



GREAT CANADIAN GAMING CORPORATION

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2005

(Unaudited – Prepared by Management)

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

GREAT CANADIAN GAMING CORPORATION

Interim Consolidated Balance Sheets

(Unaudited - Prepared by Management)

(In thousands)

As at June 30, 2005 and December 31, 2004

	June 30, 2005	December 31, 2004
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 47,815	\$ 43,133
Accounts receivable	8,227	6,040
Promissory notes receivable	1,026	1,639
Due from Provincial Gaming Corporations (Note 4)	31,518	15,000
Prepaid expenses and deposits	12,723	3,201
	101,309	69,013
Promissory notes receivable	723	7,462
Due from Provincial Gaming Corporations (Note 4)	196,163	102,065
Property, plant and equipment (Note 5)	257,511	125,352
Goodwill	21,618	20,038
Intangible assets (Note 6)	49,857	28,629
Advance and deposit on acquisitions (Note 15)	48,124	4,000
Other assets (Note 7)	12,762	5,856
	\$ 688,067	\$ 362,415
LIABILITIES		
CURRENT		
Gaming revenue payables	\$ 5,804	\$ 6,272
Accounts payable and accrued liabilities	62,811	33,044
Income taxes payable	3,086	1,797
Current portion of long-term debt (Note 8)	710	860
	72,411	41,973
Long-term debt (Note 8)	330,079	154,000
Future income taxes	41,407	11,536
Non-controlling interest	806	836
	444,703	208,345
SHAREHOLDERS' EQUITY		
Share capital and other equity (Note 9)	170,682	101,801
Cumulative foreign currency translation	(5,213)	(5,908)
Retained earnings	77,895	58,177
	243,364	154,070
	\$ 688,067	\$ 362,415

Commitments and contingencies (Note 14)

Subsequent events (Note 15)

GREAT CANADIAN GAMING CORPORATION
Interim Consolidated Statements of Income

(Unaudited - Prepared by Management)

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

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
			(Note 2(e))	
REVENUES (Note 10)	\$ 68,548	\$ 37,513	\$ 121,775	\$ 70,777
EXPENSES				
Amortization	2,136	1,269	3,603	2,078
Human resources	32,948	19,469	59,525	36,992
Stock-based compensation (Note 9)	1,185	296	1,906	987
Marketing and promotion	4,742	1,593	7,753	3,759
Occupancy costs	4,672	2,588	7,797	4,199
Operating supplies	6,759	3,249	10,689	4,984
	52,442	28,464	91,273	52,999
INCOME FROM OPERATIONS	16,106	9,049	30,502	17,778
Income (loss) from investments	(98)	271	39	133
Interest and financing, net (Note 8)	(1,804)	(637)	(2,869)	(798)
Accretive income from Provincial Gaming Corporations (Note 4 (a))	1,778	-	3,202	-
Foreign exchange gain (loss)	(60)	153	84	377
INCOME BEFORE INCOME TAXES	15,922	8,836	30,958	17,490
Income taxes	5,135	3,291	10,933	6,625
INCOME BEFORE NON-CONTROLLING INTEREST	10,787	5,545	20,025	10,865
Non-controlling interest	328	118	307	111
NET INCOME	\$ 10,459	\$ 5,427	\$ 19,718	\$ 10,754
EARNINGS PER COMMON SHARE				
Basic	\$ 0.14	\$ 0.08	\$ 0.26	\$ 0.17
Diluted	\$ 0.14	\$ 0.08	\$ 0.26	\$ 0.15
WEIGHTED AVERAGE NUMBER OF COMMON SHARES (Note 9(a))				
Basic	75,172,593	65,144,020	74,549,141	64,163,533
Diluted	77,263,628	70,005,730	76,766,826	69,429,115

GREAT CANADIAN GAMING CORPORATION
Consolidated Statements of Shareholders' Equity

(Unaudited - Prepared by Management)

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

	Common Shares		Additional Paid-up Capital and Other Equity	Adjusted Common Shares And Other Equity		Cumulative Foreign Currency Translation Adjustments	Retained Earnings	Shareholders' Equity
	Number	Amount		Number	Amount			
	(Note 9(a))			(Note 9(a))				
At December 31, 2003	61,834,341	\$ 59,219	\$ 7,390	61,834,348	\$ 66,609	\$ (3,447)	\$ 31,452	\$ 94,614
Exercise of incentive stock options	4,542,938	15,221	(4,612)	4,542,938	10,609	-	-	10,609
Private placement	250,000	1,547	-	250,000	1,547	-	-	1,547
Exercise of warrants	3,362,410	21,325	(498)	3,362,410	20,827	-	-	20,827
Stock based compensation	-	-	2,209	-	2,209	-	-	2,209
Effect of foreign currency translation	-	-	-	-	-	(2,461)	-	(2,461)
Net income	-	-	-	-	-	-	26,725	26,725
At December 31, 2004	69,989,689	\$ 97,312	\$ 4,489	69,989,696	\$ 101,801	\$ (5,908)	\$ 58,177	\$ 154,070
Exercise of incentive stock options	718,565	3,297	(1,372)	718,565	1,925	-	-	1,925
Treasury offering (Note 9 (c))	3,750,000	60,281	-	3,750,000	60,281	-	-	60,281
Exercise of warrants (Note 9 (e))	1,025,000	4,769	-	1,025,000	4,769	-	-	4,769
Stock based compensation (Note 9 (d))	-	-	1,906	-	1,906	-	-	1,906
Effect of foreign currency translation	-	-	-	-	-	695	-	695
Net income	-	-	-	-	-	-	19,718	19,718
At June 30, 2005	75,483,254	\$ 165,659	\$ 5,023	75,483,261	\$ 170,682	\$ (5,213)	\$ 77,895	\$ 243,364

GREAT CANADIAN GAMING CORPORATION
Interim Consolidated Statements of Cash Flows

(Unaudited - Prepared by Management)

(In thousands)

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Cash Flows from Operating Activities				
Net income	\$ 10,459	\$ 5,427	\$ 19,718	\$ 10,754
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization	2,136	1,269	3,603	2,078
Accretive income from Provincial Gaming Corporations (Note 4)	(1,778)	-	(3,202)	-
Stock based compensation	1,185	296	1,906	987
Operating expenses reduced by FDIF (Note 4)	(200)	(107)	(2,561)	(363)
Other activities	393	68	1,839	269
Future income taxes	(184)	(13)	(184)	(19)
Changes in non-cash operating working capital (Note 11)	4,750	(3,552)	(4,315)	(4,321)
Net cash provided by operating activities	16,761	3,388	16,804	9,385
Cash Flows from Financing Activities				
Proceeds from long-term debt	162,708	54,194	176,244	54,991
Repayment of long-term debt	(178)	(8,218)	(636)	(9,416)
Deferred financing costs	(616)	-	(616)	-
Common shares issued for cash, net of issuance costs	2,013	5,863	65,911	10,389
Net cash provided by financing activities	163,927	51,839	240,903	55,964
Cash Flows from Investing Activities				
Investment in and advances to equity investees	(156)	(3)	(221)	(241)
Funds received from Provincial Gaming Corporations (Note 4)	4,301	2,534	8,008	5,064
Purchase of property, plant and equipment, net of related accounts payable	(46,109)	(44,857)	(77,219)	(69,651)
Acquisition of MEG, net of cash acquired (Note 3(a))	(86,148)	-	(86,148)	-
Acquisition of Orangeville, net of cash acquired and deposit (Note 3(b))	(72)	-	(33,108)	-
Acquisition of Weinlager, net of bank indebtedness (Note 3(d))	-	-	(1,469)	-
River Rock prepaid lease	-	-	(9,262)	-
Advance on acquisition of Georgian Downs (Note 15(a))	(48,124)	-	(48,124)	-
Acquisition of HEI, net of cash acquired	-	(2,907)	-	(4,917)
Acquisition of Pair O'Dice, net of cash acquired	-	(13)	-	(139)
Promissory notes and advances receivable, net	209	(281)	(5,556)	(27)
Net cash used in investing activities	(176,099)	(45,527)	(253,099)	(69,911)
Effect of foreign exchange on cash and cash equivalents	87	239	74	387
Net Cash Inflow (Outflow)	4,676	9,939	4,682	(4,175)
Cash and cash equivalents, Beginning of Period	43,139	20,079	43,133	34,193
Cash and cash equivalents, End of Period	\$ 47,815	\$ 30,018	\$ 47,815	\$ 30,018
Supplemental Disclosure				
Interest received	\$ 307	\$ 135	\$ 701	\$ 312
Interest paid	\$ 2,424	\$ 966	\$ 4,906	\$ 1,481
Income taxes paid	\$ 3,973	\$ 3,197	\$ 11,096	\$ 8,086
Non-Cash Investing and Financing Activities				
Conversion of promissory note to preferred shares	\$ 6,917	\$ -	\$ 6,917	\$ -
FDIF allocated to assets (Note 4)	\$ 54,877	\$ 204	\$ 75,382	\$ 438

GREAT CANADIAN GAMING CORPORATION

Notes to the Interim Consolidated Financial Statements

For the six months ended June 30, 2005

(Unaudited – Prepared by Management)

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

1. NATURE OF BUSINESS

Great Canadian Gaming Corporation (the “Company”), employs approximately 5,000 employees and is a multi-jurisdictional gaming and entertainment operator with operations in British Columbia (“BC”) and Nova Scotia (“NS”), Canada, and Washington State, United States of America (“Washington”). The Company operates thirteen casinos, a thoroughbred racecourse, two standardbred racecourses, a community gaming centre and numerous associated food and beverage and entertainment facilities.

The Company’s principal operating subsidiaries are Great Canadian Casinos Inc. (“GCC”), Great American Gaming Corporation (“GAGC”), Hastings Entertainment Inc. (“HEI”), Orangeville Raceway Limited (“Orangeville”), and Metropolitan Entertainment Group (“MEG”).

Upon closing of the acquisitions of Georgian Downs Limited and Georgian Downs Holdings Inc. (collectively “Georgian Downs”), and Ontario Racing Inc. (“ORI”), the Company will operate Georgian Downs Standardbred Racecourse and Slots and Flamboro Downs respectively, both located in Ontario, Canada (Note 15), and will employ a further 300 employees.

2. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements include the accounts of the Company, its subsidiaries and on a proportionate basis the accounts of its joint ventures. The interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and accordingly, certain information and note disclosures normally included in the audited annual consolidated financial statements have been omitted. As a result, these unaudited interim consolidated financial statements should be read in conjunction with the Company’s most recent audited annual consolidated financial statements. These interim financial statements have been prepared using the same accounting principles as set out in the audited annual consolidated financial statements of the Company for the year ended December 31, 2004, except as described below:

a) Revenue recognition

Revenues in Nova Scotia are net of taxes paid to the Province of Nova Scotia and the capital replacement reserve (Note 2(b)).

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

For the six months ended June 30, 2005

(Unaudited – Prepared by Management)

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Capital replacement reserve

Under the existing operating contract with the Nova Scotia Gaming Corporation (“NSGC”), NSGC contributes to a capital replacement reserve, based on a minimum of 1.5% of annual gross operating revenues (as defined in the operating contract), which is intended to provide for replacement of certain qualified capital expenditures. The funding of the capital replacement reserve is recorded as a reduction of revenues. The replacement assets acquired using funds from the reserve are the property of the NSGC.

c) Operator’s capital investment and mandatory deferrals

Under the existing operating contract with the NSGC, MEG is entitled to repayment of its capital investment, through the operator’s capital investment (“OCI”) and mandatory deferrals (“MD”), based on certain terms and conditions as defined in the contract.

The OCI and MD receivables accrue interest on the outstanding balance at 12% and prime plus 1% per annum, respectively. The OCI is initially recorded at fair value using a discount rate of 2.91% which management believes to be the market rate of interest for a similar instrument with similar terms and conditions.

Interest payments of the OCI and MD are recorded as accretive income from Provincial Gaming Corporations. The premium on the OCI receivable will be amortized over the term of the OCI.

d) Hedges

The Company utilizes derivative financial instruments in the management of its interest rate exposures. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. The Company also assesses, both at the hedge’s inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Company has entered into a bond forward transaction to manage its fixed interest rate exposure an anticipated fixed rate debt issuance. The Company designated its bond forward agreement as a hedge of the anticipated proceeds on issuance of fixed rate debt. Interest expense on the debt is adjusted to include the payment received under the bond forward contract.

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

For the six months ended June 30, 2005

(Unaudited – Prepared by Management)

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Comparative figures

Certain of the prior period's comparative figures have been reclassified to conform to the current period's presentation. Specifically, the FDIF accretive income previously shown as Revenues is now presented as Accretive income from Provincial Gaming Corporations (Note 10). Historical common share information has been recomputed to reflect the subdivision of the Company's common shares (Note 9(a)) on a five for two basis.

3. ACQUISITIONS

Acquisitions are accounted for using the purchase method, whereby the purchase price is allocated to the fair value of assets and liabilities at the acquisition date, and the results of operations are included in the consolidated financial statements from the date of acquisition. To the extent that certain acquisition agreements provide for contingent consideration based on future financial performance, these payments, if any, will be treated as additional costs of the purchase.

a) Metropolitan Entertainment Group

On May 31, 2005, the Company completed the purchase of 100% of the partnership interests of MEG, a Nova Scotia partnership which owns Casino Nova Scotia Halifax and Casino Nova Scotia Sydney, for cash consideration of US\$73,700 (\$93,117). Casino Nova Scotia Halifax and Casino Nova Scotia Sydney operated pursuant to a casino operating contract with the NSGC. Subsequent to the period end, MEG entered into an Amended and Restated Operating Contract ("AROC") with the NSGC, which changed the terms and conditions of the original operating contract (Note 15(b)). The Company has consolidated MEG's financial position, operating results and cash flows for the month of June pursuant to the terms and conditions of the then existing operating contract.

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

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

For the six months ended June 30, 2005

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3. ACQUISITIONS (Continued)

a) Metropolitan Entertainment Group (Continued)

Cash	\$	93,117
Acquisition costs		<u>1,238</u>
Total purchase price	\$	<u>94,355</u>
Cash	\$	8,207
Accounts receivable		1,039
Prepaid expenses and deposits		1,099
OCI and MD receivables (Note 4(b))		49,875
Property, plant and equipment		58,791
Gaming revenue payable		(32)
Accounts payable and accrued liabilities		(9,584)
Future income taxes		<u>(15,040)</u>
Net assets acquired	\$	<u>94,355</u>

On May 31, 2005, the Company initiated its integration of MEG to improve the synergy of its operations, reduce costs and improve profitability. As a result, the Company accrued \$2,762 of liabilities related to restructuring, of which the primary component is severance. As at June 30, 2005, \$1,175 remains in accounts payable and accrued liabilities.

b) Orangeville Raceway Limited

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

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

For the six months ended June 30, 2005

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3. ACQUISITIONS (Continued)

b) Orangeville Raceway Limited (Continued)

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

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

c) TBC Teletheatre B.C.

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

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

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

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

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

For the six months ended June 30, 2005

(Unaudited – Prepared by Management)

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3. ACQUISITIONS (Continued)

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

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

4. DUE FROM PROVINCIAL GAMING CORPORATIONS

Due from Provincial Gaming Corporations includes the Facility Development Improvement Fund ("FDIF") due from BCLC, and OCI and MD due from NSGC:

	BCLC	NSGC	Total
Current	\$ 17,000	\$ 14,518	\$ 31,518
Long-term	160,806	35,357	196,163
	\$ 177,806	\$ 49,875	\$ 227,681

a) *Facilities Development Improvement Fund due from BCLC*

FDIF receivable, December 31, 2004	\$ 117,065
FDIF receivable from acquisition of Orangeville (Note 3(b))	14,988
Qualified assets approved by BCLC	75,382
Qualified expenditures approved by BCLC	2,561
FDIF reimbursement received	(8,008)
	201,988
Imputed discount applied	(27,384)
Accretive income from Provincial Gaming Corporations	3,202
	177,806
Less: current portion, June 30, 2005	17,000
	\$ 160,806

The long-term portion of FDIF receivable approved during the period was discounted over periods of approximately eight to eleven years at discount rates ranging from 3.95% to 4.37% per annum.

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

For the six months ended June 30, 2005

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4. DUE FROM PROVINCIAL GAMING CORPORATIONS (Continued)

b) Operator's Capital Investment and Mandatory Deferral due from NSGC

OCI receivable at \$1,094 per month to April 2007, bearing interest on the outstanding balance at 12% per annum	\$ 24,255
Premium on OCI receivable, calculated at an effective interest rate at 2.91% per annum	2,057
MD receivable at \$100 per month to April 2007 and \$900 per month thereafter to May 2009, bearing interest on the outstanding balance at prime plus 1%	23,563
	49,875
Less: current portion, June 30, 2005	14,518
	\$ 35,357

5. PROPERTY, PLANT AND EQUIPMENT

As at June 30, 2005

	Original Cost	Less: FDIF Qualified	Adjusted Cost	Accum- ulated Amort- ization	Net Book Value
Land	\$ 24,521	\$ 11,402	\$ 13,119	\$ -	\$ 13,119
Buildings	230,091	100,536	129,555	2,833	126,722
Properties under development	148,437	52,871	95,566	-	95,566
Equipment	38,868	20,347	18,521	9,689	8,832
ERP systems	4,615	-	4,615	2,168	2,447
Equipment under capital lease	1,392	-	1,392	418	974
Leasehold interests	8,619	7,959	660	32	628
Leasehold improvements	18,855	7,681	11,174	1,951	9,223
	\$ 475,398	\$ 200,796	\$ 274,602	\$ 17,091	\$ 257,511

Equipment under capital lease without any further lease obligation has been reclassified to equipment.

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Notes to the Interim Consolidated Financial Statements

For the six months ended June 30, 2005

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5. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at December 31, 2004

	Original Cost	Less: FDIF Qualified	Adjusted Cost	Accum- ulated Amort- ization	Net Book Value
Land	\$ 22,306	\$ 11,402	\$ 10,904	\$ -	\$ 10,904
Buildings	147,253	98,819	48,434	1,694	46,740
Properties under development	51,011	1,136	49,875	-	49,875
Equipment	26,886	12,199	14,687	7,959	6,728
ERP systems	4,244	-	4,244	1,742	2,502
Equipment under capital lease	9,268	7,980	1,288	659	629
Leasehold interests	8,614	7,959	655	-	655
Leasehold improvements	16,837	7,666	9,171	1,852	7,319
	\$ 286,419	\$ 147,161	\$ 139,258	\$ 13,906	\$ 125,352

Property, plant and equipment qualified under the FDIF are reduced by the fair value of the related FDIF receivable. See Note 8 for interest and financing costs capitalized to property, plant and equipment.

6. INTANGIBLE ASSETS

Balance net, December 31, 2004	\$ 28,629
Orangeville electronic gaming rights (Note 3(b))	10,695
Orangeville horseracing licence (Note 3(b))	10,695
Amortization	(165)
Foreign exchange translation	3
Balance net, June 30, 2005	\$ 49,857

Orangeville electronic gaming rights represent the estimated fair value of the right to operate slot machines and electronic gaming positions at Fraser Downs. The electronic gaming rights are amortized straight-line over the remaining 19 year term of the operational services agreement.

Orangeville horseracing licence is the estimated fair value of the right to operate live horse racing at Fraser Downs and Sandown granted by the Gaming Policy and Enforcement Branch of British Columbia and Canadian Pari-Mutuel Agency. The licence has an indefinite life and is not subject to amortization.

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Notes to the Interim Consolidated Financial Statements

For the six months ended June 30, 2005

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7. OTHER ASSETS

Creation Casinos Inc.

On June 15, 2005, the Company completed the conversion of \$6,816 in promissory notes receivable, \$101 in accrued interest, and \$483 in capital lease obligation guaranteed by the Company into 74,000 Class A Preference Shares, Series One of Creation (the "Preference Shares"). The Preference Shares have a par value of \$100 per share, are non-voting, and carry the right to receive non-cumulative annual dividends of \$3.00 per share commencing after December 31, 2005, for each fiscal year in which Creation realizes positive net income at least equivalent to 3% of the par value of the Preference Shares outstanding at the end of such year. The Preference Shares contain a provision for mandatory redemption to the extent of 25% of net operating cash flow and are otherwise redeemable at the discretion of Creation. Creation has one director who is an officer of the Company.

8. LONG-TERM DEBT

	June 30, 2005	December 31, 2004
Series A Senior Secured Notes – see terms below	\$ 150,000	\$ 150,000
Credit Facility – facility limit of \$200,000, bearing interest at the Toronto-Dominion Bank's Canadian prime rate, repayable on September 28, 2006	176,240	-
HEI Promissory Note – bearing interest at 6% per annum, repayable in quarterly instalments of principal and interest of \$175, until December 31, 2012, and secured by general security agreement with a first charge against all of HEI's assets	4,116	4,339
Obligations Under Capital Leases	433	521
	\$ 330,789	\$ 154,860
Less: current portion	710	860
	\$ 330,079	\$ 154,000

During the six months ended June 30, 2005, interest and financing costs of \$2,869 (June 30, 2004 - \$798) are net of interest income of \$826 (June 30, 2004 - \$601) and capitalized interest on construction of \$2,197 (June 30, 2004 - \$992).

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

For the six months ended June 30, 2005

(Unaudited – Prepared by Management)

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8. LONG-TERM DEBT (Continued)

On September 29, 2004, the Company issued 5.74% \$150,000 Series A Senior Secured Notes (the "Series A Notes"). The Series A Notes pay interest semi-annually on March 29 and September 29 of each year, commencing March 29, 2005. The Company will retire the Series A Notes on September 29, 2014, with semi-annual instalments of principal commencing March 29, 2008 in the amount of \$10,000 each to and including March 29, 2012, and semi-annual instalments of principal commencing September 29, 2012 in the amount of \$12,000 each until the maturity date at September 29, 2014.

Provided that no default has occurred and is continuing, the Series A Notes are redeemable by the Company at its option in whole at any time or in part from time to time on not more than 60 days' and not less than 30 days' notice at a price equal to the outstanding principal amount plus accrued and unpaid interest plus a prepayment amount.

The Series A Notes and Credit Facility are guaranteed by the Company and two of its subsidiaries, GCC and GAGC, and a pledge of common shares of 686486 B.C. Ltd., the subsidiary through which the Company owns Hastings Racecourse. The Series A Notes are direct secured obligations of the Company and secured equally and rateably with the indebtedness of the Company pursuant to the Credit Facility. The Series A Notes and Credit Facility require the Company to be in compliance with financial covenants, and contain limitations on the Company's ability to make investments in non-core businesses, incur additional senior indebtedness or sell core assets. As at June 30, 2005, the Company is in compliance with the Series A Notes' and Credit Facility's financial and operating covenants.

9. SHARE CAPITAL

a) Share subdivision

On June 9, 2005, the Company's common shares were subdivided on a five-for-two split basis. All references to the number of common shares and per share amounts have been retroactively restated to reflect the share subdivision.

b) Common shares

The Company is authorized to issue an unlimited number of common shares with no par value. The number of issued and outstanding common shares as at June 30, 2005 was 75,483,254 (December 31, 2004 – 69,989,689).

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

For the six months ended June 30, 2005

(Unaudited – Prepared by Management)

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

9. SHARE CAPITAL (Continued)

c) Treasury offering of common shares

On January 13, 2005, the Company completed an offering of 3,750,000 common shares at \$16.60 per share for gross proceeds of \$62,250. The cost of the offering, net of future income taxes, reduced the gross proceeds by \$1,969. The net proceeds were used for the acquisition of Orangeville, Weinlager, and to reduce an operating line of credit used to fund the termination of the share purchase agreement with Wall Financial Corporation.

d) Stock-based compensation plans

i) Stock option plans

At the Annual General Meeting held on June 15, 2005, the Company adopted a new stock option plan to conform to the TSX Company Manual amendments made effective January 1, 2005, and transferred all outstanding stock options under the 1999 and 2003 plans to the new 2005 plan. Under the 2005 Plan, the maximum number of stock options reserved for issuance is limited to 10% of the common shares issued and outstanding from time to time.

Stock options are as follows:

	Options	Weighted- Average Exercise Price
Outstanding at December 31, 2004	4,005,564	\$ 7.10
Granted	2,543,750	18.15
Exercised	(718,565)	2.68
Outstanding at June 30, 2005	5,830,749	\$ 12.46

During the six months ended June 30, 2005, the total compensation expense related to the fair value of stock options was \$1,906 (June 30, 2004 - \$987), of which \$1,867 (June 30, 2004 - \$953) was to employees and directors and \$39 (June 30, 2004 - \$34) was to consultants.

ii) Employee share purchase plan

Eligible employees of the Company may elect to participate in the Employee Share Purchase Plan (the "Plan") by contributing up to 5% of their gross pay with the Company matching 25% of the contributions. As at June, 2005, 182,100 (December 31, 2004 – 186,505) common shares were held under the Plan and 30% of employees participated in the Plan (December 31, 2004 – 23%).

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

For the six months ended June 30, 2005

(Unaudited – Prepared by Management)

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

9. SHARE CAPITAL (Continued)

e) Warrants

	Equivalent # of Common Shares	Weighted-Average Exercise Price
Outstanding and exercisable at December 31, 2004	1,187,590	\$ 4.50
Exercised	(1,025,000)	4.65
Expired/Cancelled	(162,590)	3.50
Outstanding at June 30, 2005	-	\$ -

10. REVENUES

	Three months ended June 30,	
	2005	2004
Gross table win	\$ 58,276	\$ 42,300
Gross slot win	89,422	47,780
Gross racetrack	28,088	7,625
Other gaming revenues	373	354
Food and beverage	7,509	2,000
	183,668	100,059
Less: Gaming commissions and taxes	(95,099)	(58,711)
Racetrack purses	(21,029)	(4,594)
Other gaming payouts	(209)	(1)
	67,331	36,753
ATM revenues	868	330
Other	349	430
	\$ 68,548	\$ 37,513

	Six months ended June 30,	
	2005	2004
Gross table win	\$ 116,394	\$ 85,891
Gross slot win	157,105	93,868
Gross racetrack	33,880	7,625
Other gaming revenues	984	680
Food and beverage	13,041	3,351
	321,404	191,415
Less: Gaming commissions and taxes	(176,378)	(117,198)
Racetrack purses	(24,904)	(4,594)
Other gaming payouts	(435)	(1)
	119,687	69,622
ATM revenues	1,515	591
Other	573	564
	\$ 121,775	\$ 70,777

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

For the six months ended June 30, 2005

(Unaudited – Prepared by Management)

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

10. REVENUES (Continued)

For the three months ended March 31, 2005, other revenues previously included \$1,424 of FDIF accretive income. The FDIF accretive income has been reclassified to accretive income from Provincial Gaming Corporations below income from operations.

11. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

Changes in non-cash operating working capital	Three months ended June 30,	
	2005	2004
Accounts receivable	\$ (2,688)	\$ (3,944)
Prepaid expenses and deposits	(6,188)	(1,720)
Accounts payable and accrued liabilities	12,059	1,607
Income taxes payable	1,567	505
	\$ 4,750	\$ (3,552)

Changes in non-cash operating working capital	Six months ended June 30,	
	2005	2004
Accounts receivable	\$ (563)	\$ (4,872)
Prepaid expenses and deposits	(7,839)	(1,680)
Accounts payable and accrued liabilities	4,069	3,139
Income taxes payable	18	(908)
	\$ (4,315)	\$ (4,321)

12. SEGMENTED INFORMATION

The Company and its subsidiaries operate primarily in one industry segment, the gaming industry. The Company conducts business in two geographic segments: Canada and United States (“US”). Revenues are attributable to the geographic segment based on the location of the gaming facilities with the following income (loss) and assets:

Income statement and cash flows:

	Three months ended June 30, 2005			
	Canada	US	Inter-company	Total
Revenues	\$ 60,821	\$ 7,727	\$ -	\$ 68,548
Amortization	1,650	486	-	2,136
Interest and financing, net	1,767	37	-	1,804
Net income	9,432	1,027	-	10,459
Expenditures for property, plant and equipment, net of related accounts payable	46,063	46	-	46,109

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

For the six months ended June 30, 2005

(Unaudited – Prepared by Management)

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

12. SEGMENTED INFORMATION (Continued)

Three months ended June 30, 2004

	Canada	US	Inter- company	Total
Revenues	\$ 31,987	\$ 5,657	\$ (131)	\$ 37,513
Amortization	668	601	-	1,269
Interest and financing, net	152	485	-	637
Net income (loss)	6,326	(899)	-	5,427
Expenditures for property, plant and equipment, net of related accounts payable	44,843	14	-	44,857

Six months ended June 30, 2005

	Canada	US	Inter- company	Total
Revenues	\$ 106,786	\$ 14,989	\$ -	\$ 121,775
Amortization	2,641	962	-	3,603
Interest and financing, net	2,789	80	-	2,869
Net income	18,175	1,543	-	19,718
Expenditures for property, plant and equipment, net of related accounts payable	77,034	185	-	77,219

Six months ended June 30, 2004

	Canada	US	Inter- company	Total
Revenues	\$ 58,748	\$ 12,288	\$ (259)	\$ 70,777
Amortization	1,071	1,007	-	2,078
Interest and financing, net	(157)	955	-	798
Net income (loss)	12,009	(1,255)	-	10,754
Expenditures for property, plant and equipment net of related accounts payable	69,418	233	-	69,651

Balance sheet:

As at June 30, 2005

	Canada	US	Inter- company	Total
Property, plant and equipment	\$ 232,633	\$ 24,878	\$ -	\$ 257,511
Goodwill	13,569	8,049	-	21,618
Intangible assets	49,734	123	-	49,857
Total assets	689,579	42,148	(43,660)	688,067

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

For the six months ended June 30, 2005

(Unaudited – Prepared by Management)

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

12. SEGMENTED INFORMATION (Continued)

As at December 31, 2004

	Canada	US	Inter-company	Total
Property, plant and equipment	\$ 100,198	\$ 25,154	\$ -	\$ 125,352
Goodwill	12,142	7,896	-	20,038
Intangible assets	28,485	144	-	28,629
Total assets	366,337	38,754	(42,676)	362,415

13. RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2005, the Company expensed \$428 (June 30, 2004 - \$369) for staff training services provided by a company controlled by a director 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.

14. COMMITMENTS AND CONTINGENCIES

a) Capital expansion

The Company's capital expansion plans require estimated expenditures of approximately \$150,000 over the next twelve months, which will be funded by existing cash, cashflow from operations, and advances from existing debt facilities.

b) Letters of credit

As at June 30, 2005, letters of credit in the amount of \$23,542 were outstanding as security in connection with gaming cash floats and road improvements, landscaping and development permits.

c) Commitments

Under the terms of various operating leases and contracts, the Company is committed to future minimum contractual payments for the next five years as follows:

2005	\$ 2,310
2006	2,690
2007	2,017
2008	1,667
2009	1,433
	<u>\$ 10,117</u>

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

For the six months ended June 30, 2005

(Unaudited – Prepared by Management)

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

14. COMMITMENTS AND CONTINGENCIES (Continued)

d) Trailing payments on acquisition

As part of the acquisitions of O'Aces, Vetter and Orangeville, the Company is committed to make future payments based upon the acquired companies' meeting certain financial performance criteria and operational objectives. These payments, if and when made, will be treated as additional costs of the purchase.

15. SUBSEQUENT EVENTS

a) Acquisition of Georgian Downs

On April 3, 2005, the Company entered into a purchase agreement to acquire all of the issued and outstanding shares of Georgian Downs, subject to regulatory approvals, for cash consideration of approximately \$25,000, plus the assumption of certain shareholder loans and other indebtedness of approximately \$23,000. As the required regulatory approval process could not be completed by the scheduled closing date, with the consent of the relevant Ontario gaming regulators, the shares were acquired on July 2, 2005 by Great Canadian Gaming (Ontario) Ltd., a former subsidiary of the Company, as Bare Trustee for the Company. The Company expects that all required regulatory approvals will be obtained within 90 days.

The Company has loaned to the bare trustee approximately \$48,124, which is included in advance and deposit on acquisitions as at June 30, 2005, for the purpose of acquiring all the outstanding shares and indebtedness of Georgian Downs. Following regulatory approvals, the shares of the bare trustee will be transferred to the Company and the results of Georgian Downs' operations will be consolidated with the Company. The registration of Georgian Downs under applicable Ontario gaming and horse racing legislation is subject to cancellation if the Company does not receive all required regulatory approvals and clearances.

b) Amendment of NSGC Operating Contract

MEG entered into an Amended and Restated Operating Contract ("AROC") with the NSGC, effective July 1, 2005. Under the AROC, the fee payable to MEG for services provided in connection with the operation of the Sydney and Halifax casinos will be 52.725% of the total facilities' revenue. The NSGC will contribute 5% of the total facilities' revenue for the purpose of making capital improvements to the casino properties ("Capital Replacement Reserve"). Approved expenditures incurred by MEG on behalf of NSGC in improving the casino facilities will be reimbursed from this Capital Replacement Reserve. The fee may be reviewed if certain changes to operations prescribed or directed by the NSGC adversely affect expenses or revenues of MEG.

MEG continues to be entitled to a repayment of \$24,255 operator's capital investment ("OCI"), which is the balance owed to MEG under the existing operating contract in

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

For the six months ended June 30, 2005

(Unaudited – Prepared by Management)

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

15. SUBSEQUENT EVENTS (Continued)

b) Amendment of NSGC Operating Contract (Continued)

respect of unpaid approved development costs incurred by MEG, plus interest on the outstanding balance at 12% per annum. MEG is also entitled to a repayment of \$23,563 mandatory deferral (“MD”), which is an amount equal to the balance owed to MEG under the existing operating contract. The OCI is receivable at \$1,094 per month to April 2007 and the MD is receivable at \$100 per month to April 2007 and \$900 per month thereafter to May 2009.

The term of the AROC is ten years commencing July 1, 2005 and MEG has an option to renew the agreement for a further ten years. MEG also has been granted a right of first opportunity to negotiate with the NSGC with respect to any proposal by the NSGC to pursue the development and operation of any new racetrack/casino facility in Nova Scotia.

c) Acquisition of Flamboro Downs

On July 6, 2005, the Company entered into an agreement in principle to acquire all of the outstanding shares of ORI, a wholly owned subsidiary of Magna Entertainment Corporation (“MEC”). ORI owns and operates Flamboro Downs, a standardbred racetrack, and siteholder for slot machines operated by the OLGC in Flamborough, Ontario. The acquisition is subject to required regulatory approvals, the completion of customary due diligence, and the negotiation of a definitive purchase and sale agreement. Under the terms of the agreement in principle, the Company will pay to MEC the aggregate consideration of \$50,000 and US\$23,600 in cash which includes the assumption of existing debt of approximately \$44,000. Subsequent to June 30, 2005, the Company paid a deposit of \$3,662 for the acquisition of ORI.

d) Debt financing

On July 21, 2005, the Company completed the issuance of 5.50% \$150,000 Series B Senior Secured Notes (“Series B Notes”), led by TD Securities Inc. as agent. The Series B Notes are issued for a 10 year term maturing July 21, 2015, and rank pari passu with both the Company’s 5.74% \$150,000 Series A Senior Secured Notes and \$200,000 revolving credit facility. The proceeds from the Series B Notes was used to reduce the amounts outstanding under the Credit Facility, currently used to fund acquisitions, and for general working capital purposes.

On June 27, 2005, the Company entered into a bond forward transaction, based on the ten-year Government of Canada bond yield rate, to hedge the interest rate associated with the issuance of the \$150,000 Series B Notes on July 21, 2005. The bond forward resulted in a cash receipt gain of \$1,736 on July 21, 2005, which will be deferred and amortized to reduce the coupon rate of interest over the ten-year term of the Series B

GREAT CANADIAN GAMING CORPORATION
Notes to the Interim Consolidated Financial Statements

For the six months ended June 30, 2005

(Unaudited – Prepared by Management)

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

15. SUBSEQUENT EVENTS (Continued)

d) Debt financing

Notes. The bond forward transaction results in reducing the effective interest rate on the Series B Notes from 5.50% to 5.38%.

e) Private placement of special warrants

On August 3, 2005, the Company completed a placement of 3,703,704 special warrants of the Corporation (the "Special Warrants") at a price of \$20.25 per Special Warrant for gross proceeds of \$75,000. Each Special Warrant shall be exercisable, at no additional cost, into one common share of the Company after the Company files a short form prospectus to qualify the distribution of the common shares underlying the special warrants.

The Company is obligated to file a short form prospectus within a reasonable period. If the Company has not obtained a final receipt for its prospectus by October 2, 2005, each Special Warrant will entitle the holder to receive upon exercise 1.1 common shares.