



GREAT CANADIAN GAMING CORPORATION

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Month & Six Month Periods Ended
June 30, 2008

(Unaudited – Prepared by Management)

As at August 11, 2008

(Expressed in millions, except for share information)

GREAT CANADIAN GAMING CORPORATION
Interim Consolidated Statements of Financial Position

(Unaudited - Prepared by Management)

(Expressed in millions, except for share information)

		June 30, 2008	December 31, 2007
ASSETS			
CURRENT			
Cash and cash equivalents	Note 4	\$ 74.6	\$ 107.1
Restricted cash		9.1	3.6
Accounts receivable		15.0	13.3
Income taxes receivable		2.2	-
Due from Nova Scotia Gaming Corporation		8.4	17.2
Prepays, deposits and other assets		14.3	12.0
		123.6	153.2
Property, plant and equipment		608.7	567.3
Intangible assets		186.9	191.5
Goodwill		37.7	37.0
Other assets		3.2	5.0
		\$ 960.1	\$ 954.0
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 86.1	\$ 69.5
Income taxes payable		-	3.6
Long-term debt, deferred credit and other liabilities, current		3.2	8.8
		89.3	81.9
Long-term debt	Note 5	347.7	329.4
Derivative liabilities	Note 7	61.1	62.8
Deferred credit, other liabilities and non-controlling interests		1.9	2.0
Future income taxes		66.0	67.7
		566.0	543.8
SHAREHOLDERS' EQUITY			
Share capital and contributed surplus	Note 8	336.5	341.3
Accumulated other comprehensive loss		(13.3)	(9.1)
Retained earnings		70.9	78.0
		394.1	410.2
		\$ 960.1	\$ 954.0

GREAT CANADIAN GAMING CORPORATION
Interim Consolidated Statements of Earnings

(Unaudited - Prepared by Management)

(Expressed in millions, except for share information)

		Three months ended June 30,		Six months ended June 30,	
		2008	2007	2008	2007
REVENUES	Note 9	\$ 101.6	\$ 97.7	\$ 201.9	\$ 193.3
EXPENSES					
Human resources		45.1	45.8	90.2	89.4
Property, marketing and administration		28.8	25.1	57.1	51.7
Amortization		10.6	9.0	20.6	18.4
Stock-based compensation		1.9	2.0	4.0	3.4
Restructuring and other	Note 10	1.4	-	1.7	-
		87.8	81.9	173.6	162.9
EARNINGS FROM OPERATIONS		13.8	15.8	28.3	30.4
Interest and financing costs, net		6.6	6.6	14.1	13.4
Foreign exchange (gain) loss		(0.2)	0.4	(0.4)	0.3
		6.4	7.0	13.7	13.7
EARNINGS BEFORE INCOME TAXES		7.4	8.8	14.6	16.7
Income taxes	Note 11	2.9	2.6	4.4	5.9
EARNINGS BEFORE NON-CONTROLLING INTERESTS		4.5	6.2	10.2	10.8
Non-controlling interests		0.4	0.3	0.7	0.6
NET EARNINGS		\$ 4.1	\$ 5.9	\$ 9.5	\$ 10.2
EARNINGS PER COMMON SHARE	Note 12				
Basic		\$ 0.05	\$ 0.07	\$ 0.11	\$ 0.12
Diluted		\$ 0.05	\$ 0.07	\$ 0.11	\$ 0.12
WEIGHTED AVERAGE NUMBER OF COMMON SHARES					
Basic		83,356,802	86,671,557	83,784,475	86,540,329
Diluted		83,442,883	87,092,545	83,923,520	86,959,334

GREAT CANADIAN GAMING CORPORATION
Interim Consolidated Statements of Earnings

(Unaudited - Prepared by Management)

(Expressed in millions, except for share information)

Interim Consolidated Statements of Retained Earnings

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Retained earnings, beginning of period	\$ 74.9	\$ 68.6	\$ 78.0	\$ 64.3
Net earnings	4.1	5.9	9.5	10.2
Repurchase of common shares	(8.1)	-	(16.6)	-
Retained earnings, end of period	\$ 70.9	\$ 74.5	\$ 70.9	\$ 74.5

Interim Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Loss

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Net earnings	\$ 4.1	\$ 5.9	\$ 9.5	\$ 10.2
Other comprehensive (loss) income, net of tax				
Changes in fair values of derivatives designated as cash flow hedges, net of income taxes of \$1.2 (2007 - \$7.8) and \$0.5 (2007 - \$12.3)	(2.8)	(15.1)	1.2	(23.7)
(Gain) Loss on derivatives designated as cash flow hedges transferred to net earnings in the current period, net of income taxes of \$0.7 (2007 - \$10.3) and \$3.0 (2007 - \$13.5)	1.6	20.0	(6.7)	26.1
Unrealized effect of foreign currency translation of foreign operations	(0.1)	(2.5)	1.3	(2.9)
Other comprehensive (loss) income	(1.3)	2.4	(4.2)	(0.5)
Comprehensive income	\$ 2.8	\$ 8.3	\$ 5.3	\$ 9.7

	June 30, 2008	December 31, 2007	June 30, 2007
Accumulated other comprehensive loss is comprised of:			
Changes in fair values of derivatives designated as cash flow hedges, net of income taxes	\$ (40.2)	\$ (41.4)	\$ (23.7)
Loss on derivatives designated as cash flow hedges transferred to net earnings in the current period, net of income taxes		36.0	26.1
Unrealized effect of foreign currency translation of foreign operations		(9.1)	(8.2)
Accumulated other comprehensive loss	\$ (13.3)	\$ (9.1)	\$ (5.8)

GREAT CANADIAN GAMING CORPORATION
Interim Consolidated Statements of Cash Flows

(Unaudited - Prepared by Management)

(Expressed in millions, except for share information)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Cash Flows from Operating Activities				
Net earnings	\$ 4.1	\$ 5.9	\$ 9.5	\$ 10.2
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Amortization	10.6	9.0	20.6	18.4
Stock-based compensation	1.9	2.0	4.0	3.4
Non-cash interest and financing costs	0.5	1.2	2.3	2.0
Future income taxes	1.3	(1.0)	0.7	(1.7)
Other	(1.8)	0.5	(1.5)	0.4
Changes in non-cash operating working capital	(7.4)	3.1	(3.7)	4.2
	Note 13			
Net cash provided by operating activities	9.2	20.7	31.9	36.9
Cash Flows from Investing Activities				
Purchase of property, plant and equipment, net of related accounts payable	(26.6)	(5.7)	(45.6)	(9.8)
Funds received from Nova Scotia Gaming Corporation	6.4	4.2	10.5	8.8
Funds due from Nova Scotia Gaming Corporation for purchases of plant and equipment	(0.9)	(1.2)	(1.7)	(1.8)
Acquisitions related contingent payments	(5.9)	(2.6)	(5.9)	(2.6)
Acquisition of Haney Bingo Plex	-	-	(1.0)	-
	Note 15			
Restricted cash	(2.2)	(0.5)	(3.8)	(1.5)
Other	-	0.2	-	0.2
Net cash used in investing activities	(29.2)	(5.6)	(47.5)	(6.7)
Cash Flows from Financing Activities				
Proceeds from long-term debt	10.0	-	10.0	402.0
Repayment of long-term debt	(0.7)	(0.7)	(2.1)	(345.9)
Transaction costs	-	(1.1)	-	(12.1)
Common shares issued for cash, net of issuance costs	0.1	1.8	0.2	4.6
Purchase of common shares	(13.3)	-	(25.5)	-
Net cash (used in) provided by financing activities	(3.9)	0.0	(17.4)	48.6
Effect of foreign exchange on cash and cash equivalents	-	(1.1)	0.5	(1.1)
Net Cash (Outflow) Inflow	(23.9)	14.0	(32.5)	77.7
Cash and cash equivalents, beginning of period	98.5	120.5	107.1	56.8
Cash and cash equivalents, end of period	\$ 74.6	\$ 134.5	\$ 74.6	134.5
Supplemental Disclosure				
Interest received	\$ 1.2	\$ 1.6	\$ 2.3	\$ 3.2
Interest paid	\$ 3.7	\$ 3.8	\$ 14.0	\$ 7.3
Income taxes paid	\$ 2.1	\$ 1.7	\$ 9.2	\$ 2.0

GREAT CANADIAN GAMING CORPORATION

Notes to the Interim Consolidated Financial Statements

For the Three Month and Six Month Periods Ended June 30, 2008

(Unaudited – Prepared by Management)

(Expressed in millions, except for share information)

1. NATURE OF BUSINESS

Great Canadian Gaming Corporation (the “Company”) is a multi-jurisdictional gaming and entertainment operator with operations in British Columbia, Ontario and Nova Scotia, Canada, and Washington State, United States of America. The Company operates ten casinos, a thoroughbred racetrack that offers slot machines, four standardbred racetracks (two offer slot machines and one offers both slot machines and table games), a community gaming centre, a hotel & conference centre, two show theatres, a bingo hall and various 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 and its subsidiaries. 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 audited annual consolidated financial statements for the year ended December 31, 2007 (“Annual Financial Statements”).

These unaudited interim consolidated financial statements have been prepared using the same accounting principles as set out in the Annual Financial Statements, with the exception of the changes in accounting policies described in Note 3.

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

3. CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, the Company adopted the following new accounting standards of the Canadian Institute of Chartered Accountants (“CICA”):

- Handbook Section 1535 - Capital Disclosures. The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the Company’s objectives, policies and processes for managing capital, and has been applied retrospectively without prior period restatement. The required disclosure is set out in Note 6.
- Handbook Sections 3862 - Financial Instruments Disclosures, and 3863 - Financial Instruments Presentation, which replaced Section 3861. These new standards require incremental disclosure of risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The transitional provisions of these standards provide that the incremental disclosures need not be presented for the comparative period in the year that these standards are adopted. The required disclosure is set out in Note 16.
- Handbook Section 3031 – Inventories, which replaced Section 3030. This new standard gives guidance on measurement and disclosure of inventories and has been applied retrospectively without prior period restatement. The change in accounting policy had no material impact on the Company’s consolidated financial statements at January 1, 2008.

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

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3. CHANGES IN ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncement

In February 2008, the CICA issued a new accounting standard entitled Goodwill and Intangible Assets, Section 3064. The new section replaced the existing guidance on goodwill and other intangible assets and research and development costs. The new section provides additional guidance on measuring the cost of goodwill and intangible assets. The standard is effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The Company will apply the new accounting standards at the beginning of its 2009 fiscal year. This new accounting standard is not expected to have a material impact on the Company's consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

	June 30,	December 31,
	2008	2007
Cash in bank	\$ 56.5	\$ 32.5
Cash floats	9.8	11.1
Cash equivalents	8.3	63.5
	\$ 74.6	\$ 107.1

5. LONG-TERM DEBT

	June 30,	December 31,
	2008	2007
Term Loan B, net of unamortized transaction costs of \$2.7 (2007 - \$3.0)	\$ 168.2	\$ 164.1
Senior Subordinated Notes and unamortized premium of \$1.7 (2007 - \$1.9) net of unamortized transaction costs of \$5.7 (2007 - \$6.2)	169.4	164.2
Senior Secured Revolving Credit Facility	10.0	-
Hastings Promissory Note	2.6	2.9
Obligations under capital leases and other debt	0.5	1.3
	350.7	332.5
Less: current portion	3.0	3.1
	\$ 347.7	\$ 329.4

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5. LONG-TERM DEBT (Continued)

The expected repayments of long-term debt for the five following twelve month periods ended June 30 are as follows:

2009	\$	3.0
2010		2.7
2011		2.7
2012		12.7
2013		2.2
Thereafter		334.1
Total repayments		357.4
Less: unamortized premium and transaction costs		6.7
Total long-term debt (including current portion)	\$	350.7

The Company has a \$200.0 Senior Secured Revolving Credit Facility (the “Revolving Credit Facility”) of which \$44.6 has been utilized to draw letters of credit to guarantee performance primarily under construction contracts and gaming cash floats (December 31, 2007 - \$32.3).

On June 26, 2008 the Company borrowed \$10.0 under the Revolving Credit Facility. On July 15, 2008 the Company borrowed an additional \$15.0 under the Revolving Credit Facility.

Subject to acceptance by the Company’s lenders and compliance with all operational and financial covenants, the Company has the option to increase the Revolving Credit Facility or issue additional term loans by up to \$150.0 on the same conditions except with limitations on the term and interest rate margin above U.S. LIBOR.

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6. CAPITAL DISCLOSURES

The Company's capital structure comprises:

- Shareholders' equity;
- Long-term debt and related derivative liabilities;
- the Revolving Credit Facility;
- Cash and cash equivalents; and
- outstanding letters of credit.

The Company's objectives are to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk and to manage capital in a manner which balances the interests of equity and debt holders. The Company manages its capital structure in light of changes in economic conditions and the risk characteristics of the Company's operations. Allocations of capital within the Company are subject to return metrics including the weighted average cost of capital. The Company currently plans to use its cash and cash equivalents, cash flows from operations, and established debt facilities to finance its properties' development plans.

The Company monitors its capital structure and must comply with certain financial covenants (which are defined in the underlying debt agreements) related to its long-term debt. The Company effectively manages its capital by operating at a level that provides a conservative margin compared to the limits of these covenants.

At June 30, 2008 the Company is in compliance with its financial covenants as shown below:

Covenant test	Related long-term debt	Required ratio	Actual ratio
Total Debt to Adjusted EBITDA ratio	Term Loan B & Revolving Credit Facility	< 5.0	2.9
Senior Debt to Adjusted EBITDA ratio	Term Loan B	< 3.5	1.5
Interest Coverage ratio	Term Loan B	> 2.0	5.2
Fixed Charge Coverage ratio ⁽¹⁾	Senior Subordinated Notes	> 2.0	5.0

⁽¹⁾ Tested on specified events.

As part of the capital structure monitoring process, the Company has independent credit ratings as follows:

	Moody's	Standard & Poor's
Corporate	Ba3 Stable	BB Stable
Revolving Credit Facility and Senior Secured Term Loan B	Ba2	BBB-
Senior Subordinated Notes ⁽¹⁾	B2	BB

⁽¹⁾ Standard & Poor's initial rating of the Company's Senior Subordinated Notes was B+ as of January 19, 2007. On March 19, 2008, Standard & Poor's upgraded this rating to BB.

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7. DERIVATIVES

Cross-currency interest rate swaps

In anticipation of issuance of the Company's debt refinancing in February 2007, the Company entered into a series of cross-currency interest rate swaps that effectively converted both the U.S. dollar floating interest rate Term Loan B and the U.S. dollar fixed interest rate Senior Subordinated Notes ("Subordinated Notes") into Canadian dollar fixed interest rate debt (See Note 16 (c)). As at June 30, 2008 the cross-currency interest rate swap agreements are:

Debt	Notional Principal		Interest Rate		Maturity Date
	Receive (USD)	Pay (CAD)	Receive (USD)	Pay (CAD)	
Term Loan B	\$167.9 ⁽¹⁾	\$198.3 ⁽¹⁾	US LIBOR+1.50%	6.1%	February 13, 2014
Subordinated Notes	\$170.0	\$201.1	7.25%	6.6%	February 15, 2015

⁽¹⁾ The Term Loan B cross-currency interest rate swap's notional principal reduces by 0.25% of the original principal of \$170.0 USD quarterly to match the scheduled principal reductions on the Term Loan B.

As at June 30, 2008, the cross-currency interest rate swaps have been recorded as a long-term liability at their fair value of \$61.1. The Company has evaluated these cross-currency interest rate swaps and designated them as effective hedges of the cash flows associated with the Term Loan B and the Subordinated Notes. The Company has applied hedge accounting to these swaps as it believes hedge accounting best represents the economic substance of the underlying transactions. Accordingly, the changes in fair values of the swaps, net of income taxes, have been recorded in other comprehensive income.

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS

a) Share capital and contributed surplus

	Common Shares		Contributed	Share Capital
	Number ⁽¹⁾	Amount	Surplus	And Contributed Surplus
At December 31, 2006	86,147	\$ 321.0	\$ 14.9	\$ 335.9
Stock based compensation	-	-	7.0	7.0
Exercise of incentive stock options	942	10.0	(2.4)	7.6
Common shares purchased	(2,273)	(8.7)	(0.5)	(9.2)
At December 31, 2007	84,816	\$ 322.3	\$ 19.0	\$ 341.3
Stock based compensation	-	-	4.0	4.0
Exercise of incentive stock options	18	0.2	(0.1)	0.1
Common shares purchased	(2,162)	(8.3)	(0.6)	(8.9)
At June 30, 2008	82,672	\$ 314.2	\$ 22.3	\$ 336.5

⁽¹⁾ Share information is presented in thousands of common shares.

The Company is authorized to issue an unlimited number of common shares with no par value. On March 28, 2008, all of the Company's outstanding warrants expired, unexercised.

GREAT CANADIAN GAMING CORPORATION
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(Unaudited – Prepared by Management)
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8. SHARE CAPITAL (Continued)

b) Normal course issuer bid

Pursuant to the normal course issuer bid that commenced on July 23, 2007, during the three months ended June 30, 2008, the Company purchased 1,283,800 common shares at a cost of \$13.3. During the six months ended June 30, 2008, the Company purchased 2,161,900 common shares at a cost of \$25.5. Subsequent to June 30, 2008, the Company purchased an additional 56,200 of its common shares for an aggregate consideration of \$0.5, bringing its total shares purchased under the normal course issuer bid to 4,491,300 common shares for an aggregate consideration of \$57.3. On July 22, 2008 the Company's normal course issuer bid expired.

On August 8, 2008, the Company's Board of Directors authorized the Company to request approval from the TSX for another normal course issuer bid for up to 10% of the public float of the Company. If the normal course issuer bid is approved, purchases will be by way of open market purchases through facilities of the TSX and conducted at the market price at the time of the acquisition. All shares purchased by the Company would be subsequently cancelled.

c) Stock Option Plan

	Options ⁽¹⁾	Weighted-Average Exercise Price
Outstanding at December 31, 2007	6,023	\$ 12.74
Granted	2,008	14.11
Forfeited	(985)	17.21
Exercised	(18)	10.80
Outstanding at June 30, 2008	7,028	\$ 12.51

⁽¹⁾ Option information is presented as options for thousands of common shares.

9. REVENUES

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Gross table win	\$ 52.8	\$ 57.5	\$ 115.9	\$ 124.1
Gross slot win	137.9	133.9	272.9	260.0
Gross racetrack	40.9	36.0	73.2	66.2
Facility Development Commission	7.4	5.0	15.1	10.0
Hospitality and other revenues	21.1	19.2	39.6	36.3
	260.1	251.6	516.7	496.6
Less:				
Gaming, taxes and other commissions	(123.5)	(123.8)	(251.9)	(247.1)
Racetrack purses	(32.3)	(27.7)	(57.5)	(51.3)
Promotional allowances	(2.7)	(2.4)	(5.4)	(4.9)
Revenues	\$ 101.6	\$ 97.7	\$ 201.9	\$ 193.3

GREAT CANADIAN GAMING CORPORATION
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(Unaudited – Prepared by Management)
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10. RESTRUCTURING AND OTHER

Restructuring and other expenses primarily related to severance associated with staff reductions made at the Company's Nova Scotia casinos as well as other costs associated with investigating business and acquisition opportunities.

11. INCOME TAXES

The Company's income tax expense is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Basic federal and B.C. provincial statutory income tax rate	31.00%	34.12%	31.00%	34.12%
Expected income tax provision for the period	\$ 2.3	\$ 3.0	\$ 4.5	\$ 5.7
Effect of:				
Changes in tax rates for future income taxes	-	(1.0)	(1.2)	(1.0)
Non-deductible stock-based compensation	0.6	0.7	1.2	1.2
Other	-	(0.1)	(0.1)	-
	\$ 2.9	\$ 2.6	\$ 4.4	\$ 5.9

12. EARNINGS PER COMMON SHARE

The following table sets out the computation of basic and diluted earnings per common share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net earnings (A)	\$ 4.1	\$ 5.9	\$ 9.5	\$ 10.2
Weighted average number of common shares outstanding (B) ⁽¹⁾	83,357	86,672	83,784	86,540
Dilutive adjustment for stock options ⁽¹⁾	86	421	140	419
Diluted weighted-average number of common shares (C) ⁽¹⁾	83,443	87,093	83,924	86,959
Earnings per common share				
Basic (A/B)	\$ 0.05	\$ 0.07	\$ 0.11	\$ 0.12
Diluted (A/C)	\$ 0.05	\$ 0.07	\$ 0.11	\$ 0.12

⁽¹⁾ Share information is presented in thousands of common shares.

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(Unaudited – Prepared by Management)
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12. EARNINGS PER COMMON SHARE (Continued)

The following table summarizes the outstanding stock options and warrants that are not included in the above calculation because their exercise prices are above the average market price of the Company's shares for the period:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Options ⁽¹⁾	6,531	4,504	5,799	4,791
Warrants ⁽¹⁾	-	-	-	6,206

⁽¹⁾ Information is presented in thousands.

13. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Accounts receivable	\$ (2.4)	\$ 0.7	\$ (1.7)	\$ 2.6
Income taxes receivable or payable	(0.8)	2.0	(5.8)	5.5
Prepays, deposits and other assets	(3.4)	(7.6)	(2.3)	(5.7)
Accounts payable and accrued liabilities	(0.8)	8.0	6.1	1.8
	\$ (7.4)	\$ 3.1	\$ (3.7)	\$ 4.2

14. FACILITY DEVELOPMENT COMMISSION APPROVED AMOUNTS

As at June 30, 2008, the Company had \$351.0 (December 31, 2007 – \$342.3) in Approved Amounts (a term defined in the Company's Casino Operating Service Agreements with British Columbia Lottery Corporation ("BCLC")) to be recovered by future Facility Development Commission ("FDC") receipts. Approved Amounts have not been recorded in the consolidated statements of financial position. Since FDC is earned as a fixed percentage of gaming win, subject to the Company incurring sufficient Approved Amounts, recovery of Approved Amounts requires that our operating agreements with BCLC remain in good standing.

15. ACQUISITION

On January 31, 2008, the Company acquired the assets and undertakings of Ridge Meadows Bingo Association located in Maple Ridge, British Columbia. The acquired assets include the Haney Bingo Plex, a 525-seat bingo gaming hall located in downtown Maple Ridge, 45 kilometres east of Vancouver. The facility offers bingo seven days a week and a café. The total cash purchase price for the net assets acquired was \$1.0, of which \$0.9 was attributed to the value of the bingo operating service agreement with BCLC. Potential additional future consideration of up to \$1.3 over ten years may be payable if the BCLC and the District of Maple Ridge approve the upgrading of this facility into a Community Gaming Centre and once slot machines are installed.

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16. FINANCIAL INSTRUMENTS

The Company's financial instruments and the types of risks to which their carrying values are exposed are as follows:

Financial instrument	Risks			
	Credit	Liquidity	Market risks	
			Interest rate	Currency
Measured at amortized cost:				
Cash equivalents	x			x
Due from Nova Scotia Gaming Corporation	x			
Long-term debt		x		x
Measured at fair value:				
Cash	x			x
Restricted cash	x			
Accounts receivable	x			x
Accounts payable and accrued liabilities		x		x
Cross-currency interest rate swaps (included in Derivative liabilities)	x	x	x	x

(a) *Credit risk*

Credit risk is the risk that a party to one of the Company's financial instruments will cause a financial loss to the Company by failing to discharge an obligation. The carrying values of the Company's financial assets, which represent the maximum exposure to credit risk, are as follows:

	June 30, 2008
Cash	\$ 66.3
Cash equivalents	8.3
Restricted cash	9.1
Accounts receivable	15.0
Due from Nova Scotia Gaming Corporation	8.4
	\$ 107.1

Cash, cash equivalents and restricted cash: Credit risk associated with these assets is minimized substantially by ensuring that these financial assets are placed in the debt instruments of Canadian and U.S. federal governments and well-capitalized financial institutions.

Accounts receivable and Due from Nova Scotia Gaming Corporation: Credit risk associated with these assets is minimized due to their nature. The majority of these receivable balances are due from the Nova Scotia Gaming Corporation (a branch of that province's government), reputable racetrack operators, interest earned from financial institutions and sales tax rebates from the federal government. The provision for doubtful accounts receivable is estimated based on an assessment of individual accounts and the length of time balances have been outstanding.

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(Unaudited – Prepared by Management)

(Expressed in millions, except for share information)

16. FINANCIAL INSTRUMENTS (Continued)

(a) *Credit risk (Continued)*

Cross-currency interest rate swaps: The Company's swaps are currently in a liability position, mainly because the U.S. dollar has weakened significantly compared to the Canadian dollar since the cross-currency interest rate swap agreements were executed. Accordingly, there is currently no credit risk associated with these swaps. However, if the exchange rates were to move to the extent that the swaps were assets, credit risk would exist. This risk has been mitigated as counterparties to the Company's cross-currency interest rate swap agreements are major financial institutions that have investment grade credit ratings.

(b) *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company manages liquidity risk by monitoring its capital structure (See Note 6), regularly monitoring forecast and actual cash flows, managing the maturity profiles of financial assets and financial liabilities and maintaining credit capacity within the Revolving Credit Facility (See Note 5). The Company expects the following maturities of its financial liabilities (including interest) and operating leases and contracts:

	Expected payments by period as at June 30, 2008					Total
	Within 1 year	2 - 3 years	4 - 5 years	More than 5 years	Total	
Accounts payable and accrued liabilities	\$ 86.1	-	-	-	\$ 86.1	
Payments related to cross-currency interest rate swaps	27.7	55.0	54.6	425.0	562.3	
Receipts related to cross-currency interest rate swaps	(21.8)	(43.2)	(42.9)	(366.5)	(474.4)	
Term Loan B and Subordinated Notes	21.8	43.2	42.9	366.5	474.4	
Revolving Credit Facility	0.5	0.9	10.5	-	11.9	
Other long-term debt	1.1	1.5	1.0	-	3.6	
Operating leases and contracts	5.8	9.6	7.3	21.6	44.3	
Total	\$ 121.2	\$ 67.0	\$ 73.4	\$ 446.6	\$ 708.2	

The expected payments related to the cross-currency interest rate swaps (See Note 7) represent the Canadian dollar fixed interest and principal payments required under these contracts.

The expected receipts related to the cross-currency interest rate swaps represent the U.S. dollar interest and principal payments due on the Term Loan B and Subordinated Notes, converted to Canadian dollars at the June 30, 2008 foreign currency exchange rate.

The Term Loan B and the Subordinated Notes (See Note 5) amounts represent interest and principal payments, converted to Canadian dollars at the June 30, 2008 foreign currency exchange rate. Similarly, as the Term Loan B bears interest at a floating rate (U.S. LIBOR plus 1.50%), the interest rate applicable at June 30, 2008 of 4.19% has been applied to all future periods in the above table. The Subordinated Notes bear interest at a fixed rate of 7.25%.

The Revolving Credit Facility amounts represent expected interest and principal payments of the Company's drawings at June 30, 2008. The interest rate applicable at June 30, 2008 of 4.55% has been applied to all future periods in the above table.

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16. FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

Other long-term debt amounts include the interest and principal payments of the Hastings Promissory Note and the Company's capital leases and other debt. The Hastings Promissory Note accrues interest at a rate of 6.00%.

Operating leases and contracts include property leases for our head office, a ground lease with the City of Surrey, BC for Fraser Downs, a ground lease with the City of Sydney, NS for our Casino Nova Scotia Sydney, an operating agreement with the City of Vancouver, BC for Hastings Racecourse and commitments to NSGC to fund responsible gaming programs.

The Company believes that it will not encounter difficulty in meeting the obligations associated with its financial liabilities and further believes that if necessary, it would be able to access the capital markets for additional financial resources at reasonable costs.

(c) Market risk

Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates and/or foreign currency exchange rates. With the exception of its cross-currency interest rate swaps, the carrying amounts of the Company's financial instruments are not subject to interest rate risk. The following table sets out a sensitivity analysis of the effect on the carrying amount of the Company's financial instruments (with the exceptions of its long-term debt and cross-currency interest rate swaps described below) that are subject to foreign currency risk by applying reasonably possible changes in foreign currency rates relative to the Company's functional currency, the Canadian dollar:

	Carrying amount June 30, 2008	Foreign Currency Risk ⁽¹⁾			
		-10%		+10%	
		Net earnings	OCI ⁽²⁾	Net earnings	OCI ⁽²⁾
Financial Assets					
Cash	\$ 66.3	\$ (0.4)	\$ (0.5)	\$ 0.4	\$ 0.5
Cash equivalents	8.3	-	(0.8)	-	0.8
Accounts receivable	15.0	(0.1)	-	0.1	-
Financial Liabilities					
Accounts payable and accrued liabilities	86.1	0.2	0.4	(0.2)	(0.4)
Total (decrease) increase		\$ (0.3)	\$ (0.9)	\$ 0.3	\$ 0.9

⁽¹⁾ Displayed is the effect on the Company's U.S. denominated financial assets and liabilities if the value of the U.S. dollar were to decrease or increase relative to the Canadian dollar by 10% from the actual period end rate.

⁽²⁾ OCI - "Other Comprehensive Income".

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16. FINANCIAL INSTRUMENTS (Continued)

(c) Market risk (Continued)

Long-term debt and cross-currency interest rate swaps

The Company is required to make payments on the Senior Secured Term Loan B and Senior Subordinated Notes in U.S. dollars. The Company has mitigated its exposure to fluctuations in interest rates and foreign currency rates related to its U.S. denominated debt. The Company entered into a series of cross-currency interest rate swaps that effectively converted both the U.S. dollar floating interest rate Senior Secured Term Loan B and the U.S. dollar fixed interest rate Senior Subordinated Notes into Canadian dollar fixed interest rate debt (See Notes 5 and 7). The fair values of the U.S. denominated debt and related cross-currency interest rate swap derivatives fluctuate with changes in market interest rates and foreign exchange rates, but their respective future cash flows do not. Consequently, absent early redemption at the Company's option, the market risks of the U.S. denominated debt and cross-currency interest rate swaps are effectively eliminated.

Revolving Credit Facility

The Revolving Credit Facility has an interest rate on advanced amounts and a commitment fee on the unused facility that are based on the Total Debt to Adjusted EBITDA ratio (defined in the underlying debt agreement) which is calculated quarterly. The following table summarizes the interest rate and commitment fee on the Revolving Credit Facility that apply, depending on the Company's quarterly Total Debt to Adjusted EBITDA ratio calculated for the most recent trailing twelve months:

Total Debt / Adjusted EBITDA	Margin on Bankers' Acceptances or Eurodollar Rate Advances & Letters of Credit	Margin on Canadian Prime Rate or U.S. Base Rate Advances	Commitment Fee
>= 4.50	2.25%	1.00%	0.50%
4.00 to < 4.50	1.88%	0.63%	0.40%
3.50 to < 4.00	1.63%	0.38%	0.35%
3.00 to < 3.50	1.38%	0.13%	0.30%
2.50 to < 3.00	1.13%	0.00%	0.25%
2.00 to < 2.50	0.88%	0.00%	0.20%
< 2.00	0.75%	0.00%	0.18%

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16. FINANCIAL INSTRUMENTS (Continued)

(d) Fair values

The fair values of cash and cash equivalents, restricted cash, accounts receivable, due from Nova Scotia Gaming Corporation, accounts payable and accrued liabilities and cross-currency interest rate swaps approximate their carrying values.

The fair values of the Company's long-term debt instruments total \$344.5 and are estimated based on quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same maturity.

The fair values of the Company's cross-currency interest rate swaps at June 30, 2008, were determined based on a discounted cash flow model. This model makes assumptions regarding the U.S. dollar exchange rate and discount rates, which are based on the prevailing U.S. dollar exchange rates and prevailing interest rates in Canada and the U.S. at June 30, 2008.