



# GREAT CANADIAN GAMING CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

*As at November 9, 2006*

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

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

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#### FINANCIAL REVIEW SUMMARY

	Three Months Ended					Nine Months Ended		
	Sept 30, 2006	June 30, 2006	% Change	Sept 30, 2005	% Change	Sept 30, 2006	Sept 30, 2005	% Change
Revenues	\$ 100,220	\$ 95,681	5%	\$ 77,247	30%	\$ 287,182	\$ 204,920	40%
EBITDA*	\$ 26,985	\$ 24,148	12%	\$ 20,296	33%	\$ 72,803	\$ 61,713	18%
Net income (loss), adjusted**	\$ 6,158	\$ 6,088	1%	\$ 6,404	(4%)	\$ 13,161	\$ 24,765	(47%)
Net income (loss)	\$ (14,112)	\$ 6,088		\$ 6,404		\$ (7,109)	\$ 24,765	
Earnings (loss) per common share:								
Basic	\$ (0.16)	\$ 0.07		\$ 0.08		\$ (0.08)	\$ 0.33	
Diluted	\$ (0.16)	\$ 0.07		\$ 0.08		\$ (0.08)	\$ 0.32	

See page 22 for complete table of Consolidated Results of Operations.

\* "EBITDA" is a non-GAAP measure and is defined in the Introduction – Non-GAAP Measures section of this MD&A.

\*\* "Net income (loss), adjusted" is a non-GAAP measure and is Net Income (Loss) from the statement of income adjusted for the elimination of \$20,270 on an after-tax basis (\$30,904 on a pre-tax basis) in cost associated with the redemption of the Series A and Series B Senior Secured Notes.

During the three month period ended September 30, 2006, Great Canadian Gaming Corporation (the "Company", "we", "our") continued to progress on initiatives to improve operations, revenues and operating results, and provide greater financial flexibility with future growth and property expansions.

The Company's revenues increased 30% and its EBITDA increased 33% in the third quarter of 2006 compared to the same period in 2005. The Company secured \$450 million in bridge financing (the "Bridge Credit Facility"), which allowed the redemption of \$300 million in Series A and Series B Senior Secured Notes (collectively, the "Notes"), pay the associated redemption costs, repay amounts outstanding under a credit facility and provide room for future growth and expansion. The non-recurring costs associated with the redemption of the Notes, which amounted to \$30,904 on a pre-tax basis, \$20,270 on an after-tax basis and \$0.23 on a diluted earnings per share basis, substantially contributed to the loss in the current quarter. The Company is working towards a permanent debt structure that will permit flexibility in the development and expansion of our properties, and reduce the Company's weighted-average cost of capital.

In the third quarter of 2006, the Company changed its accounting policy for the Facility Development Commission ("FDC", formerly Facility Development Improvement Fund – FDIF) it receives from the British Columbia Lottery Corporation ("BCLC"). The change in accounting policy results in FDC recorded as "Revenues" in the statement of income (loss) in the same period as it is earned (when it is payable by BCLC to the Company), subject to the Company incurring sufficient Approved Amounts (a defined term in the casino operating services agreements with BCLC, and generally consists of approved capital or operating expenditures related to the development or improvement of gaming properties).

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The financial information presented in this Management's Discussion & Analysis ("MD&A") and in the unaudited interim consolidated financial statements for the period ended September 30, 2006 have been prepared as if the new accounting policy for FDC had always been applied (retrospective basis). Historical comparative financial information has been adjusted accordingly.

The change in accounting policy for FDC was made in order to provide more reliable and relevant financial information. The new accounting policy for FDC is less complex, easier to understand, requires fewer management estimates, and better reflects the compensation arrangements with the BCLC. The effects of the change in accounting policy on financial statement captions are set out in the Interim Financial Statements and this MD&A.

The operating results in the third quarter of 2006 and the first three quarters of 2006 include the full period effect of results of operations from acquisitions and expansions completed during 2005. These acquisitions and expansions account primarily for the increase in revenues and expenses in the third quarter of 2006 compared to the third quarter of 2005, and the first three quarters of 2006 compared to the first three quarters of 2005.

The acquisitions made during 2005 were: Orangeville Raceway Limited ("Orangeville") which operates Fraser Downs and Sandown Park on March 18, 2005; Metropolitan Entertainment Group ("MEG") which operates the two casinos in Nova Scotia on May 31, 2005; Georgian Downs Limited ("Georgian") on July 2, 2005; and Flamboro Downs Holdings Limited ("Flamboro") on October 19, 2005. The expansions completed during 2005 were: River Rock Casino Resort ("River Rock") hotel, show theatre, and food and beverage operations on August 19, 2005; Fraser Downs Racetrack and Casino ("Fraser Downs") on October 14, 2005; and Boulevard Casino ("Boulevard") on November 17, 2005.

In addition, capital projects that were completed during the first three quarters of 2006 were: the renovated Casino Nova Scotia Halifax casino, food and beverage operations re-opened on June 1, 2006; the brand new Chances Gaming Entertainment, a community gaming centre located in Dawson Creek ("Chances Dawson Creek") opened on July 5, 2006, and the brand new Boulevard Casino show theatre opened on September 15, 2006.

For the three month period ended September 30, 2006 (the "third quarter of 2006"), we recorded revenues of \$100,220, an increase of \$22,973 or 30% from the third quarter of 2005. The revenues increase resulted from quarter over same quarter increases of \$15,102 in gaming revenues, \$2,162 in racetrack revenues, and \$6,587 in hotel, food and beverage revenues, offset by a decrease of \$449 in non-gaming revenues and an increase of \$429 in promotional allowances. Revenues for the nine months ended September 30, 2006 (the "first three quarters of 2006") were \$287,182 or 40% higher than in the same period in 2005.

Revenues in the third quarter of 2006 increased \$4,539 or 5% compared to the second quarter of 2006 as a result of increases of \$4,288 in gaming revenues, \$172 in racetrack revenues, and \$1,204 in hotel, food and beverage revenues, offset by a decrease of \$628 in non-gaming revenues and an increase of \$497 in promotional allowances.

The sequential (third quarter of 2006 compared to the second quarter of 2006) increase in gaming revenues resulted primarily from growth at River Rock (+9%), Boulevard (+5%), Casino Nova

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Scotia (+17%), Chances Dawson Creek (+85%), offset by declines at Flamboro Downs (-2%), Georgian Downs (-7%) and Washington State (-8%). The increase in racetrack revenues resulted primarily from Hastings (+10%). The increase in hotel, food, beverage and other non-gaming revenues resulted primarily from increases at Hastings (+37%), Casino Nova Scotia (+33%), Flamboro (+17%), Chances Dawson Creek (+317%), offset by decreases at River Rock (-3%), Boulevard (-14%) and Casino on Broadway ("COB") (-10%).

Included in revenues is FDC earned of \$4,913 in the third quarter of 2006, \$4,119 in the third quarter of 2005, \$4,680 in the second quarter of 2006, \$14,243 for the first three quarters of 2006, and \$12,127 for the first three quarters of 2005.

EBITDA (defined under "Introduction – Non-GAAP Measures") was \$26,985 for the third quarter of 2006, an increase of \$6,689 or 33% from the third quarter of 2005 and an increase of \$2,837 or 12% from the second quarter of 2006. EBITDA increased by 18% to \$72,803 during the first three quarters in 2006 compared to the same period in 2005.

EBITDA as a percentage of revenues improved to 26.9% in the third quarter of 2006 from 25.2% in the second quarter of 2006, 23.7% in the first quarter of 2006 and 16.6% in the fourth quarter of 2005, which continues a trend of improvement and confirms the process improvements and cost savings initiatives undertaken this year. Sequentially, cost reduction and efficiency improvement initiatives such as staff right sizing, contract rationalization and process improvements initiated during 2006 have helped to reduce operating costs and improve EBITDA as a percentage of revenues. These initiatives will continue to take time to implement and may require additional expenditures in the short term in order to realize savings in the long term.

The acquisitions of Orangeville, MEG, Georgian and Flamboro in 2005 provided incremental revenues, before deducting promotional allowances, of \$11,182 and incremental EBITDA of \$5,698 in the third quarter of 2006 compared to the third quarter of 2005. These acquisitions contributed incremental revenues, before deducting promotional allowances, of \$1,947 and incremental EBITDA of \$1,987 in the third quarter of 2006 compared to the second quarter of 2006. The majority of the sequential quarterly incremental EBITDA arose from MEG, which typically experiences strong summer tourist customer traffic.

The expansions at River Rock and Boulevard provided incremental revenues, before deducting promotional allowances, of \$12,005 and incremental EBITDA of \$2,436 in the third quarter of 2006 compared to the third quarter of 2005. These expansions contributed incremental revenues, before deducting promotional allowances, of \$2,023 and incremental EBITDA of \$652 in the third quarter of 2006 compared to the second quarter of 2006. These expanded properties realized sequential growth in gaming and hotel revenues, with the associated EBITDA contribution, but experienced a slight decline in food and beverage revenues and EBITDA.

Following the acquisitions and expansions undertaken in 2005, the Company's fixed costs and overhead structure expanded rapidly to accommodate the growth. As a result marketing and promotion, occupancy cost, operating supplies, and general and administration expenses in the third quarter of 2006 increased \$8,498 or 44% compared to the third quarter of 2005, and increased \$413 or 2% compared to the second quarter of 2006.

Subsequent to the end of the third quarter of 2006, the Company reached an agreement with its

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hotel, food and beverage service provider for the voluntary buy-out of all hotel, food and beverage services and to terminate all management agreements between the parties. The agreement to buy-out the future services of the service provider will result in payments by the Company totalling \$5,600, which will be recorded as a restructuring charge in the fourth quarter of 2006.

Marketing and promotion expense was \$4,359 (4.3% of revenues) in the third quarter of 2006 compared to \$3,506 (4.5% of revenues) in the third quarter of 2005 and \$3,979 (4.2% of revenues) in the second quarter of 2006. The Company continues to concentrate its marketing efforts on its two show theatres and targeted promotions rather than general broad-based initiatives. The show theatres have been an effective medium to draw a pre-determined target market patron to visit our property, which with a superior show performance, have resulted in extended stays on our property, increased spending and most importantly, increased gaming revenues. Both River Rock and Boulevard recorded revenue increases in what has typically been a slow summer period compared to the second quarter. Our marketing and entertainment group continues to work with BCLC to increase revenues by focusing on special concerts, events and community initiatives, as well as on the BC Gold Player Reward program to reinforce property branding, and increase customer retention, visits and satisfaction.

Human resources cost in the third quarter of 2006 increased \$7,786 or 21% from the third quarter of 2005, less than the 30% increase in revenues during the same period, and increased \$1,289 or 3% from the second quarter of 2006, less than the 5% increase in revenues during the same period. Human resources costs were 44% of revenues, before deducting promotional allowances, in the third quarter of 2006, less than the 48% ratio in the third quarter of 2005 and the 45% ratio in the second quarter of 2006. The Company will continue to focus on reducing overall costs and improving the labour efficiency of its operations.

Included in EBITDA is the impact of the FDC accounting policy change of \$4,757 in the third quarter of 2006, \$545 in the third quarter of 2005, \$4,555 in the second quarter of 2006, \$13,859 for the first three quarters of 2006 and \$5,951 for the first three quarters of 2005. If presented under our previous accounting policy for FDC, EBITDA as a percentage of revenues would have been 23.3% in the third quarter of 2006, 21.5% in the second quarter of 2006, 19.8% in the first quarter of 2006 and 11.2% in the fourth quarter of 2005.

Amortization expense increased in the third quarter and for the first three quarters of 2006 compared to the same periods in 2005 as a result of additions to property, plant and equipment and intangible assets from acquired businesses and from capital expansion projects during 2005 and 2006. Amortization expense has increased as a result of the FDC accounting policy change (which increased property, plant, equipment and intangible assets) by \$2,705 in the third quarter of 2006, \$2,479 in the third quarter of 2005, \$2,685 in the second quarter of 2006, \$8,075 for the first three quarters of 2006 and \$6,736 for the first three quarters of 2005.

In other expenses, stock-based compensation decreased in the third quarter of 2006 compared to the third quarter of 2005 and the second quarter of 2006 due to the forfeiture of stock options during the second and third quarter of 2006. Further restructuring charges of \$427 were recorded in the third quarter of 2006 to reflect severance and other obligations associated with additional departed employees.

Interest and financing expense increased in the third quarter of 2006 compared to the third quarter

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of 2005 and second quarter of 2006, and for the first three quarters of 2006 compared to the first three quarters of 2005 due to one-time payments associated with the early redemption of the Company's Notes and the write-off of previously deferred associated financing costs. The costs associated with the redemption of the Notes impacted the results for the third quarter of 2006 by \$30,904 on a pre-tax basis, \$20,270 on an after-tax basis, and \$0.23 on a diluted per common share basis.

Redeeming the Notes and securing the Bridge Credit Facility were important steps in increasing the Company's financial flexibility to handle potential property expansions and future growth opportunities, and reducing the Company's weighted-average cost of capital. The Bridge Credit Facility allows the Company time to seek a more permanent debt structure in the near term.

The non-operating expense in the second quarter of 2006 was primarily from a non-cash foreign exchange loss in that quarter which arose from the transfer of surplus cash from the Company's Washington State operations to the parent company. That transfer triggered partial recognition of the cumulative foreign currency translation amount.

The income tax recovery for the first three quarters of 2006 arose primarily from a \$5,200 reduction in future income taxes resulting from statutorily enacted reductions in corporate income tax rates in the second quarter of 2006, and the tax benefit related to the Notes early redemption fees and write off of previously deferred financing costs during the third quarter of 2006.

The Company incurred a net loss of \$14,112 in the third quarter of 2006 compared to a net income of \$6,404 in the third quarter of 2005, and net income of \$6,088 in the second quarter of 2006. During the nine months ended September 30, net income decreased from \$24,765 in 2005 to a loss of \$7,109 in 2006. If the redemption of the Notes were excluded from the results, net income would have been \$6,158 for the third quarter of 2006 and \$13,161 for the first three quarters of 2006.

Included in the net income or loss is the impact of the FDC accounting policy change (affects revenues, certain operating costs, amortization expense and accretive income) of \$452 loss in the third quarter of 2006, \$2,623 loss in the third quarter of 2005, \$556 loss in the second quarter of 2006, \$1,529 loss for the first three quarters of 2006 and \$3,981 loss for the first three quarters of 2005.

The loss per common share was \$0.16 for the third quarter of 2006 compared to the diluted earnings per share of \$0.08 in the third quarter of 2005 and \$0.07 in the second quarter of 2006. The loss per common share for the nine months ended September 30, 2006 was \$0.08, compared to diluted earnings per common share of \$0.32 for the same period in 2005. If the costs associated with the redemption of the Notes of \$20,270 on an after-tax basis (\$30,904 on a pre-tax basis) were excluded from the results, diluted earnings per common share would have been \$0.07 for the third quarter of 2006 and \$0.16 for the first three quarters of 2006.

Total assets increased to \$948,530 at September 30, 2006 compared to \$923,649 at December 31, 2005, primarily the result of increases of \$18,384 in property, plant and equipment and \$17,064 in cash and cash equivalents. The increase in property, plant and equipment was due largely to significant capital expenditures made during the period for the expansions at Boulevard, Chances Dawson Creek and Nova Scotia Casino Halifax. The increase in cash resulted from

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positive cash flows from operating and financing activities, offset by cash flows from investing which related to the aforementioned capital expenditures.

Total liabilities decreased to \$546,900 at September 30, 2006 compared to \$601,315 at December 31, 2005, primarily due to a reduction of long-term debt of \$29,800 and a decrease in future income taxes of \$13,270. Shareholders' equity increased primarily as a result of an equity offering of \$80,000, consisting of common shares and share purchase warrants, completed on March 28, 2006.

The Company is in the process of refinancing its debt structure to give it greater flexibility in the financing of future growth and property expansions. On September 29, 2006, the Company secured \$450,000 in a Bridge Credit Facility with a one-year term. Through this Bridge Credit Facility, the Company completed the early redemption of \$300,000 in Notes on September 29, 2006. The Company is working towards a permanent, more flexible debt structure to replace the Bridge Credit Facility.

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### **INTRODUCTION**

#### **Basis of Discussion and Analysis**

This management's discussion and analysis ("MD&A") of our business, financial review, results of operations, liquidity and capital resources, and other financial information is dated as of November 9, 2006. This MD&A should be read in conjunction with our unaudited interim consolidated financial statements for the three and the nine month periods ended September 30, 2006 and the accompanying notes ("Interim Financial Statements"), and our audited consolidated financial statements for the year ended December 31, 2005 and the accompanying notes ("Annual Financial Statements").

Our discussion in this MD&A is based on the Interim Financial Statements. The Interim Financial Statements are prepared under Canadian Generally Accepted Accounting Principles ("GAAP") for interim financial statements and accordingly, certain information and note disclosures normally included in the audited Annual Financial Statements are omitted. Unless expressly stated otherwise, all financial information is presented in Canadian dollars. The prior periods' comparative figures have been presented with retrospective application of the change in accounting policy.

#### **Non-GAAP Measures**

The following non-GAAP definitions are used in this MD&A because management believes that they provide useful information regarding our ongoing operations. Readers are cautioned that these definitions are not recognized measures under Canadian GAAP, do not have standardized meanings prescribed by GAAP, and should not be construed to be alternatives to net income determined in accordance with GAAP or as indicators of performance or liquidity or cash flows. Our method of calculating these measures may differ from the methods used by other entities and accordingly our measures may not be comparable to similar titled measures used by other entities.

EBITDA means Earnings Before Interest and financing expenses, Taxes, Depreciation and Amortization, stock-based compensation, restructuring costs, impairment of investments and long-lived assets, foreign exchange gain (loss) and non-controlling interests. EBITDA is derived from the consolidated statement of income (loss) and can also be computed as revenues less human resources, general and administration, operating supplies, occupancy costs, and marketing and promotion expenses. We believe EBITDA is a useful measure because it provides information to both management and investors with respect to the operating and financial performance of the Company. A reconciliation of EBITDA to the comparable GAAP measure is shown in the "Consolidated Results of Operations" section in this MD&A.

Net income (loss), adjusted means net income (loss) from the statement of income adjusted for the elimination of \$20,270 on an after-tax basis (\$30,904 on a pre-tax basis) in cost associated with the redemption of the Series A and Series B Senior Secured Notes.

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#### **Forward-Looking Statements**

This MD&A contains forward-looking statements which reflect management's current expectations regarding the Company's objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities. These forward-looking statements are not guarantees, but only predictions. Although these statements are based on information and assumptions which the Company believes are current, reasonable and complete, these statements are necessarily subject to a number of factors that could cause actual results to vary significantly from current expectations.

Such differences may be caused by factors which include, but are not limited to, ongoing requirements to comply with financial covenants associated with debt facilities, limited terms of operational service agreements with gaming regulators, pending and proposed legislative or regulatory developments, competition from established competitors and new entrants in the gaming business, dependence on key personnel, no assurance that systems, procedures and controls will be adequate to support expanding operations, potential undisclosed liabilities and capital expenditures associated with acquisitions, negative connotations linked to the gaming industry, First Nations claims with respect to public lands on which we conduct our operations, impact of legal proceedings, impact of smoking bans, interest and exchange rate fluctuations, income tax regulations and/or rate changes, non-realization of cost reductions and synergies, acceptance and demand for new products and services, fluctuations in operating results and general economic conditions.

The Company cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including in the "Risk Factors" section of the Company's Annual Information Form for fiscal 2005, or as identified in the Company's disclosure record on [www.sedar.com](http://www.sedar.com).

The forward-looking statements contained herein are made as of the date of this MD&A and are expressly qualified in their entirety by this cautionary statement. Readers should not place undue reliance on the forward-looking statements, which reflect management's plans, estimates, projections and views only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

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## **BUSINESS DESCRIPTION**

### **General**

Great Canadian Gaming Corporation is a multi-jurisdictional gaming and entertainment operator with operations in British Columbia ("BC"), Ontario ("ON") and Nova Scotia ("NS"), Canada, and Washington State, United States of America ("Washington"). The Company operates 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.

Descriptions of the Canadian and Washington State gaming industries and our operating agreements in these jurisdictions are included in our Annual Information Form located on the SEDAR website at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.gcgaming.com](http://www.gcgaming.com). In addition, further information on operations can be found in the MD&A for the year ended December 31, 2005.

### **Operations in Canada**

#### British Columbia

In BC, we operate five casinos and three racetracks of which one racetrack operates slot machines. Three casinos and the racetrack with slot operations are located in the Greater Vancouver area, and face competition from four other casinos. We operate the only two casinos on Vancouver Island. Outside of Greater Vancouver and Vancouver Island, there are seven other casinos in BC.

For the third quarter of 2006, according to BCLC gaming revenue reports, the Company's share of the BC slot win was 44%, table win was 63% and total gaming win was 49%. In the Greater Vancouver / Lower Mainland area, the Company's share of the slot win was 49%, table win was 64% and total gaming win was 54%.

For the second quarter of 2006, according to BCLC gaming revenue reports, the Company's share of the BC slot win was 45%, table win was 61% and total gaming win was 49%. In the Greater Vancouver / Lower Mainland area, the Company's share of the slot win was 50%, table win was 62% and total gaming win was 54%.

At September 30, 2006, the Company's River Rock casino in Richmond, B.C., had 920 slot machines and 110 table games compared to 1,000 slots and 94 table games at year-end December 31, 2005.

At September 30, 2006, the Company's Boulevard casino in Coquitlam, B.C., had 939 slot machines and 69 table games compared to 950 slots and 70 table games at year-end December 31, 2005.

On September 17, 2006, the Company's Casino on Broadway in Vancouver, B.C., commenced 24-hour operation. Previously this casino operated 20 hours per day.

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On July 5, 2006, the Company opened Chances Gaming Entertainment in Dawson Creek as a replacement for Bear Mountain Community Gaming Centre. The new facility includes a bingo hall, larger slot gaming floor with 123 slot machines and two electronic blackjack tables (10 gaming positions), and entertainment stage, food and beverage facilities and a tele-theatre.

On September 15, 2006, the Company opened the Red Robinson Show Theatre at its Boulevard Casino in Coquitlam, BC. The new 1,100-seat show theatre provides an additional entertainment service offering at this location.

The live racing season at Hastings Racecourse is scheduled to end on November 26, 2006. Simulcast racing continues year-round at this facility. The continued litigation over slot deployment at Hastings Racecourse (see next section on "Development Projects") has created a potential delay on the property's redevelopment. As a result of the potential delay, and the resulting anticipated contribution from slots to add to the horse racing purses, the Company and the Horseman's Benevolent and Protective Association reached agreement to reduce the current rate of purse distribution and reduce the length of the 2007 race season by approximately one month.

TBC opened new tele-theatre locations at River Rock in March 2006 and at Boulevard in September 2006. These new locations increase the amenities at both casinos, and expand the availability of simulcast betting to the Greater Vancouver area.

One of our competitors, Gateway Casinos has announced two major developments underway in the Greater Vancouver area. It is building a new Burnaby casino to house up to 1,000 slot machines and 60 table games to replace the current casino across the street, which has 679 slots and 32 table games. The 100,000 square foot casino will also incorporate a hotel, food and beverage and conference facilities, and is expected to open in the late spring of 2008. It is also building a new New Westminster casino to house up to 600 slot machines and 60 table games to replace a riverboat casino in New Westminster that has 362 slot machines and 18 table games. The 100,000 square foot facility will also have food and beverage outlets and is expected to open in the fourth quarter of 2007.

Another of our competitors, Edgewater Casino has announced that it was sold to a division of Paragon Gaming, a US based gaming company, in September 2006. Previously, the casino was operating under creditor protection since May 2006. The 30,000 square foot casino near downtown Vancouver houses 600 slot machines and up to 32 table games.

#### Nova Scotia

The Nova Scotia Smoke Free Places Act takes effect for the Halifax casino on December 1, 2006 and generally regulates and limit locations where smoking can occur. The Sydney casino has operated under a smoking ban since July 2004. Given our past experiences with smoking bans, we expect the smoking ban will have an initial negative affect on the Halifax casino operations.

On June 1, 2006, the Company re-opened a renovated Casino Nova Scotia Halifax.

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#### Ontario

The Ontario Lottery and Gaming Corporation ("OLG") operates 5 charity casinos, 17 slot sites at horse racetracks, and 4 resort casinos. The Company owns two horse racing properties in Ontario, in close proximity to the greater Toronto area, that have siteholder agreements with OLG to host slot machines.

A province-wide smoking ban came into effect on May 31, 2006, which has affected the Georgian property. The Flamboro property has already been non-smoking since 2004.

In 2006, Georgian plans to hold 120 days of live racing and 363 days of simulcast racing. At September 30, 2006, Georgian has 451 slot machines as a siteholder for the OLG. In 2006, Flamboro plans to hold 260 days of live racing and 363 days of simulcast racing. At September 30, 2006, Flamboro has 752 slot machines as a siteholder for the OLG.

In order to maximize the value of a finite racing product, the Company has been working with its stakeholders to concentrate race days, stimulate interest in horse racing and improve the racing product. The Ontario Racing Commission ("ORC") has approved the Company's application to reduce Georgian's 2007 live race schedule by 16 racing days compared to 2006. On November 13, 2006, the ORC will hear the Company's application to reduce Flamboro's 2007 live race schedule by 20% compared to 2006.

On August 23, 2006, the Company exercised an option to purchase 70.35 acres of land adjacent to its Georgian Downs property in Innisfil, Ontario. On October 24, 2006, the Company completed the land purchase for total consideration of approximately \$28,850. The Company is considering ways to improve Georgian Downs and the acquired property is expected to be used for future development at the property. Any future development of gaming is subject to OLG participation and approval.

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

There have been no significant new developments in the operations, competitive or regulatory environment for our four Washington State casinos during the nine-month period ended September 30, 2006.

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## **DEVELOPMENT PROJECTS**

### Coquitlam Boulevard Casino

The first phase of the Boulevard casino expansion opened on November 17, 2005. This expansion increased the gaming floor to approximately 80,000 square feet, added an entertainment lounge, food court and a 1,600 car multi-level parkade.

The second phase opened on September 15, 2006 with the 1,100-seat Red Robinson Show Theatre. This show theatre is similar to the show theatre at River Rock in functionality and adds to the attraction of the casino. The cost of expansions is expected to substantially qualify as Approved Amounts under FDC. As at September 30, 2006, approximately \$119,900 of construction and equipment costs had been spent on this project and an estimated \$500 is remaining.

### Hastings Racecourse

In 2004, the City of Vancouver Council approved a by-law permitting the deployment of slots for the Hastings Racecourse. In 2005, the City of Vancouver Council approved the required public benefits package and the Development Board approved development plans for the installation of 600 slot machines at Hastings Racecourse, together with associated improvements to the facility and site.

On November 2, 2005, Hastings Park Conservancy filed a petition in the Supreme Court of BC seeking an order to quash a City of Vancouver bylaw permitting slot machines at Hastings Racecourse. The Supreme Court of BC dismissed the petition on August 18, 2006. However, on September 15, 2006, the Hastings Park Conservancy filed appeal to the BC Court of Appeal. No date has been set to hear the appeal. See further information in the "Litigation" section.

The actual construction and development of Hastings Racecourse has been delayed again by this litigation and remains subject to the issuance of building permits and concluding an operating agreement with the City of Vancouver. The Company's scope of development and the development costs for Hastings Racecourse will be determined once greater clarity is obtained regarding the timing of the project and requirements of the City of Vancouver. The development costs are expected to substantially qualify as Approved Amounts under FDC. As at September 30, 2006, approximately \$4,116 had been spent.

### Chances Gaming Entertainment in Dawson Creek

On July 5, 2006, the Company opened Chances Gaming Entertainment in Dawson Creek as a replacement for Bear Mountain Community Gaming Centre. The new facility includes a bingo hall, a larger slot gaming floor with 123 slot machines and two electronic blackjack tables (10 gaming positions), and entertainment floor, food and beverage facilities and a tele-theatre. As at September 30, 2006, approximately \$12,778 of construction and equipment costs had been spent on this project and an estimated \$600 is remaining. These costs are expected to be substantially qualify as Approved Amounts under FDC.

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#### Accelerated Facility Development Commission

Subsequent to the end of the third quarter of 2006, BCLC has proposed a new industry-wide initiative to improve the economic model of casino redevelopment in the province. This BCLC initiative was developed in recognition of recent significant increases in the scope of casino facilities being constructed and the associated development costs.

The initiative provides for an additional FDC amount equal to 2% of the gross win from the redeveloped casino property on projects approved by the BCLC after July 1, 2006 (the "Accelerated FDC"). The Accelerated FDC will be payable weekly beginning on the later of April 1, 2007 or the opening of the redeveloped property. The Accelerated FDC is a one-time initiative that is limited to the initial redevelopment of a property. Once the approved eligible costs of the redevelopment are recovered through the existing FDC and the Accelerated FDC, the service provider is no longer eligible for Accelerated FDC on the redevelopment project.

The Company expects that the Accelerated FDC will apply to any future BCLC approved redevelopments the Company may undertake on its properties. The existing FDC of 3% of the gross win and the Accelerated FDC of 2% of the gross win, will be recorded as "revenues" in the statement of income, consistent with the new accounting policy for FDC.

#### Casino Nova Scotia

On June 1, 2006, the Company officially re-opened its Casino Nova Scotia Halifax after making substantial gaming floor operational improvements and upgrades to slot technology and surveillance equipment. The Company expects that the full cost of the capital plan will be reimbursed under the Capital Reserve Account ("CRA"). As at September 30, 2006, approximately \$15,400 of construction and equipment costs had been spent on this project and an estimated \$5,700 is remaining, and some modifications may extend into early 2007.

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## RESULTS OF OPERATIONS

Discussion of the consolidated results of operations is covered in three sections of the MD&A. Discussions of Operating Results in Canada and Operating Results in Washington focus on revenues and expenses included in EBITDA for each of those locations. Discussion of Consolidated Results of Operations focuses on consolidated income and expenses that are excluded from EBITDA.

The discussion of the operating results is based on the new accounting policy for FDC. Prior period comparative figures have been adjusted as if the new accounting policy has always been in place.

### Operating Results in Canada

	Three Months Ended					Nine Months Ended		
	Sept 30, 2006	June 30, 2006	% Change	Sept 30, 2005	% Change	Sept 30, 2006	Sept 30, 2005	% Change
Gaming revenues	\$ 71,888	\$ 67,137	7%	\$ 56,349	28%	\$ 204,653	\$ 149,626	37%
Racetrack revenues	8,307	8,135	2%	6,145	35%	22,850	15,420	48%
Food and beverage revenues	12,444	11,708	6%	8,030	55%	35,634	18,436	93%
Hotel revenues	2,763	2,285	21%	399	592%	6,890	399	1627%
Other non-gaming revenues	919	1,549	(41%)	1,329	(31%)	3,906	3,167	23%
	<b>96,321</b>	90,814	6%	72,252	33%	<b>273,933</b>	187,048	46%
Less: Promotional allowances	(2,082)	(1,787)	17%	(1,832)	14%	(5,768)	(3,269)	76%
Revenues	<b>94,239</b>	89,027	6%	70,420	34%	<b>268,165</b>	183,779	46%
Human resources	42,098	40,696	3%	34,110	23%	122,823	85,611	43%
Marketing and promotion, occupancy costs, operating supplies and G&A	26,238	25,529	3%	17,284	52%	76,189	40,482	88%
	<b>68,336</b>	66,225	3%	51,394	33%	<b>199,012</b>	126,093	58%
EBITDA*	<b>25,903</b>	22,802	14%	19,026	36%	<b>69,153</b>	57,686	20%
EBITDA % of revenues	<b>28%</b>	26%		27%		<b>26%</b>	31%	
Stock-based compensation	1,247	1,480	(16%)	1,396	(11%)	4,869	3,264	49%
Amortization	9,047	8,526	6%	4,850	87%	26,175	11,748	123%
Restructuring costs	427	994	(57%)	-	n/a	3,023	-	n/a
Income from operations	\$ <b>15,182</b>	\$ 11,802	29%	\$ 12,780	19%	\$ <b>35,086</b>	\$ 42,674	(18%)

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

### Discussion of Results

For the third quarter of 2006, the Canadian operations recorded revenues of \$94,239, an increase of \$23,819 or 34% from the third quarter of 2005. Revenues for the first three quarters of 2006 were \$268,165 or 46% higher than in the same period in 2005. Included in gaming revenues is FDC earned of \$4,913 in the third quarter of 2006, \$4,119 in the third quarter of 2005, \$4,680 in the second quarter of 2006, \$14,243 for the first three quarters of 2006, and \$12,127 for the first

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three quarters of 2005.

The operating results in the third quarter of 2006 and the first three quarters of 2006 include the full period effect of results of operations from acquisitions and expansions completed during 2005. These acquisitions and expansions account primarily for the increase in revenues and expenses in the third quarter of 2006 compared to the third quarter of 2005, and the first three quarters of 2006 compared to the first three quarters of 2005.

The acquisitions made during 2005 were: Orangeville which operates Fraser Downs and Sandown Park on March 18, 2005; MEG which operates the two casinos in Nova Scotia on May 31, 2005; Georgian on July 2, 2005; and Flamboro on October 19, 2005. The expansions completed during 2005 were: River Rock hotel, show theatre, and food and beverage operations on August 19, 2005; Fraser Downs on October 14, 2005; and Boulevard on November 17, 2005.

In addition, capital projects that were completed during the first three quarters of 2006 were: the renovated Casino Nova Scotia Halifax casino, food and beverage operations re-opened on June 1, 2006; the brand new Chances Dawson Creek opened on July 5, 2006, and the brand new Boulevard Casino show theatre opened on September 15, 2006.

Revenues in the third quarter of 2006 increased \$5,212 or 6% compared to the second quarter of 2006 as a result of increases of \$4,751 in gaming revenues, \$172 in racetrack revenues, and \$1,214 in hotel, food and beverage revenues, offset by a decrease of \$630 in non-gaming revenues and an increase of \$295 in promotional allowances.

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

#### *Gaming Revenues*

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

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

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Canadian gaming revenues in the third quarter of 2006 increased by \$15,539 or 28% from the third quarter of 2005, and \$4,751 or 7% from the second quarter of 2006. Canadian gaming revenues for the nine months ended September 30, 2006 have increased by \$55,027, or 37% compared to the same period in 2005. The increase in revenues for the third quarter and first three quarters of 2006 compared to the corresponding periods in 2005 is mainly due to the expansion and acquisitions during 2005, which has resulted in increased table drop and slot wins at the BC and Nova Scotia casinos in the first three quarters of 2006.

The largest component of Canadian gaming revenues is from the five BC Casinos. The five BC Casinos contributed gaming revenues of \$48,447 for the third quarter of 2006, an increase of 21% from the third quarter of 2005 and 5% from the second quarter of 2006. Historically, the third quarter is a typical slow period for the two largest casinos at River Rock and Boulevard. There was also an increase in Canadian gaming revenues from the five BC casinos of 14% for the nine months ended September 30, 2006 over the same period in 2005 for these same casinos. This increase can be attributed largely to additional revenues from the first phase of the Boulevard casino expansion completed in November 2005.

The following table summarizes the table drop and hold percentage and slot win for the BC and Nova Scotia casinos:

	Three Months Ended					Nine Months Ended		
	Sept 30, 2006	June 30, 2006	% Change	Sept 30, 2005	% Change	Sept 30, 2006	Sept 30, 2005	% Change
River Rock								
Table Drop	\$ 122,680	\$ 116,580	5%	\$ 104,282	18%	\$ 232,311	\$ 240,355	(3%)
Table Hold %	26.5%	24.4%		25.8%		24.5%	25.6%	
Slot Win	\$ 28,785	\$ 27,836	3%	\$ 24,979	15%	\$ 53,736	\$ 47,795	12%
Boulevard								
Table Drop	\$ 51,909	\$ 52,158	0%	\$ 35,489	46%	\$ 110,746	\$ 89,966	23%
Table Hold %	22.2%	19.3%		21.2%		20.8%	22.2%	
Slot Win	\$ 28,759	\$ 28,525	1%	\$ 18,507	55%	\$ 57,318	\$ 37,740	52%
Other BC Casinos								
Table Drop	\$ 46,124	\$ 46,138	0%	\$ 43,138	7%	\$ 91,345	\$ 87,785	4%
Table Hold %	20.3%	22.0%		22.3%		21.9%	22.8%	
Slot Win	\$ 30,120	\$ 29,669	2%	\$ 27,687	9%	\$ 58,230	\$ 51,251	14%
Casino Nova Scotia								
Table Drop	\$ 19,401	\$ 15,282	27%	\$ 20,572	(6%)	\$ 31,990	\$ 6,057	428%
Table Hold %	19.1%	20.7%		16.5%		18.9%	17.6%	
Slot Win	\$ 21,910	\$ 18,819	16%	\$ 20,441	7%	\$ 35,466	\$ 5,758	516%

The BC Casinos experienced increased table drop and slot win in the third quarter of 2006 compared to the third quarter of 2005, with the Boulevard casino leading the way due to its gaming floor expansion late in 2005. River Rock experienced increased table drop of 5% and slot win of 3% in the third quarter of 2006 compared to the second quarter of 2006, whereas the other BC casinos were relatively flat in table win and up 1% to 2% in slot win. River Rock's gaming

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revenues were up 9% and Boulevard's gaming revenues were up 5% in the third quarter of 2006 compared to the second quarter of 2006. River Rock and Boulevard have seasonally slower third quarters, thus we are encouraged by the growth shown this third quarter and believe the added amenities, such as the show theatres, at both facilities have helped sustain and increase customer traffic.

We expect that our table and slot business volumes will generally continue to grow as a result of limited new competition expected over the next year in our key market area, Greater Vancouver. We believe the introduction of new games such as hand-held baccarat, which appeals to VIP high-end players, and our expansion of non-gaming amenities has attracted a broader group of customers.

From the second quarter to the third quarter of 2006, the table hold percentage increased from 24.4% to 26.5% at River Rock and increased from 19.3% to 22.2% at Boulevard to help boost gaming win. Historically, the River Rock table hold percentage is around 24% and the Boulevard table hold percentage is around 22%, although fluctuations are common and expected. The table hold percentage decreased from 22.0% to 20.3% at the other BC Casinos in the third quarter of 2006 compared to the second quarter of 2006.

The table drop and slot win for Casino Nova Scotia in the third quarter of 2006 increased by 27% and 16%, respectively, compared to the second quarter of 2006. This improvement is primarily due to the seasonally strong summer period at the two casinos, which benefit from tourism traffic, and increased interest at the Halifax casino, which re-opened on June 1, 2006 after completing renovations.

The acquisitions made in fiscal 2005, which include Fraser Downs, Casino Nova Scotia, Georgian and Flamboro, contributed gaming revenues of \$22,111 in the third quarter of 2006 compared to \$15,362 in the third quarter of 2005 and \$20,460 in the second quarter of 2006. The gaming revenues provided by acquisitions made in 2005 for the nine month period ended September 30, 2006 were \$61,280 compared to \$24,189 for the same period in 2005. The gaming revenues for these locations were generally stable with a seasonal increase at Casino Nova Scotia.

#### *Racetrack Revenues*

Racetrack revenues in the third quarter of 2006 increased by \$2,162 or 35% from the third quarter of 2005, due primarily to the 2005 acquisitions of Georgian and Flamboro and the addition of a TBC tele-theatre location at River Rock in March 2006.

Racetrack revenues increased by \$172 or 2% in the third quarter of 2006 compared to the second quarter of 2006, due primarily to 14 added racing days at Hastings Racecourse during the summer. Racetrack revenues increased to \$22,850 for the nine months ended September 30, 2006 compared to \$15,420, an increase of 48% for the same period in 2005, due to the acquisitions of Georgian, Flamboro and Orangeville in 2005.

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#### *Food, Beverage, Hotel and Other Non-Gaming Revenues*

Food, beverage, hotel and other non-gaming revenues (collectively "Other Revenues" for this section) were \$16,126 for the third quarter of 2006, an increase of 65% from the third quarter of 2005 and an increase of 4% from the second quarter of 2006. There was a 111% increase in Other Revenues for the first three quarters of 2006 compared to the same period in 2005.

The increase in Other Revenues in the third quarter of 2006 compared to the third quarter of 2005 was generated primarily by the 2005 opening of River Rock's hotel and additional food and beverage outlets, the 2005 acquisitions of Georgian and Flamboro, and the 2006 expansion of Boulevard's food and beverage outlets.

The increase in Other Revenues in the third quarter of 2006 compared to the second quarter of 2006 is due to improved performance from the hotel at River Rock, additional 14 live racing days at Hastings Racecourse, and seasonal customer traffic increases at the Casino Nova Scotia. River Rock's hotel operations enjoyed a 21% revenue increase in the third quarter of 2006 as compared to the second quarter of 2006, due primarily to a 6% increase in the hotel's average daily room rate ("ADR") to \$164, and an increase in the hotel's average occupancy rate from 73% to 83%. Revenue per available room ("RevPAR") is a ratio commonly used to measure financial performance in the hospitality industry. This metric is a function of room rates and occupancy and is calculated as average daily room rate multiplied by the average occupancy rate. RevPAR for the third quarter of 2006 was \$136 compared to \$112 in the second quarter of 2006.

Our show theatres are an integral part of our marketing and promotion efforts at River Rock and Boulevard. Our investment in entertainment played an important role in helping both River Rock and Boulevard increase gaming revenues during a typical slow summer period. We continue to gain experience with our performance line-up and the resulting impact on customer demographics and facility revenue performance.

#### *Promotional Allowances*

Promotional allowances are complimentary amenities, such as food, non-alcoholic beverage and hotel rooms provided to gaming customers. Promotional allowances have increased in the third quarter of 2006 compared to 2005 primarily due to the acquisition of MEG, which has a player loyalty program, and certain BC casinos, which now provide complimentary non-alcoholic drinks to customers. Promotional allowances in the third quarter of 2006 increased by 14% from the third quarter of 2005 and increased by 17% between the second and third quarters of 2006.

#### *EBITDA (a non-GAAP measure see the Introduction section of this MD&A)*

EBITDA for the Canadian operations was \$25,903 for the third quarter of 2006, an increase of \$6,877 or 36% from the third quarter of 2005. Revenues increased \$23,819 or 34% during the same period. EBITDA increased \$3,101 or 14% in the third quarter of 2006 compared to the second quarter of 2006. Revenues increased \$5,212 or 6% during the same period. EBITDA increased by \$11,467 or 20% to \$69,153 during the first three quarters in 2006 compared to the same period in 2005.

EBITDA as a percentage of revenues improved to 27.5% in the third quarter of 2006 from 25.6% in the second quarter of 2006, 24.1% in the first quarter of 2006 and 16.5% in the fourth quarter of

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2005, which continues a trend of improvement and confirms the process improvements and cost savings initiatives undertaken this year.

If presented under our previous accounting policy for FDC, EBITDA as a percentage of revenues would have been 23.7% in the third quarter of 2006 from 21.6% in the second quarter of 2006, 19.8% in the first quarter of 2006 and 10.6% in the fourth quarter of 2005.

Included in EBITDA is the impact of the FDC accounting policy change (increases revenues and certain operating costs) of \$4,757 in the third quarter of 2006, \$545 in the third quarter of 2005, \$4,555 in the second quarter of 2006, \$13,859 for the first three quarters of 2006 and \$5,951 for the first three quarters of 2005. The accounting policy change accounted for \$4,212 of the EBITDA increase in the third quarter of 2006 compared to the third quarter of 2005, and \$210 of the increase in the third quarter of 2006 compared to the second quarter of 2006.

The acquisitions of Orangeville, MEG, Georgian and Flamboro in 2005 provided incremental revenues, before deducting promotional allowances, of \$11,182 and incremental EBITDA of \$5,698 in the third quarter of 2006 compared to the third quarter of 2005. These acquisitions contributed incremental revenues, before deducting promotional allowances, of \$1,947 and incremental EBITDA of \$1,987 in the third quarter of 2006 compared to the second quarter of 2006. The majority of the sequential quarterly incremental EBITDA arose from MEG, which typically experiences strong summer tourist customer traffic.

The expansions at River Rock and Boulevard provided incremental revenues, before deducting promotional allowances, of \$12,005 and incremental EBITDA of \$2,436 in the third quarter of 2006 compared to the third quarter of 2005. These expansions contributed incremental revenues, before deducting promotional allowances, of \$2,023 and incremental EBITDA of \$652 in the third quarter of 2006 compared to the second quarter of 2006. These expanded properties realized sequential growth in gaming and hotel revenues, with the associated EBITDA contribution, but experienced a slight decline in food and beverage revenues and EBITDA.

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.

The Company continues to concentrate its marketing efforts on its two show theatres and targeted promotions rather than general broad-based initiatives. The show theatres have been an effective medium to draw a pre-determined target market patron to visit our properties, which with a superior show performance, have resulted in extended stays on property, increased spending and most importantly, increased gaming revenues. In the third quarter, both River Rock and Boulevard recorded revenue increases in what has typically been a slow summer period compared to the second quarter.

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Our marketing and entertainment group is developing a joint strategy with BCLC to focus on special concerts, events and community initiatives to reinforce property branding and help increase revenues. The Company is also working closely with BCLC on the BC Gold Player Reward Card program to increase player retention, property visits and product satisfaction through new initiatives such as birthday club, and concert and event rewards. We have been very pleased with the public recognition, media coverage, and increased customer counts our show theatres have generated for our largest properties.

#### *Human Resources*

Human resource costs for the third quarter of 2006 increased by \$7,988 or 23% compared to the third quarter of 2005, less than the 34% increase in revenues during the same period, and increased by \$1,402 or 3% compared to the second quarter of 2006, less than the 6% increase in revenues during the same period. The human resource costs increased in the third quarter of 2006 compared to the second quarter of 2006 because of seasonal increases in some of our operations particularly the Hastings Racecourse and Casino Nova Scotia. For the nine months ended September 30, 2006, human resource costs increased by \$37,212 or 43% from the same period in 2005.

Human resource costs have increased significantly from the acquisitions and expansions completed during 2005, and from increased head office staff hired to manage the Company's growth. Overall staff levels have continued to decrease from a peak in October 2005, when we reached 5,481 employees, to 5,212 employees at September 30, 2006.

Human resource costs as a percentage of revenues, before deducting promotional allowances, were 44% in the third quarter in 2006, compared with 47% in the third quarter of 2005 and 45% in the second quarter of 2006. For the nine months ended September 30, 2006, the human resource percentage of revenues decreased to 45% from 46% during the same period in 2005. Human resource costs as a percentage of revenues improved from the second quarter to the third quarter of 2006 due to efforts by management to improve efficiency.

#### *Other Costs*

Marketing and promotion, occupancy cost, operating supplies, and general and administration expenses ("Other Costs") in the third quarter of 2006 increased \$8,954 or 52% compared to the third quarter of 2005, and increased \$709 or 3% compared to the second quarter of 2006. For the first three quarters of 2006, other costs increased by \$35,707 or 88% compared to the same period in 2005.

Following the acquisitions and expansions undertaken in 2005, the Company's fixed costs and overhead structure expanded rapidly to accommodate the growth. Sequentially, cost reduction and efficiency improvement initiatives such as staff right sizing, contract rationalization and process improvements initiated during 2006 have helped to reduce operating costs and improve EBITDA as a percentage of revenues. These initiatives will continue to take time to implement and may require additional expenditures in the short term in order to realize savings in the long term.

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#### Operating Results in Washington

	Three Months Ended					Nine Months Ended		
	Sept 30, 2006	June 30, 2006	% Change	Sept 30, 2005	% Change	Sept 30, 2006	Sept 30, 2005	% Change
Gaming revenues	\$ 5,397	\$ 5,860	(8%)	\$ 5,834	(7%)	\$ 16,718	\$ 17,914	(7%)
Food and beverage revenues	1,014	1,024	(1%)	1,205	(16%)	3,200	3,861	(17%)
Other non-gaming revenue	98	96	2%	137	(28%)	287	392	(27%)
	<b>6,509</b>	6,980	(7%)	7,176	(9%)	<b>20,205</b>	22,167	(9%)
Less: Promotional allowances	(528)	(326)	62%	(349)	51%	(1,188)	(1,026)	16%
Revenues	<b>5,981</b>	6,654	(10%)	6,827	(12%)	<b>19,017</b>	21,141	(10%)
Human resources	3,527	3,640	(3%)	3,729	(5%)	10,709	11,481	(7%)
Marketing and promotion, occupancy costs, operating supplies, and G&A	1,372	1,668	(18%)	1,828	(25%)	4,658	5,633	(17%)
	<b>4,899</b>	5,308	(8%)	5,557	(12%)	<b>15,367</b>	17,114	(10%)
EBITDA*	1,082	1,346	(20%)	1,270	(15%)	3,650	4,027	(9%)
EBITDA % of revenues	18%	20%		19%		19%	19%	
Stock-based compensation	44	19	132%	22	100%	115	60	92%
Amortization	455	446	2%	467	(3%)	1,411	1,429	(1%)
Income from operations	\$ 583	\$ 881	(34%)	\$ 781	(25%)	\$ 2,124	\$ 2,538	(16%)

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

#### Discussion of Results

Revenues in the third quarter of 2006 declined by 12% from the same period in 2005 and declined 10% from the second quarter of 2006. Revenues decreased by \$2,124 or 10% for the first three quarters of 2006 over the same period in 2005. The decrease in revenues in the third quarter of 2006 compared to the second quarter of 2006 is due primarily to a decline of the table hold percentage of 4%.

Human resource costs as a percentage of revenues, before deducting promotional allowances, were 54% in the third quarter of 2006, compared with 52% in the third quarter of 2005 and in the second quarter of 2006. For the nine months ended September 30, 2006, the human resource percentage of revenues was 53% compared to 52% for the same period in 2005.

Other costs, consisting of marketing and promotion, occupancy costs, operating supplies and general and administration decreased by 25% in the third quarter of 2006 from the same period in the prior year and decreased by 18% from the second quarter of 2006. For the nine months ended September 30, 2006, there was a 17% decrease over the same period in 2005. The decrease was primarily a result of a managed reduction in other operating costs in response to the anticipated decline in revenue from a state-wide smoking ban.

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### Consolidated Results of Operations

	Three Months Ended					Nine Months Ended		
	Sept 30, 2006	June 30, 2006	% Change	Sept 30, 2005	% Change	Sept 30, 2006	Sept 30, 2005	% Change
Gaming revenues	\$ 77,285	\$ 72,997	6%	\$ 62,183	24%	\$ 221,371	\$ 167,540	32%
Racetrack revenues	8,307	8,135	2%	6,145	35%	22,850	15,420	48%
Food and beverage revenues	13,458	12,732	6%	9,235	46%	38,834	22,297	74%
Hotel revenues	2,763	2,285	21%	399	592%	6,890	399	1627%
Other non-gaming revenues	1,017	1,645	(38%)	1,466	(31%)	4,193	3,559	18%
	<b>102,830</b>	<b>97,794</b>	<b>5%</b>	<b>79,428</b>	<b>29%</b>	<b>294,138</b>	<b>209,215</b>	<b>41%</b>
Less: promotional allowances	(2,610)	(2,113)	24%	(2,181)	20%	(6,956)	(4,295)	62%
Revenues	<b>100,220</b>	<b>95,681</b>	<b>5%</b>	<b>77,247</b>	<b>30%</b>	<b>287,182</b>	<b>204,920</b>	<b>40%</b>
Human resources	45,625	44,336	3%	37,839	21%	133,532	97,092	38%
Marketing and promotion, occupancy costs, operating supplies, and G&A	27,610	27,197	2%	19,112	44%	80,847	46,115	75%
	<b>73,235</b>	<b>71,533</b>	<b>2%</b>	<b>56,951</b>	<b>29%</b>	<b>214,379</b>	<b>143,207</b>	<b>50%</b>
EBITDA	<b>26,985</b>	<b>24,148</b>	<b>12%</b>	<b>20,296</b>	<b>33%</b>	<b>72,803</b>	<b>61,713</b>	<b>18%</b>
EBITDA % of revenues	<b>27%</b>	<b>25%</b>		<b>26%</b>		<b>25%</b>	<b>30%</b>	
Stock-based compensation	1,291	1,499	(14%)	1,418	(9%)	4,984	3,324	50%
Amortization	9,502	8,972	6%	5,317	79%	27,586	13,177	109%
Restructuring costs	427	994	(57%)	-	n/a	3,023	-	n/a
Income from operations	<b>15,765</b>	<b>12,683</b>	<b>24%</b>	<b>13,561</b>	<b>16%</b>	<b>37,210</b>	<b>45,212</b>	<b>(18%)</b>
Non-operating (income) expense	535	2,277	(77%)	199	169%	2,941	422	597%
Impairment of investments and long-lived assets	201	2,214	(91%)	62	224%	2,487	23	10713%
Interest and financing, net	34,874	4,224	726%	2,624	1229%	44,435	5,527	704%
Income taxes	(5,733)	(2,120)	170%	4,272		(5,544)	14,475	
Net income (loss)	\$ (14,112)	\$ 6,088		\$ 6,404		\$ (7,109)	\$ 24,765	
Earnings (loss) per common share:								
Basic	\$ (0.16)	\$ 0.07		\$ 0.08		\$ (0.08)	\$ 0.33	
Diluted	\$ (0.16)	\$ 0.07		\$ 0.08		\$ (0.08)	\$ 0.32	
Weighted average number of common shares:								
Basic	86,087,373	85,847,019		77,933,301		83,911,096	75,689,590	
Diluted	86,087,373	86,560,019		79,532,208		83,911,096	77,898,824	

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

### Gross Revenues Presentation

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

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

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

	Three months ended			Nine months ended	
	Sept 30, 2006	June 30, 2006	Sept 30, 2005	Sept 30, 2006	Sept 30, 2005
Gross table win	\$ 63,409	\$ 58,715	\$ 54,884	\$ 182,523	\$ 171,277
Gross slot win	131,454	125,409	104,129	375,761	261,234
Gross racetrack	32,098	31,353	26,136	88,477	60,315
Revenue from FDC	4,913	4,680	4,119	14,243	12,127
Food and beverage	14,265	13,435	10,261	41,155	23,323
Hotel revenues	2,763	2,285	399	6,890	399
Other gaming revenues	741	330	277	1,656	961
	<b>249,643</b>	<b>236,207</b>	<b>200,205</b>	<b>710,705</b>	<b>529,636</b>
Less:					
Gaming, taxes and other commissions	(124,039)	(116,840)	(102,252)	(355,133)	(279,085)
Racetrack purses	(23,791)	(23,218)	(19,991)	(65,627)	(44,895)
	<b>101,813</b>	<b>96,149</b>	<b>77,962</b>	<b>289,945</b>	<b>205,656</b>
Other non-gaming revenues	1,017	1,645	1,466	4,193	3,559
	<b>102,830</b>	<b>97,794</b>	<b>79,428</b>	<b>294,138</b>	<b>209,215</b>
Less: Promotional allowances	(2,610)	(2,113)	(2,181)	(6,956)	(4,295)
Revenues	\$ <b>100,220</b>	\$ 95,681	\$ 77,247	\$ <b>287,182</b>	\$ 204,920

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

##### *Stock-Based Compensation*

Stock-based compensation decreased by 9% in the third quarter of 2006 as compared to the same period in 2005 and decreased by 14% over the second quarter of 2006. The decrease between the third quarter and second quarter of 2006 and the third quarters of 2006 and 2005 were due to the forfeitures of stock options during the second and third quarters of 2006.

##### *Amortization*

Amortization increased by 79% in the third quarter of 2006 compared to the same period in 2005 due largely to the increase in plant, property, equipment and intangible assets acquired and from capital expansion projects. Amortization in the third quarter of 2006 increased by 6% compared to the second quarter of 2006 due primarily to the completion of the renovations at Casino Nova Scotia Halifax, opening of Chances Dawson Creek and the opening of the show theatre at Boulevard. Amortization expense has increased as a result of the FDC accounting policy change (increases property, plant, equipment and intangible assets) by \$2,705 in the third

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quarter of 2006, \$2,479 in the third quarter of 2005, \$2,685 in the second quarter of 2006, \$8,075 for the first three quarters of 2006 and \$6,736 for the first three quarters of 2005.

#### *Restructuring Costs*

Further restructuring charges of \$427 were recorded in the third quarter of 2006 to reflect severance and other obligations associated with additional departed employees.

#### *Accretive Income*

As a result of the new accounting policy for FDC, the Company no longer records accretive income, which reflected the accretion of the discount on the balance due from BCLC (which was recorded at discounted fair value under the former accounting policy).

#### *Interest and Financing*

Interest and financing expense increased in the third quarter of 2006 compared to the third quarter of 2005 and second quarter of 2006, and for the first three quarters 2006 compared to the first three quarters of 2005 due to one-time payments associated with the early redemption of the Company's Notes and the write-off of previously deferred associated financing costs. The redemption of the Notes impacted the results for the third quarter of 2006 by \$30,904 on a pre-tax basis, \$20,270 on an after-tax basis and \$0.23 on a diluted per common share basis.

#### *Non-operating (income) expense*

The non-operating expense in the second quarter of 2006 was primarily from a non-cash foreign exchange loss in that quarter which arose from the transfer of surplus cash from the Company's Washington State operations to the parent company. That transfer triggered partial recognition of the cumulative foreign currency translation amount.

#### *Income Taxes*

The Company's income tax provision is impacted by a rate change, non-deductible stock-based compensation and non-deductible capital losses. The second quarter of 2006 included an increase of \$5,200 in income tax recovery as a result of the effect of a statutorily enacted reduction in the corporate income tax rate on future income tax liabilities. The third quarter of 2006 included the tax benefit related to the Notes early redemption fees and write off of previously deferred financing costs.

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#### CONSOLIDATED QUARTERLY RESULTS TREND

	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004
Revenues	\$ 100,220	\$ 95,681	\$ 91,281	\$ 89,530	\$ 77,247	\$ 71,814	\$ 55,853	\$ 58,473
EBITDA*	\$ 26,985	\$ 24,148	\$ 21,670	\$ 14,858	\$ 20,296	\$ 23,611	\$ 17,805	\$ 19,488
EBITDA as a percentage of Revenues	26.9%	25.2%	23.7%	16.6%	26.3%	32.9%	31.9%	33.3%
Net income (loss)	\$ (14,112)	\$ 6,088	\$ 915	\$ (9,095)	\$ 6,404	\$ 10,560	\$ 7,801	\$ 8,536
Earnings (loss) per common share:								
Basic	\$ (0.16)	\$ 0.07	\$ 0.01	\$ (0.11)	\$ 0.08	\$ 0.14	\$ 0.11	\$ 0.12
Diluted	\$ (0.16)	\$ 0.07	\$ 0.01	\$ (0.11)	\$ 0.08	\$ 0.14	\$ 0.10	\$ 0.12

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

Revenues, EBITDA, and net income (loss) above have been adjusted for the Company's change in accounting policy for FDC. The following table summarizes the impact of the accounting policy adjustment.

Increase (decrease)	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004
Revenues	\$ 4,913	\$ 4,680	\$ 4,650	\$ 4,213	\$ 4,119	\$ 4,301	\$ 3,707	\$ 3,871
EBITDA	\$ 4,757	\$ 4,555	\$ 4,547	\$ 5,255	\$ 545	\$ 4,184	\$ 1,222	\$ 1,649
Net income (loss)	\$ (452)	\$ (556)	\$ (521)	\$ 71	\$ (2,623)	\$ 101	\$ (1,459)	\$ (1,150)

Revenues in the third quarter of 2006 increased \$4,539 compared to the second quarter of 2006 as a result of increased gaming revenues from River Rock, Nova Scotia, Boulevard and Chances Dawson Creek, increased racetrack revenues from Hastings Racecourse and increased hotel, food and beverage, and other non-gaming revenues.

EBITDA in the third quarter of 2006 increased \$2,837 compared to the second quarter of 2006 as a result of the incremental EBITDA from the increase in revenues less costs of associated human resources and operating supplies, the cost savings initiatives implemented this year to improve margins, offset by increased marketing and promotion expenditures.

The net loss in the third quarter arose primarily due to the redemption of the Notes. The redemption of the Notes resulted in prepayment fees, and the write-off of previously deferred financing costs of \$20,270 on an after-tax basis (\$30,904 on a pre-tax basis).

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## LIQUIDITY AND CAPITAL RESOURCES

### Financial Position

	As at Sept 30, 2006	As at December 31, 2005	% Change
Cash and cash equivalents	\$ 86,876	\$ 69,812	24%
Due from NSGC, current	13,039	15,353	(15%)
Other current assets	37,725	35,141	7%
Property, plant and equipment	537,191	518,807	4%
Due from NSGC, long-term	26,442	28,607	(8%)
Other long-term assets	247,257	255,929	(3%)
<b>Total assets</b>	<b>\$ 948,530</b>	<b>\$ 923,649</b>	<b>3%</b>
Current liabilities	\$ 105,353	\$ 73,830	43%
Long-term debt	368,785	438,279	(16%)
Other long-term liabilities	72,803	89,939	(19%)
Shareholders' equity	401,589	321,601	25%
<b>Total liabilities &amp; shareholders' equity</b>	<b>\$ 948,530</b>	<b>\$ 923,649</b>	<b>3%</b>

The figures above have been adjusted for the changes in accounting policy for FDC as if the policy has always been applied. See Note 4 in the Interim Financial Statements for the adjustments to the previously reported amounts.

Cash and cash equivalents increased from December 31, 2005 primarily due to positive cash flows from operations, net positive cash flows from share issuances less debt reductions, offset by cash outflows for capital spending on development projects.

Property, plant and equipment has increased, net of depreciation, due primarily to additional capital spending on development projects at Boulevard, Casino Nova Scotia and Chances Dawson Creek.

Due from NSGC has decreased due to payments received.

Long-term debt has decreased primarily due to the repayment of amounts outstanding under the former credit facility from proceeds of an equity offering. In addition, the non-current portion of long-term debt has decreased due to the fact that Flamboro Promissory note of \$41,694 is due in full on June 30, 2007 and is classified as a current liability at September 30, 2006.

Shareholders' equity has increased primarily due to \$79,705 in net proceeds received on the private placement equity offering on March 28, 2006.

The Company's working capital calculated as current assets less current liabilities at September 30, 2006 was \$32,287, compared to \$46,476 at December 31, 2005.

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#### Changes in Cash Flows

	Three Months Ended			Nine Months Ended				
	Sept 30, 2006	June 30, 2006	% Change	Sept 30, 2005	% Change	Sept 30, 2006	Sept 30, 2005	% Change
Cash (used in) from operating activities	\$ (8,061)	\$ 11,074	173%	\$ 11,777	168%	\$ 12,060	\$ 36,509	(67%)
Cash from (used in) financing activities	63,762	(52,253)	222%	97,205	(34%)	46,740	338,107	(86%)
Cash used in investing activities	(10,672)	(15,086)	(29%)	(100,961)	(89%)	(41,641)	(366,639)	(89%)
Effect of foreign exchange on cash and cash equivalents	96	(376)	126%	(350)	127%	(95)	(196)	52%
Increase (decrease) in cash	\$ 45,125	\$ (56,641)	180%	\$ 7,671	488%	\$ 17,064	\$ 7,781	119%

The Company's cash and cash equivalents as at September 30, 2006 amounted to \$86,876 compared to \$69,812 at the end of 2005.

Cash (used in) from operating activities decreased by \$19,838 from the third quarter of 2005 to the third quarter of 2006 primarily due to the one-time payments associated with the Notes early redemption on September 29, 2006, offset by increased EBITDA.

Cash inflows from financing activities declined by \$33,443 in the third quarter of 2006 over the same period in 2005 primarily as a result of an equity offering in the prior year.

Cash outflow from investing activities decreased by \$90,289 in the third quarter of 2006 compared to the same period in 2005 primarily due a decrease in acquisitions of \$31,895 and a decrease in the purchase of property, plant and equipment of \$51,986.

#### Capital Resources

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

	As at Sept 30, 2006	As at December 31, 2005
Non-Revolving Facility	\$ 250,000	\$ 0
Revolving Facility	115,000	0
Series A Senior Secured Notes	-	150,000
Series B Senior Secured Notes	-	150,000
Credit Facility	-	93,000
Flamboro Promissory Note	41,694	44,194
HEI Promissory Note	3,533	3,889
Obligations under capital lease and other debt	1,504	448
	\$ 411,731	\$ 441,531
Less: current portion	42,946	3,252
	\$ 368,785	\$ 438,279

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#### *Debt Update*

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. On September 29, 2006, using proceeds provided by the Bridge Credit Facility, the Company redeemed and cancelled its Series A 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. Establishing the Bridge Credit Facility and the redemption of the Notes is an important step in providing the Company with the financial flexibility to finance future growth and property expansions.

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 establishment of new debt or credit facilities are deferred, included in "Promissory notes receivable 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.

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 interest rate hedge gain of \$5,690 associated with the redeemed Notes are included in "Interest and financing costs" on the statement of income. These significant fees and costs contributed to the loss in the third quarter of 2006.

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

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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".

#### *Equity Update*

On March 28, 2006, the company completed an equity offering consisting of a private placement of 6,206,361 units at a price of \$12.89 per unit for gross proceeds of \$80,000 (net proceeds of \$79,705). Each unit was comprised of one common share and one share purchase warrant that is exercisable into one common share at an exercise price of \$12.89 for a period of up to two years from the closing date. The Company's Chairman and Chief Executive Officer participated in the private placement for \$50,000 of the total offering.

#### Outstanding Share Data

As at September 30, 2006, there were 86,129,131 common shares outstanding as compared to 79,449,720 common shares as at December 31, 2005. As at November 9, 2006, there were 86,129,131 common shares outstanding.

As at September 30, 2006, there were 5,283,937 stock options outstanding at a weighted average exercise price of \$12.33 and there were 6,206,361 warrants outstanding at a weighted average exercise price of \$12.89. At as November 9, 2006, there were 5,243,187 stock options and 6,206,361 warrants outstanding at a weighted average exercise price of \$12.33 (low \$1.72; high \$20.47).

In the second quarter of 2006, certain officers of the Company forfeited 825,000 stock options that were exercisable at a price of \$17.96 and 237,500 stock options that were exercisable at a price of \$18.47.

#### **Commitments**

<b>Contractual Obligations</b>	<b>Payments Due by Period as at September 30, 2006</b>				
	Less than 1 year	1 - 3 years	4 - 5 years	More than 5 years	Total
Long-term debt	\$ 42,193	\$ 366,092	\$ 1,230	\$ 706	\$ 410,221
Capital lease obligations	753	661	96	-	1,510
Operating leases and contracts	3,929	6,381	5,690	20,894	36,894
Total	\$ 46,875	\$ 373,134	\$ 7,016	\$ 21,600	\$ 448,625

The long-term debt contractual obligation includes scheduled principal repayments on the Notes, the repayment of debt assumed on the Flamboro acquisition, and the repayment of the HEI debt.

The estimated remaining construction and equipment project costs to be spent during the remainder of 2006 are approximately \$2,200 for Casino Nova Scotia, \$500 for Boulevard, and

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\$600 for Chances Dawson Creek.

The Company has a commitment to pay a consultant a finder's fee in respect of the Georgian acquisition. This finder's fee is contingent on the future cash flows of Georgian.

#### **Contingencies**

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.

As at September 30, 2006, the Company has \$355,246 in Approved Amounts to be recovered by future FDC payments from BCLC as compared to \$342,426 for the same period in 2005. These Approved Amounts have not been reflected in "Revenues" as amounts "Due from Provincial Gaming Corporation".

The Company has commitments to purchase two parcels of land for an aggregate of \$30,400 in additional payments on closing. At September 30, 2006, the Company has made initial deposits and other payments of \$2,975 in respect of these commitments. On October 24, 2006, one of the acquisitions closed for with aggregate total cost of \$28,875. The other acquisition is expected to close by the end of December 2006.

As part of the acquisition agreements with Vetter Management Services Ltd., O'Aces LLC, Orangeville and Georgian Downs, the Company has agreed to make future trailing payments dependent on operations at these locations.

#### **Litigation**

On 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.

#### **Future Cash Requirements**

Management believes that the Company's current approved capital plans and requirements can be funded from existing cash, cash generated from operations, credit and debt facilities, and proceeds from the exercise of stock options or warrants. To the extent that the Company's financial performance deviates from forecast or existing financial resources are inadequate, or the Company pursues other business opportunities or otherwise has increased cash requirements, the Company may be required to raise additional funds through the divestiture of non-core assets, refinancing of existing debt, renegotiation of its credit or debt facilities, issuance of non-debt securities or issuance of additional equity securities.

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If additional funds are raised through the issuance of equity securities or the exercise of stock options or warrants, the percentage ownership of current shareholders will be reduced and such equity securities may have rights, preferences, or privileges senior to those of the holders of the Company's common stock. If adequate funds are not available from any source, the Company may be required to delay, limit, or eliminate some or all of its proposed plans.

The Company's current Bridge Credit Facility expires on October 1, 2007. Management is currently working on the refinancing of this facility.

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## **OTHER FINANCIAL INFORMATION**

### **Related Party Transactions**

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.

### **Critical Accounting Estimates**

Our reported financial position and results of operations are dependent on our selection of accounting policies that are based on generally accepted accounting principles and accounting estimates that underlie the preparation of our financial statements. Our financial statements contain a summary of our significant accounting policies and accounting estimates.

Estimates by their nature are subject to risks, uncertainties and assumptions, which could cause our financial position and operating results to differ materially from those currently presented in our consolidated financial statements. Future changes in accounting estimates are applied on a prospective basis.

The critical accounting estimates that we believe are the most judgmental or are material to our financial statements are those relating to business combinations, long-lived asset and goodwill impairment, stock-based compensation, and income taxes.

There have been no changes to our commentary, methods, or estimates on these critical

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accounting estimates to those presented in our MD&A for the year ended December 31, 2005.

#### **Change in Accounting Policy**

In the three-month period ended September 30, 2006, the Company changed its accounting policy for the FDC and now 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 receipts 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 better 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 of the Approved Amounts. Approved Amounts were recorded at the time of BCLC's approval as "Due from provincial gaming corporations" on the balance sheet and reduced the cost of the related asset or operating expense. The "Due from provincial gaming corporations" 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 size of the Company's capital expansions and the value of the "Due from provincial gaming corporation" on the consolidated balance sheet. In considering these factors, management initiated a review of the 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.

The Company believes this 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 valuation of the due from provincial gaming corporation receivable, amortization expense, and accretive income.

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

## **GREAT CANADIAN GAMING CORPORATION**

### **Management's Discussion & Analysis**

For the Three Month and Nine Month periods ended September 30, 2006

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

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#### **Disclosure Controls and Procedures**

The Company's Chief Executive Officer and its Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures. They are assisted in this responsibility by the Disclosure Committee, a management committee comprised of senior executives of the Company. The Disclosure Committee was formed to assist the Chief Executive Officer and Chief Financial Officer in oversight of the accuracy and timeliness of material disclosures made by the Company.

The Chief Executive Officer and the Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures as at December 31, 2005, have concluded that the Company's disclosure controls and procedures are adequate and effective to ensure that material information relating to the Company and its subsidiaries would have been made known to them.

#### **Additional Information**

Additional information relating to the Company, including the Company's Annual Information Form, can be located on the SEDAR website at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.gcgaming.com](http://www.gcgaming.com).

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Three Month and Nine Month periods ended September 30, 2006

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

## SUPPLEMENTAL FINANCIAL INFORMATION

### Canadian Quarterly Revenues and EBITDA by Location

Revenues are presented before the deduction of promotional allowances.

#### Gaming revenues

	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004
River Rock	\$ 22,682	\$ 20,810	\$ 20,067	\$ 20,788	\$ 19,724	\$ 20,713	\$ 20,914	\$ 23,115
Boulevard	13,326	12,747	14,125	10,699	8,441	9,453	9,680	10,121
COB (formerly Holiday Inn)	2,578	2,743	2,756	2,626	2,572	2,812	2,722	3,024
View Royal	6,001	6,071	5,902	5,516	5,488	5,453	5,030	5,169
Nanaimo	3,860	3,742	3,489	3,677	3,783	3,696	3,317	3,485
Hastings Racecourse	13	12	7	14	5	8	8	14
Fraser Downs	3,165	3,213	3,033	2,911	2,776	3,070	530	-
Chances Dawson Creek	1,018	551	572	280	736	339	305	304
Nova Scotia	13,506	11,589	10,474	10,817	12,586	5,227	-	-
Georgian Downs	2,384	2,551	2,531	2,507	-	-	-	-
Flamboro Downs	3,056	3,107	2,671	2,215	-	-	-	-
Other & Corporate <sup>(1)</sup>	299	1	1	(1)	238	-	-	10
	\$ 71,888	\$ 67,137	\$ 65,628	\$ 62,049	\$ 56,349	\$ 50,771	\$ 42,506	\$ 45,242

#### Racetrack revenues

	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004
Hastings Racecourse	\$ 3,448	\$ 3,129	\$ 1,855	\$ 2,566	\$ 3,396	\$ 4,221	\$ 1,915	\$ 2,629
Fraser Downs & Sandown	849	902	1,353	1,269	986	810	177	-
Georgian Downs	651	718	597	670	-	-	-	-
Flamboro Downs	1,213	1,275	1,190	1,130	-	-	-	-
TBC	2,146	2,111	1,413	1,546	1,763	2,026	125	-
	\$ 8,307	\$ 8,135	\$ 6,408	\$ 7,181	\$ 6,145	\$ 7,057	\$ 2,217	\$ 2,629

#### Food and beverage, hotel and other non-gaming revenues

	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004
River Rock	\$ 6,962	\$ 7,169	\$ 6,622	\$ 6,546	\$ 3,371	\$ 2,430	\$ 2,562	\$ 2,506
Boulevard	1,314	1,535	1,706	1,236	743	848	830	231
COB	218	241	245	231	194	193	222	146
View Royal	607	605	590	618	628	666	543	148
Nanaimo	292	283	271	258	244	230	184	45
Hastings Racecourse	1,551	1,133	287	738	1,563	1,250	362	631
Fraser Downs & Sandown	736	808	1,073	1,038	596	594	104	-
Chances Dawson Creek	192	46	48	46	48	42	43	41
Nova Scotia	1,730	1,296	1,486	1,949	1,916	931	-	-
Georgian Downs	1,089	1,209	1,042	1,353	-	-	-	-
Flamboro Downs	1,254	1,074	1,387	1,125	-	-	-	-
TBC	33	12	(64)	6	7	22	-	-
Other & Corporate <sup>(1)</sup>	148	131	69	93	448	88	100	110
	\$ 16,126	\$ 15,542	\$ 14,762	\$ 15,237	\$ 9,758	\$ 7,294	\$ 4,950	\$ 3,858

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

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Three Month and Nine Month periods ended September 30, 2006

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

EBITDA <sup>(2)</sup>								
	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004
River Rock <sup>(3)</sup>	\$ 10,593	\$ 10,167	\$ 9,574	\$ 8,370	\$ 9,435	\$ 10,954	\$ 8,920	\$ 10,936
Boulevard	5,482	5,256	6,636	3,848	4,204	5,861	6,210	6,572
COB	143	448	488	278	396	451	571	773
View Royal	3,551	3,747	3,600	2,949	2,915	3,076	2,810	2,850
Nanaimo <sup>(3)</sup>	2,199	2,145	1,820	1,836	2,042	1,962	1,724	1,839
Hastings Racecourse	274	78	(247)	(293)	413	886	370	236
Fraser Downs & Sandown	1,561	1,299	1,390	1,307	1,100	1,849	440	-
Chances Dawson Creek	467	262	335	(12)	499	50	42	(6)
Nova Scotia	4,360	2,195	1,101	1,246	2,764	1,823	-	-
Georgian Downs	1,510	1,896	1,476	1,522	-	-	-	-
Flamboro Downs	1,891	2,005	1,378	1,572	-	-	-	-
TBC	764	704	140	359	524	720	27	-
Other & Corporate <sup>(3)</sup>	(6,892)	(7,400)	(7,244)	(9,409)	(5,266)	(5,496)	(4,589)	(4,855)
	\$ 25,903	\$ 22,802	\$ 20,447	\$ 13,573	\$ 19,026	\$ 22,136	\$ 16,525	\$ 18,345

(2) See "Introduction - Non-GAAP Measures" for a discussion of EBITDA.

(3) Property taxes paid by Great Canadian Gaming Corporation on behalf of our River Rock and Nanaimo properties have been reclassified from the Corporate heading to the property-specific EBITDA above. Presenting these costs at the property level more accurately reflects the operating cost of the property as well as Corporate overhead. Prior quarter comparable figures have been adjusted to reflect these changes.

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Three Month and Nine Month periods ended September 30, 2006

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

#### Reconciliation to Financial Statements:

	Q3 2006	Q2 2006	Q1 2006	Nine Months ended 2006
<b>Operating Results in Canada:</b>				
Gaming revenues	\$ 71,888	\$ 67,137	\$ 65,628	\$ 204,653
Racetrack revenues	8,307	8,135	6,408	22,850
Food and beverage, hotel and other non-gaming revenues	16,126	15,542	14,762	46,430
Less: Promotional allowances	(2,082)	(1,787)	(1,899)	(5,768)
Revenues from page 14 of MD&A	\$ 94,239	\$ 89,027	\$ 84,899	\$ 268,165
<b>Operating Results in Washington:</b>				
Gaming revenues	\$ 5,397	\$ 5,860	\$ 5,461	\$ 16,718
Food and beverage and other non-gaming revenues	1,112	1,120	1,255	3,487
Less: Promotional allowances	(528)	(326)	(334)	(1,188)
Revenues from page 21 of MD&A	\$ 5,981	\$ 6,654	\$ 6,382	\$ 19,017
<b>Consolidated Results of Operations:</b>				
Gaming revenues	\$ 77,285	\$ 72,997	\$ 71,089	\$ 221,371
Racetrack revenues	8,307	8,135	6,408	22,850
Food and beverage, hotel and other non-gaming revenues	17,238	16,662	16,017	49,917
Less: Promotional allowances	(2,610)	(2,113)	(2,233)	(6,956)
Revenues from page 22 of MD&A	\$ 100,220	\$ 95,681	\$ 91,281	\$ 287,182

# GREAT CANADIAN GAMING CORPORATION

## Management's Discussion & Analysis

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

### 2004 and 2005 Consolidated Annual Financial Statements

#### Adjusted for Change in Accounting Policy for FDC

#### Consolidated Balance Sheets

#### (Unaudited - Prepared by Management)

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

As at December 31,

	December 31, 2005	December 31, 2004
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 69,812	\$ 38,946
Restricted cash	6,598	4,187
Accounts receivable	13,098	6,040
Due from Nova Scotia Gaming Corporation, current	15,353	-
Promissory notes receivable, current	1,329	1,639
Income taxes receivable	4,533	-
Future income taxes	1,875	-
Prepays, deposits, and other assets	7,708	3,398
	<b>120,306</b>	<b>54,210</b>
Due from Nova Scotia Gaming Corporation	28,607	-
Property, plant and equipment	518,807	253,402
Promissory notes receivable and other assets	8,544	17,318
Intangible assets	209,888	28,629
Goodwill	37,497	20,038
	<b>\$ 923,649</b>	<b>\$ 373,597</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Gaming revenues payable	\$ 10,030	\$ 6,272
Accounts payable and accrued liabilities	56,854	33,044
Income taxes payable	3,694	1,797
Long-term debt, current	3,252	860
	<b>73,830</b>	<b>41,973</b>
Long-term debt	438,279	154,000
Future income taxes	83,821	15,528
Deferred credit and other liabilities	5,385	-
	<b>601,315</b>	<b>211,501</b>
Non-controlling interests	733	836
<b>SHAREHOLDERS' EQUITY</b>		
Share capital and other equity	247,727	101,801
Cumulative foreign currency translation	(7,163)	(5,908)
Retained earnings	81,037	65,367
	<b>321,601</b>	<b>161,260</b>
	<b>\$ 923,649</b>	<b>\$ 373,597</b>

# GREAT CANADIAN GAMING CORPORATION

## Management's Discussion & Analysis

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

### 2004 and 2005 Consolidated Annual Financial Statements

#### Adjusted for Change in Accounting Policy for FDC

#### Consolidated Statements of Income

#### (Unaudited - Prepared by Management)

For years ended December 31,

	2005	2004
REVENUES	\$ 294,444	\$ 188,125
EXPENSES		
Human resources	142,537	90,083
General & administration	21,872	10,779
Operating supplies	20,431	10,257
Occupancy costs	19,474	9,631
Marketing and promotion	13,560	7,705
Amortization	22,616	9,514
Stock-based compensation	5,312	2,209
	<b>245,802</b>	<b>140,178</b>
INCOME BEFORE UNDERNOTED ITEMS	48,642	47,947
Restructuring costs	-	5,557
Termination of legal proceedings	-	2,275
INCOME FROM OPERATIONS	48,642	40,115
Gain (loss) on investments and properties	(8,200)	1,874
Interest and financing, net	(9,388)	(3,555)
Foreign exchange gain	203	340
INCOME BEFORE INCOME TAXES	31,257	38,774
Income taxes	14,394	13,785
INCOME BEFORE NON-CONTROLLING INTEREST	16,863	24,989
Non-controlling interests	1,193	400
NET INCOME	\$ 15,670	\$ 24,589
EARNINGS PER SHARE FROM OPERATIONS		
Basic	\$ 0.20	\$ 0.37
Diluted	\$ 0.20	\$ 0.35
WEIGHTED AVERAGE NUMBER OF COMMON SHARES		
Basic	76,626,504	65,913,320
Diluted	78,402,986	70,652,768

# GREAT CANADIAN GAMING CORPORATION

## Management's Discussion & Analysis

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

### 2004 and 2005 Consolidated Annual Financial Statements

#### Adjusted for Change in Accounting Policy for FDC

#### Consolidated Statements of Shareholders' Equity

(Unaudited - Prepared by Management)

	Common Shares		Additional	Share Capital	Cumulative	Retained	Shareholders'
			Paid-up Capital	And Other	Foreign	Earnings	Equity
	Number	Amount	And Other	Equity	Currency		
			Equity	Equity	Translation		
			Amount	Amount	Adjustments		
At December 31, 2003, as previously reported	61,834,343	\$ 59,219	\$ 7,390	\$ 66,609	\$ (3,447)	\$ 31,452	\$ 94,614
Cumulative effect due to changes in accounting policy	-	-	-	-	-	9,326	9,326
At December 31, 2003, as adjusted	61,834,343	\$ 59,219	\$ 7,390	\$ 66,609	\$ (3,447)	\$ 40,778	\$ 103,940
Exercise of incentive stock options	4,542,936	15,221	(4,612)	10,609	-	-	10,609
Private placement	250,000	1,547	-	1,547	-	-	1,547
Exercise of warrants	3,362,410	21,325	(498)	20,827	-	-	20,827
Stock based compensation	-	-	2,209	2,209	-	-	2,209
Effect of foreign currency translation	-	-	-	-	(2,461)	-	(2,461)
Net income	-	-	-	-	-	24,589	24,589
At December 31, 2004	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	-	-	-	-	-	15,670	15,670
At December 31, 2005	79,449,720	\$ 239,833	\$ 7,894	\$ 247,727	\$ (7,163)	\$ 81,037	\$ 321,601

# GREAT CANADIAN GAMING CORPORATION

## Management's Discussion & Analysis

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

### 2004 and 2005 Consolidated Annual Financial Statements

#### Adjusted for Change in Accounting Policy for FDC

#### Consolidated Statements of Cash Flows

#### (Unaudited - Prepared by Management)

For years ended December 31,

	2005	2004
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 15,670	\$ 24,589
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	22,616	9,514
Non-cash restructuring costs	-	558
Gain from disposal of land	(274)	-
Loss (gain) on disposal of investments	999	(1,975)
Impairment of investments	7,913	300
Stock-based compensation	5,312	2,209
Other activities	4,068	4,322
Future income taxes	(2,896)	(732)
Changes in non-cash operating working capital	1,343	3,313
Net cash provided by operating activities	54,751	42,098
<b>Cash Flows from Financing Activities</b>		
Proceeds from long-term debt	419,252	222,451
Repayment of long-term debt	(177,346)	(110,352)
Deferred financing costs	(4,449)	(2,846)
Bond forward	1,731	-
Common shares issued for cash, net of issuance costs	138,137	32,983
Net cash provided by financing activities	377,325	142,236
<b>Cash Flows from Investing Activities</b>		
Distributions from investees		
Restricted cash	909	(4,187)
Investment in and advances to equity investees	(1,056)	(251)
Funds received from Nova Scotia Gaming Corporation	6,260	-
Purchase of property, plant and equipment, net of related accounts payable	(194,329)	(137,581)
Proceeds from disposal of property, plant and equipment	5,947	-
Consolidation of cash of Georgian Downs	1,286	-
Acquisitions, net of cash acquired	(182,104)	(36,633)
River Rock prepaid lease	(9,262)	-
Promissory notes and advances receivable, net	(28,568)	511
Net cash used in investing activities	(400,917)	(178,141)
Effect of foreign exchange on cash and cash equivalents	(293)	(1,440)
<b>Net Cash Inflow</b>	30,866	4,753
<b>Cash and cash equivalents, Beginning of Year</b>	38,946	34,193
<b>Cash and cash equivalents, End of Year</b>	\$ 69,812	\$ 38,946
<b>Supplemental Disclosure</b>		
Interest received	\$ 2,424	\$ 1,008
Interest paid	\$ 16,054	\$ 3,651
Income taxes paid	\$ 18,634	\$ 14,160
<b>Non-Cash Investing and Financing Activities</b>		
Conversion of promissory note to preferred shares	\$ 6,917	\$ -