\$ 13,117	\$ 4,906
Income taxes paid	\$ 6,068	\$ 3,973	\$ 10,174	\$ 11,096
<b>Non-Cash Investing and Financing Activities</b>				
Conversion of promissory note to preferred shares	\$ -	\$ 6,917	\$ -	\$ 6,917
FDC and CRA allocated to assets, net of discounts	\$ 8,125	\$ 36,574	\$ 23,878	\$ 50,246

**GREAT CANADIAN GAMING CORPORATION**  
**Notes to the Interim Consolidated Financial Statements**

For the three month and six month periods ended June 30, 2006 and 2005

(Unaudited – Prepared by Management)

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

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**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, a theatre and numerous associated food and beverage and entertainment facilities.

**2. SIGNIFICANT ACCOUNTING POLICIES**

*a) Basis of Presentation*

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

*b) Deferred Financing Costs*

Amounts paid to lenders in connection with a modification not representing settlement of a debt instrument are deferred and included in promissory notes receivable and other assets; and are amortized on a straight-line basis over the remaining term of the amended instrument. Amounts paid to other parties are expensed to general and administration.

Deferred financing costs existing at the time of a modification not representing settlement of a debt instrument are amortized over the remaining term of the amended debt.

*c) Comparative Figures*

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

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**3. 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. In the June 30, 2005 interim financial statements, the purchase prices of the acquisitions were allocated to the fair value of the assets and liabilities using preliminary estimates. These estimates were finalized in the December 31, 2005 annual financial statements based on assistance from independent valuers. Any adjustments were recorded on a prospective basis.

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

a) *Metropolitan Entertainment Group*

On May 31, 2005, the Company completed the purchase of 100% of the partnership interests of Metropolitan Entertainment Group (“MEG”), a Nova Scotia partnership which owns Casino Nova Scotia Halifax and Casino Nova Scotia Sydney, for cash consideration of US\$73,700 (\$93,117).

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

Cash	\$	93,117
Acquisition costs		<u>1,238</u>
Total cost of purchase	\$	<u>94,355</u>
Cash	\$	8,207
Accounts receivable		1,039
Prepaid expenses and deposits		1,099
OCI and MD receivables		49,875
Property, plant and equipment		58,791
Gaming revenue payable		(32)
Accounts payable and accrued liabilities		(9,584)
Future income taxes		<u>(15,040)</u>
Net assets acquired	\$	<u>94,355</u>

At acquisition, the Company initiated its MEG integration plan to improve operations and reduce costs. As a result, the Company included \$2,762 of accrued liabilities related to the restructuring, primarily severance, as part of the identifiable liabilities acquired.

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**3. ACQUISITIONS (Continued)**

*b) Orangeville Raceway Limited*

On March 18, 2005, the Company completed the purchase of 100% of the outstanding common shares of Orangeville Raceway Limited (“Orangeville”) for cash consideration of \$40,000 plus additional contingent consideration based on the net gaming and racing revenues earned over the first four years following the acquisition. Orangeville operates two standardbred racing facilities in BC: Fraser Downs Racetrack & Casino in Surrey, and Sandown Park in North Saanich on Vancouver Island.

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

Cash	\$	40,000
Acquisition costs		<u>257</u>
Total purchase price	\$	<u>40,257</u>
Cash	\$	3,149
FDC receivable		14,988
Other current assets		1,611
Property, plant and equipment		26,487
Intangible assets		21,390
Gaming revenue payable		(794)
Accounts payable and accrued liabilities		(2,904)
Income taxes payable		(1,418)
Long-term debt		(6,093)
Future income taxes		<u>(16,159)</u>
Net assets acquired	\$	<u>40,257</u>

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 a “negative goodwill”). In its final allocation of the purchase, the Company included in other liabilities a provision for the contingent consideration equivalent to the lesser of the maximum amount of the consideration and the excess.

As at June 30, 2006, based on net gaming and racing revenues earned from the date of acquisition, additional payments of \$1,700 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.

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**3. ACQUISITIONS (Continued)**

*c) TBC Teletheatre BC*

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

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

*d) Weinlager & Amici Caffè (Coquitlam) Ltd. and Weinlager & Amici Caffè (Victoria) Ltd.*

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

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

**4. OTHER ASSETS**

The Company has entered into an option agreement to purchase land adjacent to one of its properties for possible future expansion. The option agreement required payments of non-refundable cash consideration of \$2,875, which is included in long term other assets. The option may be exercised on or before August 24, 2006 and if exercised would require further cash consideration of \$26,000 on the completion date of the underlying land purchase on October 24, 2006. The exercise of the option and completion of the land purchase is dependent on several factors including Board approval. If the option is not exercised, the deposit of \$2,875 will be expensed at the earlier of when the decision is made to not exercise or upon expiry.

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**5. LONG-TERM DEBT**

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

In consideration, the Company agreed with the Lenders to:

- pay amendment fees of approximately \$1,350;
- increase the coupon rate on the Notes by 0.375% per annum for a period ending on the later of December 31, 2006 or the second consecutive quarter the Company maintains a Net Debt to Adjusted EBITDA ratio of 2.50 or less;
- increase the coupon rate on the Notes by an additional 0.75% over the 0.375% mentioned above, should Dominion Bond Rating Service downgrade the Company's credit rating at any time over the next two years below 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 notionally reduce the Net Debt to Adjusted EBITDA ratio to 2.75 or less at March 31, 2006.

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

**6. RESTRUCTURING COSTS**

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

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Severance and related payments	\$ 496	\$ 1,548
Stock based compensation	498	1,048
	<u>\$ 994</u>	<u>\$ 2,596</u>

**GREAT CANADIAN GAMING CORPORATION**  
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**6. RESTRUCTURING COSTS (Continued)**

During the three and six months ended June 30, 2006, severance and related costs of \$345 and \$596 were paid; and \$952 remains in accounts payable and accrued liabilities at June 30, 2006.

**7. INCOME TAXES**

The Company's income tax expense is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Statutory tax rate	35.87%	35.83%	35.31%	35.73%
Expected income tax provision for the period	\$ 1,879	\$ 5,705	\$ 3,367	\$ 11,061
Effect of change in statutory tax rates on future income taxes	(5,200)	-	(5,200)	-
Non-deductible capital losses	1,182	-	1,182	-
Non-deductible stock-based compensation	664	424	1,614	681
Tax benefit of loss carry forward	-	(397)	-	(397)
Other	(357)	(597)	(217)	(412)
	<b>\$ (1,832)</b>	<b>\$ 5,135</b>	<b>\$ 746</b>	<b>\$ 10,933</b>

**8. SHARE CAPITAL**

*a) Private placement*

On March 28, 2006, the Company completed a private placement of 6,206,361 units at a price of \$12.89 per unit for gross proceeds of \$80,000. Each unit is comprised of one common share and one share purchase warrant, which is exercisable into one common share at an exercise price of \$12.89 for a period of up to two years from the closing date. The net proceeds of the unit have been allocated between the common share and share purchase warrant based on the residual value method. The fair value of the common share component was determined to be \$12.89 based on its trading price prior to closing. A residual value of \$nil was assigned to the share purchase warrant component. Each unit is subject to a four-month hold period from the closing date. The Company incurred 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 June 30, 2006.

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**8. SHARE CAPITAL (Continued)**

b) *Stock options*

	<b>Options</b>	<b>Weighted Average Exercise Price</b>
Outstanding at December 31, 2005	5,624,237	\$ 13.07
Granted	377,500	11.61
Exercised	(397,800)	1.31
Cancelled/Expired	(1,413,125)	18.07
Outstanding at June 30, 2006	4,190,812	\$ 12.37

Subsequent to June 30, 2006, 1,272,500 options were granted to employees at an exercise price of \$11.98.

**9. IMPAIRMENT OF INVESTMENTS AND LONG-LIVED ASSETS**

Impairment of investments and long-lived assets for the six month period ended June 30, 2006 includes the write-down to estimated fair value of equipment and investments of \$700 and \$1,514 respectively.

**10. RELATED PARTY TRANSACTIONS**

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

During the six months ended June 30, 2006 and 2005, the Company had the following transactions with related parties:

- a) Other income includes ATM revenues of \$704 (2005 - \$552) 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 \$414 (2005 - \$428) provided by a company controlled by a director of the Company.
  - ii) Consulting services of \$12 (2005 - \$110) provided by a director of the Company.
- c) Accounts payable and accrued liabilities include \$367 (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 include \$251 (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.

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**11. CHANGES IN NON-CASH WORKING CAPITAL**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Accounts receivable	\$ (144)	\$ (2,688)	\$ 4,339	\$ (563)
Prepays, deposits and other assets	(5,965)	(6,188)	(6,291)	(7,839)
Accounts payable and accrued liabilities	3,904	12,059	(2,599)	4,069
Income tax receivable	(4,711)	14	(5,609)	14
Income tax payable	(3,729)	1,553	(1,863)	4
	<b>\$ (10,645)</b>	<b>\$ 4,750</b>	<b>\$ (12,023)</b>	<b>\$ (4,315)</b>