



# GREAT CANADIAN GAMING CORPORATION

## MANAGEMENT DISCUSSION AND ANALYSIS

For the Six Months Ended June 30, 2005

**(Unaudited – Prepared by Management)**

*As at August 4, 2005*

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

## GREAT CANADIAN GAMING CORPORATION

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

#### HIGHLIGHTS/OVERALL PERFORMANCE

|                                | Three Months Ended June 30, |           |       | Six Months Ended June 30, |           |       |
|--------------------------------|-----------------------------|-----------|-------|---------------------------|-----------|-------|
|                                | 2005                        | 2004      | % Chg | 2005                      | 2004      | % Chg |
| Revenues <sup>(1)</sup>        | \$ 68,548                   | \$ 37,513 | 83%   | \$ 121,775                | \$ 70,777 | 72%   |
| EBITDA <sup>(1) (2)</sup>      | \$ 19,427                   | \$ 10,614 | 83%   | \$ 36,011                 | \$ 20,843 | 73%   |
| Adjusted EBITDA <sup>(2)</sup> | \$ 23,728                   | \$ 13,148 | 80%   | \$ 44,019                 | \$ 25,907 | 70%   |
| Net Income                     | \$ 10,459                   | \$ 5,427  | 93%   | \$ 19,718                 | \$ 10,754 | 83%   |
| Earnings per common share:     |                             |           |       |                           |           |       |
| Basic                          | \$ 0.14                     | \$ 0.08   | 75%   | \$ 0.26                   | \$ 0.17   | 53%   |
| Diluted                        | \$ 0.14                     | \$ 0.08   | 75%   | \$ 0.26                   | \$ 0.15   | 73%   |

<sup>(1)</sup> First quarter figures were adjusted to conform to current period's presentation

<sup>(2)</sup> See "Definitions used in MD&A"

Great Canadian Gaming Corporation's (the "Company", "we", "our") financial performance for the second quarter of 2005 has exceeded the financial performance of the same quarter in 2004 and the first quarter of 2005. The strong second quarter of 2005 performance builds upon the first quarter of 2005, with the result that the six month results for 2005 also exceed the performance of the same period in 2004.

In the six months ended June 30, 2005, the Company has expanded its gaming operations with the acquisitions of Orangeville Raceway Ltd. ("Orangeville", operating Fraser Downs Racetrack and Casino ("Fraser Downs"), and Sandown Racetrack ("Sandown")) on March 18, 2005, and Metropolitan Entertainment Group ("MEG", operating Casino Nova Scotia Halifax and Casino Nova Scotia Sydney) on May 31, 2005. Capital expansion projects at the River Rock Casino Resort ("River Rock") and Coquitlam Boulevard Casino ("Coquitlam") are expected to be completed in the third quarter of 2005 (Coquitlam theatre in the second quarter of 2006).

Revenues for the second quarter of 2005 were \$68,548, up 83% from the second quarter of 2004 and up 29% from the first quarter of 2005. The second quarter revenues reflect the impact of a full three months of revenues from Orangeville, one month of revenues from MEG, and River Rock. The revenues for the six months ended June 30, 2005 were \$121,775, up 72% from the same period in 2004.<sup>1</sup> This revenue increase is also the result of the Orangeville and MEG acquisitions, and a full six months of River Rock operations in 2005.

EBITDA for the second quarter of 2005 was \$19,427, up 83% from the second quarter of 2004 and up 17% from the first quarter of 2005<sup>2</sup>. EBITDA has increased in line with revenues.

The Company has diversified beyond gaming into the horseracing, food and beverage, and

<sup>1</sup> First quarter revenues have been reduced by \$1,424 to conform to the current period's presentation for the Facility Development Improvement Fund ("FDIF") accretive income.

<sup>2</sup> First quarter EBITDA has been adjusted to \$16,584 to conform to the current period's presentation for the FDIF accretive income.

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hospitality and entertainment industries. These products are primarily offered to increase the traffic into the core casino business. Cost saving initiatives implemented in recently acquired operations have yet to be fully reflected in their financial results. Process reviews of acquisitions are continuously underway to both improve their efficiency and integrate their operations with head office. EBITDA margins are expected to improve as the various phases of integration plans are implemented.

The Company has increased its operating infrastructure since early 2005 to manage and accommodate its growth. The Company has added staff in several head office functions, including the formation of an integration team, made investments in information technology, expanded the Richmond head office and added a satellite Toronto office, to best manage the opportunities, integration, and ensure the acquisition synergies are achieved. In addition, an internal audit team was formed to deliver on the CEO/CFO certification.

Adjusted EBITDA, which adds capital recovery payments from the Provincial Gaming Corporations ("PGC") to EBITDA, was \$23,728 for the second quarter of 2005, up 80% from the second quarter in 2004, and up 17% from the first quarter of 2005. Adjusted EBITDA was \$44,019 for the six months ended June 30, 2005, up 70% from the same period in 2004. The current increase in Adjusted EBITDA is due to increased EBITDA and increased capital recoveries from the PGC. In British Columbia ("BC") and Nova Scotia ("NS"), the Company receives the majority of its capital expenditures back from the PGC.

Net income for the second quarter of 2005 was \$10,459, up 93% from the second quarter of 2004 and up 13% from the first quarter in 2005. Net income for the six months ended June 30, 2005 was \$19,718, an increase of 83% compared to the same period last year. The inclusion of River Rock, Fraser Downs and the two Casinos in Nova Scotia have had a positive impact on the increased financial performance of the second quarter of 2005 as compared to the same quarter of 2004 and the first quarter of 2005. The Washington state operations continue to show growth, with a significant turnaround in results following the restructuring undertaken late last year. In the second quarter of 2005, the results were positively impacted by the recognition of a previously unrecognized tax loss.

Basic and diluted earnings per common share for the second quarter of 2005 were both \$0.14, compared to \$0.08 in the second quarter of 2004 and \$0.13 and \$0.12, respectively, for the first quarter of 2005. Basic and diluted earnings per common share for the six months ended June 30, 2005, were both \$0.26, compared to \$0.17 and \$0.15 respectively for the same period in 2004. The number of common shares outstanding increased 7.8% from December 31, 2004 to June 30, 2005.

The Company has entered into an agreement to purchase Georgian Downs Limited and Georgian Downs Holdings Inc. (collectively, "Georgian Downs"), and has entered into a purchase agreement to acquire the shares of Ontario Racing Inc. ("ORI"), which operates Flamboro Downs ("Flamboro"). These two acquisitions are subject to regulatory approval and are expected to close in the third quarter.

During the remainder of 2005, the Company will focus on delivering on its capital expansion program at River Rock and Coquitlam, finalizing the lease and permits for slots expansion and

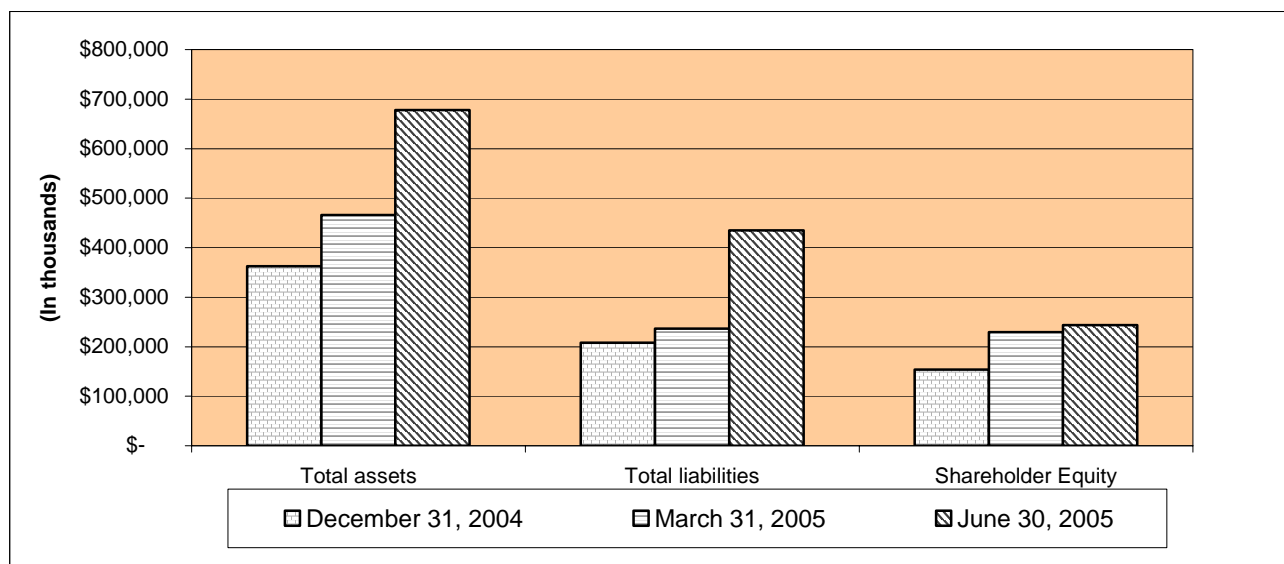
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construction at Hastings Entertainment Inc. (“HEI”), integrating the operations of Orangeville and MEG, improving operational effectiveness of all operations, and completing and integrating the acquisitions of Georgian Downs and Flamboro. In addition, the Company will continue to seek opportunities to expand within Canada.



Total assets increased to \$688,067 at June 30, 2005, an increase of 90% from the year-end and a 48% increase from March 31, 2005. These increases are primarily due to the acquisition of Orangeville in March 2005, the acquisition of MEG in May 2005, the deposit for the acquisition of Georgian Downs in April 2005 and the continued build-out of the River Rock and Coquitlam expansions. Working capital was \$28,898 at June 30, 2005, an increase of 7% from the year-end and a decrease of 7% from March 31, 2005.

The receivable from PGC increased from \$117,065 at December 31, 2004 to \$227,681, and net property, plant and equipment increased to \$257,511 at June 30, 2005. The receivable from PGC and property, plant and equipment collectively have increased by 100% from the year-end and 48% from the previous quarter, representing the continued capital investment on facilities construction, and the acquisitions of Orangeville and MEG.

Total liabilities have increased by 113% and 88% compared to December 31, 2004 and March 31, 2005, respectively. This increase is mainly due to the increase in and utilization of our credit facility in the second quarter of 2005 to finance the Company's capital investments and acquisitions. The increase in share capital of \$68,881 from year-end is attributed to the treasury offering of 3,750,000 common shares in January 2005, and the exercise of stock options and warrants.

Subsequent to the quarter end, the Company secured additional financing through a private placement of special warrants for gross proceeds of \$75,000, and through the issuance of \$150,000 in 10-year Series B Notes at an effective interest rate of 5.38%. (See Significant Events & Developments for more details).

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## **INTRODUCTION**

### **General**

The Company employs approximately 5,000 employees and is a multi-jurisdictional gaming and entertainment operator with operations in BC and 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 various associated food and beverage and entertainment facilities.

The Company's principal operating subsidiaries are Great Canadian Casinos Inc. ("GCC"), Great American Gaming Corporation ("GAGC"), HEI, Orangeville, and MEG.

Upon closing of the acquisitions of Georgian Downs and ORI, the Company will operate Georgian Downs Standardbred Racecourse and Slots, and Flamboro, respectively, both located in Ontario ("ON"), Canada.

### **Basis of Discussion & Analysis**

This management discussion and analysis ("MD&A") of our results of operations, liquidity and capital resources, transactions with related parties, financial position, and other information is dated as of August 4, 2005. This MD&A should be read in conjunction with our unaudited interim consolidated financial statements for the six months ended June 30, 2005 and the accompanying notes ("Interim Financial Statements"), and our audited consolidated financial statements for the year ended December 31, 2004 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 in accordance with 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 may be omitted. Unless otherwise indicated, all dollar figures are in Canadian currency.

Capitalized terms are either defined when they first appear, or are defined at the end of this MD&A in the section titled "Definitions Used in the MD&A").

### **Forward-Looking Statements**

All statements other than statements of historical fact in this MD&A are forward-looking statements, including, without limitation, statements regarding future financial position, business strategy, proposed acquisitions, budgets, litigation, projected costs and plans, and objectives of or involving the Company. Readers can identify many of these statements by looking for words such as "believes", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words or the negative thereof.

There are no assurances that the plans, intentions, or expectations upon which these forward-looking statements are based will occur. Forward-looking statements are subject to risks, uncertainties and assumptions, which if different could cause results to differ materially from those

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expressed in the forward-looking statement. Some of the factors that could affect results include, without limitation, pending and proposed legislative or regulatory developments, regulatory approval of acquired operations, competition from established competitors and new entrants in the gaming business, interest and exchange rate fluctuations, general economic conditions, acceptance and demand for new products and services, and fluctuations in operating results.

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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## THE COMPANY AND BUSINESS

### Operations in Canada

The following table summarizes current approved operational levels as at June 30, 2005:

| Name                                   | Location          | Slot<br>Machines | Table<br>Games | Operational<br>Daily Hours | Operating<br>Contract<br>Expiry Date <sup>(1)</sup> |
|--|-------------------|------------------|----------------|----------------------------|---|
| Boulevard (Coquitlam) <sup>(2)</sup>   | Coquitlam, BC     | 450              | 32             | 24                         | 2/28/2011   |
| Holiday Inn Broadway                   | Vancouver, BC     | -                | 36             | 20                         | 2/28/2011   |
| Nanaimo                                | Nanaimo, BC       | 380              | 12             | 16                         | 2/28/2011   |
| River Rock                             | Richmond, BC      | 1,000            | 93             | 24                         | 6/23/2014   |
| View Royal                             | View Royal, BC    | 425              | 24             | 18                         | 2/28/2011   |
| Fraser Downs                           | Surrey, BC        | 420              | -              | 17.5 - 20                  | 3/31/2014   |
| Casino Nova Scotia                     | Halifax, NS       | 754              | 38             | 24                         | 7/1/2015  |
| Casino Nova Scotia                     | Sydney, NS        | 387              | 10             | 16 - 24                    | 7/1/2015  |
| Jack O'Clubs (Seasonal) <sup>(3)</sup> | Wells, BC         | 80               | -              | 8                          | 6/20/2012   |
| Bear Mountain <sup>(4)</sup>           | Dawson Creek, BC  | 70               | -              | 14 - 16                    | 1/12/2006   |
| Georgian Downs <sup>(5) (6)</sup>      | Innisfil, ON      | 401              | -              | 17 - 24                    | 11/26/2006  |
| Flamboro <sup>(5) (6)</sup>            | Flamborough, ON   | 755              | -              | 17 - 24                    | 10/17/2005  |
|  |                   | <u>5,122</u>     | <u>245</u>     |                            |   |
| Approved expansions:                   |                   |                  |                |                            |   |
| Boulevard (Coquitlam) <sup>(2)</sup>   | Coquitlam, BC     | 350              | 30             |                            |   |
| Hastings Racecourse                    | Vancouver, BC     | 600              | -              |                            |   |
| Sandown                                | North Saanich, BC | 200              | -              |                            |   |
|  |                   | <u>6,272</u>     | <u>275</u>     |                            |   |

<sup>(1)</sup> Subject to renewal terms, at option of Company, for 10 years in BC and NS and 5 year for ON.

<sup>(2)</sup> The City of Coquitlam has approved up to 1,000 slots and BCLC has approved 800 slots.

<sup>(3)</sup> Opened Wednesday through Sunday only.

<sup>(4)</sup> The Company is currently in negotiations with BCLC for a new 10 year COSA for Bear Mountain, which is expected to be in effect on opening of the permanent facility.

<sup>(5)</sup> Pending regulatory approval and closing of the transactions.

<sup>(6)</sup> Operates under siteholder agreements with OLGC for OLGC to operate slots.

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The following table summarizes the racecourse operations and current operational levels as at June 30, 2005:

| Name                          | Location          | Number of<br>Annual live race<br>days | Simulcast<br>betting |
|-------------------------------|-------------------|---------------------------------------|----------------------|
| Hastings Racecourse           | Vancouver, BC     | 83                                    | Yes                  |
| Fraser Downs                  | Surrey, BC        | 92                                    | Yes                  |
| Sandown                       | North Saanich, BC | 20                                    | Yes                  |
| Georgian Downs <sup>(1)</sup> | Innisfil, ON      | 115                                   | Yes                  |
| Flamboro <sup>(1)</sup>       | Flamborough, ON   | 260                                   | Yes                  |
|                               |                   | <u>570</u>                            |                      |

<sup>(1)</sup> Pending regulatory approval and closing of the transactions

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In BC, casino gaming is governed by statutory regulations that are designed to maintain the integrity of the games played and to ensure that the industry participants are of good character. This is the responsibility of the British Columbia Lottery Corporation ("BCLC"), which in turn engages service providers to operate the casinos on its behalf under the terms and conditions in separate Casino Operational Services Agreement ("COSAs"). COSAs have an initial term of 10 years and a renewal option, under certain conditions, for a further 10 years. COSAs generally provide that the Company retain 25% of the win on slot machines and 40% of the win on most table games.

BCLC is responsible for assessing the marketplace demands and determining the number of slot machines and table gaming mix by location, subject to contractual arrangement with operators. Similar regulatory provisions are in place in the Bingo Casino Operational Services Agreement ("BCOSA") for bingo and slots at community gaming centres and in the Racing Casino Operational Services Agreement ("RCOSA") for slot machines at racecourse locations. BCLC has previously announced that no new COSAs will be issued. Existing bingo operators may apply to become a community gaming centre and upon successful application, enter into a BCOSA. Therefore, competition in BC is from a finite known group of suppliers.

Slots gaming at Fraser Downs, and in the future at Hastings Racecourse and Sandown, is the responsibility of BCLC and is governed by a RCOSA for each location. The RCOSA at Fraser Downs provides for the Company to retain 20% of the win from slot machines. In addition, a further 10% of the win (from BCLC's 80% portion of the win) from slots will be added to the horseracing purses and racing development programs, which will enhance the viability of racing operations. We anticipate the RCOSA for Hastings Racecourse and Sandown to be similar to Fraser Downs. As part of its RCOSA, Orangeville is required to expend an amount equal to or greater than 2% of the win at Fraser Downs towards marketing programs each year.

Under the River Rock COSA, the Company is required to pay BCLC an amount equal to 0.75% of the River Rock gaming win for future BCLC marketing programs. The Company is treating this amount as prepaid expense until such time as BCLC commences its marketing program. As at June 30, 2005, the prepaid amount was \$1,782. This rate increases to 1.5% of the gaming win beginning in April 2006.

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In NS, the Nova Scotia Gaming Corporation (“NSGC”) is responsible for the conduct and management of the Province’s gaming business. The Casino Nova Scotia Halifax and Casino Nova Scotia Sydney operate pursuant to an operating contract with the NSGC. The operating contract, in force up to June 30, 2005, was renegotiated with NSGC. The effective date of the Amended and Restated Operating Contract (“AROC”) is July 1, 2005, with an initial term of 10 years and a renewal option at the Company’s option for a further 10 years.

Horseracing in BC is conducted under regulation and licensed by the Canadian Pari-Mutuel Agency (“CPMA”) and the Racing Division of the Gaming Policy and Enforcement Branch (“GPEB”). The CPMA regulates and supervises pari-mutuel betting on horseracing at racetracks across Canada and has a mandate to protect the wagering public against fraudulent practices and maintain a viable racing industry. The Racing Division of the GPEB develops fair and appropriate rules, provides effective management of racing events and issues licenses to participants in the horseracing industry in BC.

Horseracing in ON is regulated by the Ontario Racing Commission (“ORC”), which is a Crown agency of the Ontario Government. The Commission reports to the Ministry of Consumer and Business Services and assists the ministry in fulfilling its responsibilities in ensuring public confidence and social controls in the gaming sector. The ORC maintains the integrity of the horseracing industry through regulation and standards setting.

In ON, the Alcohol and Gaming Commission of Ontario (“AGCO”) is responsible for the regulation of casinos, charity casinos and slot machine facilities and the Ontario Lottery Gaming Corporation (“OLGC”) is responsible for the management and conduct of the gaming operations on behalf of the government of Ontario. Pursuant to Site Holder Agreements, Georgian Downs and Flamboro license a portion of their racetrack facilities to OLGC to enable OLGC to conduct, manage and operate its slot machines, and Georgian Downs and Flamboro provide related services in connection with OLGC’s operations.

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#### Operations in the United States

The following table summarizes our United States gaming facilities and current approved operational levels as at June 30, 2005:

| Name                           | Location     | Table Games | Operational Daily Hours |
|--------------------------------|--------------|-------------|-------------------------|
| Great American Casino Everett  | Everett, WA  | 15          | 20                      |
| Great American Casino Kent     | Kent, WA     | 15          | 20                      |
| Great American Casino Lakewood | Lakewood, WA | 15          | 20                      |
| Great American Casino Tukwila  | Tukwila, WA  | 15          | 20                      |
|                                |              | <u>60</u>   |                         |

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The Washington State Gambling Commission (“WSGC”) is authorized to license charitable and commercial gambling activity in the state. There are presently no limits on licenses issued but applicants for licensing are subject to stringent investigation and scrutiny by WSGC. Gambling facilities in Washington fall into three categories: charitable, commercial and tribal. The regulations relating to each category are significantly different, with WSGC overseeing all three categories.

Generally, charitable gambling is more restrictive in scope of operations than commercial gambling, and commercial gambling is more restrictive in scope of operations than tribal gambling. The major differences between commercial casinos and tribal casinos are that commercial casinos are not permitted to operate slot machines or video lottery terminals, and are limited to 15 tables at each location.

The Company holds WSGC Service Supplier Licenses to operate four commercial casinos: Great American Casino Tukwila, Great American Casino Lakewood, Great American Casino Everett, and Great American Casino Kent. Each location operates the maximum 15 tables as well as providing food and beverage services. Service Supplier Licenses are generally renewed annually by WSGC in the absence of any violations or transgressions by the licensee.

#### Competitive Environment

Over the past year, there have been a number of changes in the gaming environment and competitive marketplace in BC. It is generally felt that BC, and particularly the Greater Vancouver area, has an underserved market demand for gaming and as a result BCLC has encouraged the consolidation and development of better quality facilities through various initiatives. We, along with our competitors, have taken advantage of these opportunities. Competition has increased but more importantly the market has also grown and our market share has increased. We believe we have a market advantage through our superior products, facilities and physical locations, and will continue to grow this advantage with our developments scheduled to come on stream later this year.

BCLC, through the FDIF, provides for reimbursement of approved capital expenditures. As a

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result, the Company invested in and opened its flagship River Rock casino in June 2004, which will have the majority of the construction costs refunded. The Company continues to have significant capital programs underway at River Rock and Coquitlam casinos. The gaming area at Coquitlam will more than double later this year to accommodate up to 1,000 slots and 62 table games. River Rock will open its 222 room all-suite hotel later this month. Both facilities will soon feature multi-use theatres, additional food and beverage options, conference facilities and other amenities. All these developments are expected to have a positive influence on customer counts once opened later this year.

As a result of BCLC's allowed expansion of slot gaming into community gaming centres and horse racing facilities, the Company acquired Hastings Racecourse, Fraser Downs, Sandown, and Bear Mountain Community Gaming Centre ("Bear Mountain"). Further, the Company has capital expansion plans or programs at each location to accommodate gaming and improve the facilities. The cost of these expansions will be reimbursed under FDIF.

Our strategy is to increase the entertainment appeal of all of our facilities, and thus expand gaming to a much broader customer base. We believe the appeal of our properties will extend our market to the tourism sector not currently served by Greater Vancouver casinos. We believe our initiatives will both expand the size of the market, and also allow the Company to increase its share of the market. The majority of the Company's developments are expected to be completed during the remainder of 2005, which should increase the profitability of the Company's properties.

Our competitors have also had some major developments over the past year. The competitor's Burnaby casino expansion opened in December 2004 with an additional 379 slots for a facility total of 679 slots and 32 table games. Another competitor's new downtown Vancouver casino opened with 600 slots and 48 table games in February 2005. The new Cascades casino opened in Langley, approximately 50 kilometers east of Vancouver, with 530 slots and 27 table games.

In total since River Rock opened in June 2004 with 1,000 slots and 64 table games, our competitors have added 1,809 slots and 107 table games to their facilities. From June 2004 to June 2005, the total number of slots and tables in the Greater Vancouver area expanded by 70% and 54%, respectively.

As a result, and as expected, the underserved gaming market, as measured by the win recorded by all casinos also expanded. The annualized gaming win in the Greater Vancouver area was approximately \$521,000 at June 2004, but has since increased to \$760,000 at June 2005; an increase of 46%.

During this same period (June 2004 to June 2005), the Company increased its market share of the Greater Vancouver annualized gaming win from 44% to 52%. The Company is achieving its objectives of increasing the market size and capturing a larger share of that market. In terms of revenues, the Company's gaming revenues increased 70% over the past year from a combination of an increase in market size of 46% and a greater share of that market, from 44% to 52%.

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While the majority of the Company's increased share of the Greater Vancouver market has come from the opening and growth of River Rock and acquisition of Orangeville, the Company has seen fluctuations in its win over the past two quarters with the expansions made by our competitors. Based on experience, it is normal to expect slightly decreased wins at nearby casinos for a brief period following an opening or expansion of a competitor's casino, as our regular guests visit the new facility. Typically, the period of recovery for us occurs within a quarter of the opening of the competing facility, as we believe our customers return to the superior gaming experience offered by our facilities.

Further expansions in the Greater Vancouver area over the next year will be from the Company's properties, which should allow the Company to increase and grow its market share by appealing to a new market of visitors to the casinos. Upon completion of the capital expansions underway at River Rock and Coquitlam, management expects that the added traffic from the hotel at River Rock and theatres at both facilities will contribute to the future growth of the Greater Vancouver market for gaming.

The gaming industry in NS is highly regulated and the Company currently operates the only two casinos in the province. Video Lottery Terminals ("VLTs") are permitted in licensed liquor establishments such as bars, lounges, cabarets, legions, golf and curling clubs and on First Nation reserves. Table games are only permitted at Casino Nova Scotia Halifax and Casino Nova Scotia Sydney. The government of NS has announced a plan to focus more on social responsibility surrounding gaming and that it will reduce the accessibility to VLTs by removing 30% or approximately 1,000 VLTs around the Province. The Province has also reduced the hours of VLT operation and made changes to effectively reduce the number of "plays" per hour on VLTs. The plan to remove the VLTs is focused on licensed liquor establishments and there is no indication that slots at the Company's casinos will be affected.

The competitive environment in Washington is also highly regulated but does not have the same significant barriers to entry for commercial casinos as in BC and NS. Competition among commercial casinos is abundant and widely spread out among mostly single and several multi-location operators. Tribal casinos, with their ability to offer electronic gaming devices such as slots, are at a significant advantage to commercial casino operators. Additionally, tribal casinos are not subject to the same taxation level as non-tribal casinos, which allows for a competitive advantage in terms of supporting marketing and overhead expenses.

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## **SIGNIFICANT EVENTS & DEVELOPMENTS**

### **Financing / Equity Transactions**

#### **Private Placement of Special Warrants**

On August 3, 2005, the Company completed a private placement of 3,703,704 special warrants of the Corporation 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, and expects to file in August 2005. 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.

#### **Debt Financing**

On July 21, 2005, the Company completed the issuance of 5.50% \$150,000 Series B Notes. The Series B Notes were 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 were used to reduce the amounts outstanding under the Credit Facility, used to fund the recent acquisitions and deposits, and for general working capital purposes.

On June 27, 2005, in advance of and in conjunction with the closing of the issuance of the Series B Notes, the Company entered into a bond forward transaction, based on the ten-year Government of Canada bond yield rate. The intent was to hedge the risk of an interest rate change associated with the issuance of the Series B Notes on July 21, 2005. The bond forward was completed and 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 Notes. The bond forward transaction reduces the effective interest rate on the Series B Notes from 5.50% to 5.38%.

#### **Share Subdivision**

At the opening on June 9, 2005, the common shares of the Company were posted for trading on a five-for-two split basis. Shareholders of record received three additional common shares for every two common shares held. The stock options and warrants outstanding at the time were adjusted accordingly for the share subdivision.

All references to the number of common shares and per share amounts have been retroactively restated to reflect the share subdivision.

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#### Increase in credit facility

On April 26, 2005, the Company entered into an agreement with a syndicate of its existing lenders to increase the limit of its credit facility from \$100,000 to \$200,000 with no change to the security package or terms.

#### 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.

#### Acquisitions / Investments

##### Acquisition of Flamboro Downs in ON

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, a standardbred racetrack, and siteholder for slot machines operated by the OLGC in Flamborough, ON. The acquisition is subject to regulatory approvals, the completion of customary due diligence, and the negotiation of a definitive purchase and sale agreement. Under the terms of the agreement, 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.

Flamboro is located 45 miles from Toronto and occupies approximately 230 acres in the town of Flamborough, ON. The facility offers year-round live harness racing five days a week, (260 live racing days) and daily simulcast wagering on-track and at four teletheatres/off-track betting locations, and features a complement of 755 slot machines. The slot machines are operated by OLGC under a siteholder agreement between OLGC and ORI. The siteholder agreement's initial term expires October 17, 2005, and provides for an automatic 5-year renewal at the option of ORI. Subsequent renewals are at the option of OLGC.

##### Acquisition of Metropolitan Entertainment Group in NS

On May 31, 2005, the Company completed the acquisition of 100% of the partnership interests in MEG, a Nova Scotia Partnership which owns the Casino Nova Scotia Halifax and the Casino Nova Scotia Sydney, for cash consideration of US\$73,700 (CAD\$93,117). Casino Nova Scotia Halifax and Casino Nova Scotia Sydney operated pursuant to the casino operating contract with the NSGC.

On May 31, 2005, the Company initiated its review and integration of MEG to improve the synergy of its operations, reduce costs and improve profitability. As a result, the Company recorded an additional \$2,762 liability provision relating to restructuring. As at June 30, 2005,

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\$1,175 of this provision remains in accounts payable and accrued liabilities.

Casino Nova Scotia Halifax, which operates 24 hours a days, is located on the downtown waterfront and contains 32,000 square feet of casino space featuring 754 slot machines and 38 table games, three licensed restaurants, a lounge, and 9,000 square feet of convention space. The casino facility is adjacent to the 352 room Casino Nova Scotia Hotel, which is owned and operated by Park Place Entertainment Scotia Limited.

Casino Nova Scotia Sydney is attached to a local sports arena and features approximately 16,000 square feet of gaming space with 387 slot machines and 10 table games, a licensed restaurant and a lounge.

The Company entered into an AROC with 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. NSGC will contribute 5% of the total facilities revenues 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.

Additionally, MEG is entitled to an Operator's Capital Investment ("OCI") repayment of \$24,255, which is the balance owed to MEG under the original Operating Agreement in 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 a Mandatory Deferral ("MD") of \$23,563, which is an amount equal to the balance owed to MEG under the old Operating Agreement. The OCI will be repaid in monthly installments of \$1,094 to April 2007, and the MD is repaid in monthly installments of \$100 to April 2007, and \$900 per month to May 2009.

MEG is required to pay \$1 million annually (adjusted for inflation) to NSGC as a contribution toward the prevention and treatment of problem gaming in NS.

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 has also 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 NS.

#### Conversion of debt to preferred shares of Creation Casinos Inc. ("Creation")

On June 15, 2005, promissory notes due from Creation for \$6,816 plus accrued interest of \$101, and \$483 in guaranteed capital lease obligation were converted into 74,000 Class A preference shares, Series 1. The non-voting preferred shares have a par value of \$100 per share, a non-cumulative dividend 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 per cent of the par value of preference shares outstanding at the end of such year. The shares contain a provision for mandatory redemption to the extent of 25% of Creation's operating cash flow and are otherwise redeemable at the discretion of the Company. The purpose of the conversion is to

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allow Creation to raise equity to pursue business opportunities, while enhancing the Company's position. Creation has one director who is an officer of the Company.

#### Acquisition of Georgian Downs in ON

On April 3, 2005, the Company entered into a purchase agreement to acquire all of the issued and outstanding shares of Georgian Downs. Georgian Downs, located in Innisfil, Ontario, just north of Toronto, is an operator of a standardbred racing facility and a siteholder for OLG for 401 slot machines. Georgian Downs currently offers live standardbred horseracing two days a week throughout the year, and simulcast wagering 364 days a year. Georgian Downs slot machines, which are owned and operated by the OLG, have the second highest average win per day in Ontario.

The required regulatory approval process could not be completed by the scheduled closing date, therefore, with the consent of the relevant ON 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 has loaned approximately \$48,124 to the bare trustee for the purpose of acquiring all outstanding shares (\$23,000) and indebtedness of Georgian Downs (\$25,124). Following the regulatory approvals, the shares of the bare trustee will be transferred to the Company. The results of Georgian Downs operations will be consolidated with the Company from the time the bare trustee shares are owned by 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. If regulatory approvals are not obtained, the Company is required to divest itself of its interest in Georgian Downs, and all net after-tax capital gains earned on the sale of the shares of Georgian Downs, if any, will be donated to a registered charity selected by the Company and approved by the applicable regulators. The Company expects that all required regulatory approvals will be obtained within the required period.

#### Acquisition of Orangeville in BC

On March 18, 2005, the Company acquired all of the issued and outstanding common shares of Orangeville for cash consideration of \$40,000 plus acquisition costs. As additional consideration, the Company agreed to trailer payments for a period of up to four years following the effective date based on defined levels of net gaming and racing revenues of the acquired operations.

Orangeville operates two standardbred racing facilities in BC: Fraser Downs in Surrey and Sandown in North Saanich on Vancouver Island. The acquisition of Orangeville will allow the Company to pursue various synergies and complements the acquisition of Hastings Racecourse. As a result of these acquisitions, the Company is the largest thoroughbred and standardbred racing operator in BC, and is able to operate year round horseracing and related activities.

Fraser Downs currently offers live standardbred horseracing nine months of the year, and

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operates 420 slot machines and off-track betting year-round. Sandown operates twenty live race days per year, and features off-track betting year-round. North Saanich council has approved the installation of up to 200 slot machines at Sandown, subject to a definitive proposal from the Company for the redevelopment of Sandown.

#### TBC Teletheatre B.C. ("TBC")

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

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.

#### Acquisition of Weinlager & Amici Caffè (Coquitlam) Ltd. and Weinlager & Amici Caffè (Victoria) Ltd.

On January 10, 2005, the Company acquired the remaining 50% interest in Weinlager for cash consideration of \$1,225 plus acquisition costs, and terminated the management agreement held by Tiara Food & Beverage Concepts Ltd, which managed the food and beverage operations at the Company's Coquitlam, Holiday Inn, Nanaimo and View Royal Casinos.

#### **Capital Projects**

On January 4, 2005, the Company acquired land in Dawson Creek for \$1,900. The Company plans to build a larger replacement community gaming centre on the new property that will include a bingo hall, an additional 50 slot machines, entertainment, food and beverage facilities and a teletheatre. Municipal approval of relocation has passed the second reading, and construction is anticipated to start in the third quarter depending on weather conditions. Bear Mountain will continue to operate in its present facility during construction of the new facility, which is expected to be completed approximately 6 to 9 months following commencement of construction. The estimated construction cost is \$6,000, all of which is recoverable via FDIF.

The Coquitlam casino expansion is scheduled for completion late in the third quarter of 2005. The 1,100 seat multi-use theatre is scheduled for completion in the second quarter of 2006. The budget for the Coquitlam expansion was increased by \$5,000 to approximately \$105,000 (fully FDIF recoverable) because of increased raw material costs due to worldwide demand and pricing, and increased labour costs due to local construction activity. As at June 30, 2005, approximately \$52,300 had been expended.

Phase Two of River Rock is expected to open in the third quarter of 2005 and will add a 222 room all-suite hotel, additional restaurants, guest facilities, and a 1,000 seat multi-use theatre. We believe the opening of Phase Two will increase resort traffic and add an even greater tourist component to the gaming operations. The overall budget for construction was increased from \$182,000 to \$193,000 and the budget for furnishings is \$7,000 for an estimated total budget cost

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of \$200,000, of which approximately \$173,000 has been expended as at June 30, 2005. The budget was increased due to worldwide demand and pricing and increased labour costs due to local construction activity. The costs of this project, less an agreed reduction for the hotel costs, will be recoverable under the FDIF.

The lease between the City of Vancouver and HEI for the Hastings Racecourse expired in 2004. HEI currently occupies the site as an overholding tenant on a month-to-month basis. While the City and the Company have agreed to the principal terms of a new operating agreement to replace the lease, a definitive document is in the process of being drafted by the City's legal counsel. The Company is working with the City to expedite the finalization of a new operating agreement, to ensure the proper community consultation process occurs on the overall site development and to obtain the necessary development permits to commence construction. The Company has a budget of approximately \$40,000 (fully FDIF recoverable) for the expansion of the Hastings Racecourse site. Construction is expected to begin once negotiations with the City of Vancouver are satisfactorily concluded.

The expansion of Fraser Downs is virtually complete. The facility includes a new simulcast area, modern atrium-styled welcome centre, a major show lounge with state-of-the-art audio-visual technology, and a parking lot with modern landscaping. Some minor renovations are still underway for the grandstands.

We expect that the majority of the capital expenditures on these projects, including any increases to the budget, will qualify for the FDIF.

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### RESULTS OF OPERATIONS

The following table reconciles revenues on a gross basis to the net basis used in the financial statements:

|  | Three Months Ended June 30, |           |          | Six Months Ended June 30, |           |          |
|--|-----------------------------|-----------|----------|---------------------------|-----------|----------|
|  | 2005                        | 2004      | % Change | 2005                      | 2004      | % Change |
| Gross table win                                      | \$ 58,276                   | \$ 42,300 | 38%      | \$ 116,394                | \$ 85,891 | 36%      |
| Gross slot win                                       | 89,422                      | 47,780    | 87%      | 157,105                   | 93,868    | 67%      |
| Gross racetrack revenues                             | 28,088                      | 7,625     | 268%     | 33,880                    | 7,625     | 344%     |
| Other gaming revenues                                | 373                         | 354       | 5%       | 984                       | 680       | 45%      |
| Food and beverage                                    | 7,509                       | 2,000     | 275%     | 13,041                    | 3,351     | 289%     |
|  | <b>183,668</b>              | 100,059   | 84%      | <b>321,404</b>            | 191,415   | 68%      |
| Less:  |                             |           |          |                           |           |          |
| BCLC and NSGC commissions and Washington State taxes | (95,099)                    | (58,711)  | 62%      | (176,378)                 | (117,198) | 50%      |
| Racetrack purses                                     | (21,029)                    | (4,594)   | 358%     | (24,904)                  | (4,594)   | 442%     |
| Other gaming payouts                                 | (209)                       | (1)       | 20800%   | (435)                     | (1)       | 43400%   |
|  | <b>67,331</b>               | 36,753    | 83%      | <b>119,687</b>            | 69,622    | 72%      |
| ATM revenues   | 868                         | 330       | 163%     | 1,515                     | 591       | 156%     |
| Other  | 349                         | 430       | (19%)    | 573                       | 564       | 2%       |
|  | <b>\$ 68,548</b>            | \$ 37,513 | 83%      | <b>\$ 121,775</b>         | \$ 70,777 | 72%      |

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|   | Three Months Ended June 30, |            |        | Six Months Ended June 30, |            |        |
|---|-----------------------------|------------|--------|---------------------------|------------|--------|
|   | 2005                        | 2004       | % Chg  | 2005                      | 2004       | % Chg  |
| Gaming revenues   | \$ 52,763                   | \$ 31,722  | 66%    | \$ 97,670                 | \$ 63,240  | 54%    |
| Racetrack revenues  | 7,059                       | 3,031      | 133%   | 8,976                     | 3,031      | 196%   |
| Food & beverage revenues  | 7,509                       | 2,000      | 275%   | 13,041                    | 3,351      | 289%   |
| Other income <sup>(1)</sup>                                     | 1,217                       | 760        | 60%    | 2,088                     | 1,155      | 81%    |
| Revenues  | <b>68,548</b>               | 37,513     | 83%    | <b>121,775</b>            | 70,777     | 72%    |
| Human resources   | 32,948                      | 19,469     | 69%    | 59,525                    | 36,992     | 61%    |
| Marketing and promotion, occupancy costs and operating supplies | 16,173                      | 7,430      | 118%   | 26,239                    | 12,942     | 103%   |
|   | <b>49,121</b>               | 26,899     | 83%    | <b>85,764</b>             | 49,934     | 72%    |
| EBITDA <sup>(1)</sup>   | <b>19,427</b>               | 10,614     | 83%    | <b>36,011</b>             | 20,843     | 73%    |
| EBITDA % of revenues  | <b>28%</b>                  | 28%        |        | <b>30%</b>                | 29%        |        |
| Stock-based compensation  | 1,185                       | 296        | 300%   | 1,906                     | 987        | 93%    |
| Amortization  | 2,136                       | 1,269      | 68%    | 3,603                     | 2,078      | 73%    |
| Income from operations  | <b>16,106</b>               | 9,049      | 78%    | <b>30,502</b>             | 17,778     | 72%    |
| Non-operating (income) expense                                  | 486                         | (306)      | (259%) | 184                       | (399)      | (146%) |
| Interest and financing, net                                     | 1,804                       | 637        | 183%   | 2,869                     | 798        | 260%   |
| Accretive income from Provincial Gaming Corporations            | (1,778)                     | -          | n/a    | (3,202)                   | -          | n/a    |
| Income taxes  | 5,135                       | 3,291      | 56%    | 10,933                    | 6,625      | 65%    |
| Net Income  | \$ <b>10,459</b>            | \$ 5,427   | 93%    | \$ <b>19,718</b>          | \$ 10,754  | 83%    |
| Earnings per common share:                                      |                             |            |        |                           |            |        |
| Basic   | \$ 0.14                     | \$ 0.08    | 75%    | \$ 0.26                   | \$ 0.17    | 53%    |
| Diluted   | \$ 0.14                     | \$ 0.08    | 75%    | \$ 0.26                   | \$ 0.15    | 73%    |
| Weighted average number of common shares:                       |                             |            |        |                           |            |        |
| 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 |        |

<sup>(1)</sup> The FDIF accretive income previously shown as other income is now presented as accretive income from PGC below income from operations.

The following factors contributed to the increases in revenues and expenses for the second quarter of 2005 and six months ended June 30, 2005 compared to the same periods in 2004:

- Opening of River Rock on June 25, 2004 - River Rock contributed \$19,332 (2004 - \$1,363) to gaming revenues, \$2,430 (2004 - \$129) to food and beverage revenues and other income, and \$10,431 (2004 - \$948) to EBITDA for the second quarter of 2005. For the six months ended June 30, 2005, River Rock contributed \$38,602 (2004 - \$1,363) to gaming revenues, \$4,992 (2004 - \$129) to food and beverage revenues and other income, and \$20,835 (2004 - \$948) to EBITDA. The Company's table-games-only casinos at

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Bridgeport Road in Richmond and Renaissance Hotel in Vancouver (which closed in conjunction with the opening of River Rock) jointly generated \$12,612 in gaming revenues and \$6,942 in EBITDA in 2004 until the time of closure.

- Acquisitions of the remaining interests in US operations - In the third quarter of 2004, the Company increased its holdings in Tukwila and Lakewood casinos in Washington to 100% ownership. The increased ownership resulted in an increase in revenues of \$3,361 and EBITDA of \$1,179 for the six months ended June 30, 2005.
- Acquisition of 60% of HEI on April 8, 2004 and 40% on November 8, 2004 – HEI contributed \$4,230 (2004 - \$3,048) to racetrack and gaming revenues, \$1,250 (2004 - \$1,136) to food and beverage revenues and other income, and \$880 (2004 - \$217) to EBITDA for the second quarter of 2005. For the six months ended June 30, 2005, HEI contributed \$5,853 (2004 - \$3,048), to racetrack revenues and gaming revenues, \$1,612 (2004 - \$1,136) to food and beverage revenues and other income, and \$1,018 (2004 - \$217) to EBITDA.
- Acquisition of Orangeville on March 18, 2005 – Orangeville contributed \$3,216 to gaming and racetrack revenues, \$594 to food and beverage revenues and other income, and \$1,036 to EBITDA for the second quarter of 2005. Orangeville contributed \$3,814 to gaming and racetrack revenues, \$698 to food and beverage revenues and other income, and \$1,367 to EBITDA for the six months ended June 30, 2005.
- Acquisition of MEG on May 31, 2005 – MEG contributed \$5,148 to gaming revenues, \$910 to food and beverage revenues and other income, and \$823 to EBITDA for the second quarter of 2005.

Human resources, the largest component of the Company's expenses and generally semi-variable with revenues, increased by 69% for the second quarter of 2005 over the second quarter of 2004, less than the increase in revenues of 83% over the same period. Human resources increased by 61% for the six months ended June 30, 2005 over the same period in 2004, also less than the increase in revenues of 72% over the same period.

The increase in human resources costs over the prior year is mainly a result of the acquisitions made in 2005, the opening of River Rock at the end of June 2004, as well as an increased number of support employees at corporate head office. In addition, much of the increase in non-gaming revenues, such as in horseracing, and food and beverage operations, are more labour intensive than casino operations. Human resources costs have improved from 52% of revenues in the first six months of 2004 to 49% of revenues for the same period this year, and 48% in the second quarter of 2005 compared to 52% in the second quarter of 2004. We expect that human resources, as a percentage of revenues, will continue to decrease as greater operational synergies are achieved.

Marketing and promotions, occupancy costs and operating supplies increased by 118% in the second quarter of 2005 over the second quarter of 2004, as compared to an increase in revenues of 83%. In the six months ended June 30, 2005 marketing and promotions, occupancy costs and operating supplies increased by 103% compared to the same period in the

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prior year. This increase is attributable to higher operating costs from the horseracing acquisitions, food and beverage costs, increased marketing and promotional activity, and higher property operating costs. The Company's operations have diversified into non-casino gaming products, which have higher costs relative to casino operations.

The increase in stock based compensation is due to options granted to employees and directors. Stock-based compensation is a non-cash item and is computed using the Black-Scholes model.

Amortization expense has increased in the second quarter of 2005 by 68% compared to the same quarter of 2004, and increased by 73% in the six months ended June 30, 2005 over the prior year. This increase is mainly attributed to amortization on intangible assets associated with the acquisitions of Orangeville and MEG.

Interest and financing has increased by 183% in the second quarter of 2005 over the same quarter in 2004, and increased by 260% in the six months ended June 30, 2005, over the same period in 2004. The increase is mainly due to greater utilization of the credit facility to fund the cost of acquisitions.

Accretive income from PGC has increased due to amortization of the additional discount recorded on the amounts due from PGC.

The effective rate for the provision for income taxes has decreased in the second quarter of 2005 is primarily due to the recognition of previously unrecognized tax loss in the Washington operations.

Canadian operations account for about 88% of the consolidated revenues (June 30, 2004 – 83%) and 86% of the operating expenses (June 30, 2004 – 76%), while contributing basic earnings per common share of \$0.24 for the year to date. The significance of Canadian operations to the consolidated results is expected to increase with the projects currently underway and this year's acquisitions of Orangeville, MEG, Georgian Downs and Flamboro.

The Washington operations recorded \$1,755 in income from operations for the six months ended June 30, 2005, compared to a loss from operations of \$911 in the same period in 2004. This significant increase in income from operations is due mainly to the restructuring initiatives the Company implemented upon gaining full ownership of its US subsidiaries in 2004, which improved the efficiency and effectiveness of the Washington operations.

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#### QUARTERLY RESULTS SUMMARY

|   | Q2 2005   | Q1 2005   | Q4 2004   | Q3 2004   | Q2 2004   | Q1 2004   | Q4 2003   | Q3 2003   |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>Gaming Revenues:</b>                         |           |           |           |           |           |           |           |           |
| Gross table revenues                            | \$ 58,276 | \$ 58,118 | \$ 62,087 | \$ 54,627 | \$ 42,300 | \$ 43,591 | \$ 40,935 | \$ 39,810 |
| Gross slots revenues                            | 89,422    | 67,683    | 71,524    | 70,830    | 47,780    | 46,088    | 43,123    | 41,168    |
|   | 147,698   | 125,801   | 133,611   | 125,457   | 90,080    | 89,679    | 84,058    | 80,978    |
| Less: BCLC and NSGC<br>commissions & Washington | 95,099    | 81,279    | 86,373    | 82,009    | 58,711    | 58,487    | 55,096    | 53,743    |
| Net table & slots revenues                      | 52,599    | 44,522    | 47,238    | 43,448    | 31,369    | 31,192    | 28,962    | 27,235    |
| Racetrack revenues                              | 7,059     | 1,917     | 2,629     | 3,242     | 3,031     | -         | -         | -         |
| Other gaming revenues                           | 164       | 385       | 135       | (353)     | 353       | 326       | 275       | 281       |
|   | \$ 59,822 | \$ 46,824 | \$ 50,002 | \$ 46,337 | \$ 34,753 | \$ 31,518 | \$ 29,237 | \$ 27,516 |
| <b>Other Income</b>                             |           |           |           |           |           |           |           |           |
| Food & beverage revenues                        | 7,509     | \$ 5,532  | \$ 4,263  | \$ 3,858  | \$ 2,000  | \$ 1,351  | \$ 1,521  | \$ 883    |
| ATM revenues                                    | 868       | 647       | 690       | 594       | 330       | 261       | 286       | 264       |
| Other <sup>(1)</sup>                            | 349       | 224       | 343       | 286       | 430       | 134       | 111       | 194       |
|   | \$ 8,726  | \$ 6,403  | \$ 5,296  | \$ 4,738  | \$ 2,760  | \$ 1,746  | \$ 1,918  | \$ 1,341  |
| <b>Revenues</b>                                 | \$ 68,548 | \$ 53,227 | \$ 55,298 | \$ 51,075 | \$ 37,513 | \$ 33,264 | \$ 31,155 | \$ 28,857 |
| <b>Net Income</b>                               | \$ 10,459 | \$ 9,259  | \$ 9,686  | \$ 6,285  | \$ 5,427  | \$ 5,327  | \$ 1,162  | \$ 4,305  |
| <b>EBITDA</b>                                   | \$ 19,427 | \$ 16,584 | \$ 17,839 | \$ 16,898 | \$ 10,614 | \$ 10,229 | \$ 8,727  | \$ 9,348  |
| <b>Earnings per common share:</b>               |           |           |           |           |           |           |           |           |
| Basic   | \$ 0.14   | \$ 0.13   | \$ 0.14   | \$ 0.09   | \$ 0.08   | \$ 0.08   | \$ 0.02   | \$ 0.08   |
| Diluted   | \$ 0.14   | \$ 0.12   | \$ 0.13   | \$ 0.09   | \$ 0.08   | \$ 0.08   | \$ 0.02   | \$ 0.07   |

<sup>(1)</sup> FDIF accretive income in Q1 2005 and Q4 2004 previously shown as other income is now presented as accretive income from PGC below income from operations.

Net table and slots revenues for the second quarter of 2005, increased by \$8,145, or 18%, compared to the first quarter of 2005. The primary reason for the increase was the acquisition of MEG on May 31, 2005, which contributed \$5,148 in net table and slots revenue for the month of June 2005, and the acquisition of Orangeville on March 18, 2005, which contributed \$2,406 in slot revenue in the second quarter of 2005.

In regards to the Company's existing BC properties, competitor expansions in the first and second quarters of 2005 in Greater Vancouver have continued to grow the gaming market, confirming the elastic expectation of the market. The table drop and slot win slightly decreased due to the expansions, as well as the summer slowdown; however with a return to historical levels of table hold, our Greater Vancouver casinos have maintained revenue levels. Our casinos on Vancouver Island, which have faced no competitor actions, have experienced steady increases in gaming win during 2005. The Vancouver Island casinos are also less affected by summer vacation seasonality during the months of May to August, which historically has resulted in an average 5% decline in revenues for our Greater Vancouver casinos during these months.

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Our experience has been that competitor openings or expansions will result in growth in the overall market place, but customer behavior may cause temporary declines in our nearby facilities' gaming win. Many customers will visit the new facilities to sample a different experience, then return.

The next series of expansions in Greater Vancouver will all come from the Company's facilities, which are expected to continue to grow the overall market and increase our share of the market.

Racetrack revenues increased from \$1,917 in the first quarter of 2005 to \$7,059 in the second quarter of 2005. This 268% increase is attributed to the start of live racing at Hastings Racecourse on April 16, 2005, and the acquisition of Orangeville on March 18, 2005.

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### Management Discussion & Analysis

For the Six Months Ended June 30, 2005

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

## SEGMENTED RESULTS OF OPERATIONS

### Operating Results in Canada

|  | Three Months Ended June 30, |            |       | Six Months Ended June 30, |            |       |
|--|-----------------------------|------------|-------|---------------------------|------------|-------|
|  | 2005                        | 2004       | % Chg | 2005                      | 2004       | % Chg |
| Gaming revenues  | \$ 46,491                   | \$ 27,252  | 71%   | \$ 85,588                 | \$ 53,642  | 60%   |
| Racetrack revenues   | 7,059                       | 3,031      | 133%  | 8,976                     | 3,031      | 196%  |
| Food & beverage revenues   | 6,187                       | 979        | 532%  | 10,385                    | 979        | 961%  |
| Other income <sup>(1)</sup>  | 1,084                       | 725        | 50%   | 1,837                     | 1,096      | 68%   |
| Revenues   | 60,821                      | 31,987     | 90%   | 106,786                   | 58,748     | 82%   |
| Human resources  | 28,935                      | 15,889     | 82%   | 51,636                    | 29,585     | 75%   |
| Marketing and promotion, occupancy costs<br>and operating supplies | 13,932                      | 5,289      | 163%  | 21,894                    | 8,416      | 160%  |
|  | 42,867                      | 21,178     | 102%  | 73,530                    | 38,001     | 93%   |
| EBITDA   | 17,954                      | 10,809     | 66%   | 33,256                    | 20,747     | 60%   |
| EBITDA % of revenues   | 30%                         | 34%        |       | 31%                       | 35%        |       |
| Stock-based compensation   | 1,158                       | 296        | 291%  | 1,868                     | 987        | 89%   |
| Amortization   | 1,650                       | 668        | 147%  | 2,641                     | 1,071      | 147%  |
| Income from operations   | \$ 15,146                   | \$ 9,845   | 54%   | \$ 28,747                 | \$ 18,689  | 54%   |
| Earnings per common share:   |                             |            |       |                           |            |       |
| Basic  | \$ 0.13                     | \$ 0.09    | 44%   | \$ 0.24                   | \$ 0.19    | 26%   |
| Diluted  | \$ 0.13                     | \$ 0.09    | 44%   | \$ 0.24                   | \$ 0.17    | 41%   |
| Weighted average number of common shares:                          |                             |            |       |                           |            |       |
| 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 |       |

<sup>(1)</sup> The FDIF accretive income previously shown as other income is now presented as accretive income from PGC below income from operations.

In order to consolidate the Canadian operating results with Washington State operating results, the following elimination adjustment is required:

|              |      |          |      |          |
|--------------|------|----------|------|----------|
| Other income | \$ - | \$ (131) | \$ - | \$ (259) |
|--------------|------|----------|------|----------|

The majority of the second quarter increase in revenues, EBITDA and income from operations has come from the addition of a full three months of operations from Orangeville and River Rock, and from the addition of one month of operations from MEG.

Over the past two quarters, the Company's BC casinos have generally maintained their revenue and EBITDA levels despite increased competition, especially in the Greater Vancouver area. Competitor openings occurred in December 2004, February 2005 and May 2005. Based on

## **GREAT CANADIAN GAMING CORPORATION**

### **Management Discussion & Analysis**

For the Six Months Ended June 30, 2005

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

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experience, we would expect declines in revenue at nearby casinos for a brief period following the opening or expansion of a competitor's casino. These revenues would return as the market size builds and our regular customers return to the superior gaming experience offered at our facilities. During the second quarter, the hold percentage on table games has returned to a normal range of values, which has helped offset an expected temporary seasonal decline in revenues and the effect of increased competition.

Human resource costs have improved in efficiency as a percentage of revenues due to an increase in slot gaming revenues, which is more labour efficient than table revenues. The cost improvements are partially offset by added human resource costs at head office for the addition of staff in various administrative departments to manage the centralization of functions such as accounting, marketing and human resources.

The Company's scope of operations is expanding beyond gaming into horseracing, food and beverage, hospitality and entertainment. These products are primarily offered to increase the traffic into the core casino business. These activities have higher operating costs and do not generate the same EBITDA margins as gaming. The margins are expected to improve as the additional revenue streams come on-line and as we realize economies of scale in these operations. In the interim, the operating supplies associated with these activities show a disproportionate increase when compared to the associated revenue increase.

Marketing and promotion costs have increased as a result of higher expenditures associated with the promotion of the non-gaming activities, and to maintain market share against competitor expansions. Occupancy costs have increased primarily as a result of higher property taxes on the River Rock casino.

The tables below further segment our Canadian revenues and costs by material gaming location. The information provided is stated in thousands of dollars, except for average tables per day and slots per location.

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

#### Gaming revenues

|                                  | Q2 2005   | Q1 2005   | Q4 2004   | Q3 2004   | Q2 2004   | Q1 2004   | Q4 2003   | Q3 2003   |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| River Rock                       | \$ 19,332 | \$ 19,270 | \$ 20,494 | \$ 18,315 | \$ 1,363  | \$ -      | \$ -      | \$ -      |
| Coquitlam                        | 8,692     | 8,813     | 9,525     | 8,297     | 9,809     | 9,708     | 9,407     | 7,840     |
| Holiday Inn                      | 2,616     | 2,636     | 2,813     | 2,500     | 2,624     | 3,152     | 2,699     | 2,869     |
| Richmond & Renaissance           | -         | -         | -         | -         | 5,960     | 6,652     | 5,634     | 6,726     |
| View Royal                       | 4,786     | 4,633     | 4,970     | 4,413     | 4,486     | 4,156     | 4,375     | 4,038     |
| Nanaimo                          | 3,243     | 3,080     | 3,325     | 3,273     | 2,993     | 2,722     | 2,805     | 2,470     |
| Hastings Racecourse              | 8         | 8         | 14        | 4         | 17        | -         | -         | -         |
| Fraser Downs                     | 2,406     | 421       | -         | -         | -         | -         | -         | -         |
| Nova Scotia                      | 5,148     | -         | -         | -         | -         | -         | -         | -         |
| Other & Corporate <sup>(1)</sup> | 260       | 236       | 230       | 438       | -         | -         | 6         | 499       |
|                                  | \$ 46,491 | \$ 39,097 | \$ 41,371 | \$ 37,240 | \$ 27,252 | \$ 26,390 | \$ 24,926 | \$ 24,442 |

|                             |        |        |        |        |        |        |        |        |
|-----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Number of days in operation | 91     | 90     | 92     | 92     | 91     | 91     | 92     | 92     |
| Daily gaming revenues       | \$ 511 | \$ 434 | \$ 450 | \$ 405 | \$ 299 | \$ 290 | \$ 271 | \$ 266 |

#### Racetrack revenues

|                        | Q2 2005  | Q1 2005  | Q4 2004  | Q3 2004  | Q2 2004  | Q1 2004 | Q4 2003 | Q3 2003 |
|------------------------|----------|----------|----------|----------|----------|---------|---------|---------|
| Hastings Racecourse    | \$ 4,222 | \$ 1,615 | \$ 2,629 | \$ 3,242 | \$ 3,031 | \$ -    | \$ -    | \$ -    |
| Fraser Downs & Sandown | 810      | 177      | -        | -        | -        | -       | -       | -       |
| TBC                    | 2,027    | 125      | -        | -        | -        | -       | -       | -       |
|                        | \$ 7,059 | \$ 1,917 | \$ 2,629 | \$ 3,242 | \$ 3,031 | \$ -    | \$ -    | \$ -    |

#### Food and beverage and other income

|                                  | Q2 2005  | Q1 2005  | Q4 2004  | Q3 2004  | Q2 2004  | Q1 2004 | Q4 2003 | Q3 2003 |
|----------------------------------|----------|----------|----------|----------|----------|---------|---------|---------|
| River Rock                       | \$ 2,430 | \$ 2,562 | \$ 2,506 | \$ 1,779 | \$ 129   | \$ -    | \$ -    | \$ -    |
| Coquitlam                        | 848      | 830      | 231      | 147      | 171      | 123     | 197     | 184     |
| Holiday Inn                      | 193      | 222      | 146      | 10       | 2        | 2       | 2       | 2       |
| Richmond & Renaissance           | -        | -        | -        | 4        | 12       | 9       | 11      | 10      |
| View Royal                       | 666      | 543      | 148      | 124      | 117      | 98      | 112     | 81      |
| Nanaimo                          | 230      | 184      | 45       | 40       | 17       | 15      | 20      | 19      |
| Hastings Racecourse              | 1,250    | 362      | 631      | 1,297    | 1,136    | -       | -       | -       |
| Fraser Downs & Sandown           | 594      | 104      | -        | -        | -        | -       | -       | -       |
| Nova Scotia                      | 910      | -        | -        | -        | -        | -       | -       | -       |
| TBC                              | 22       | -        | -        | -        | -        | -       | -       | -       |
| Other & Corporate <sup>(2)</sup> | 128      | 144      | 151      | 170      | 120      | 124     | 11      | 173     |
|                                  | \$ 7,271 | \$ 4,951 | \$ 3,858 | \$ 3,571 | \$ 1,704 | \$ 371  | \$ 353  | \$ 469  |

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

<sup>(2)</sup> Restated for accretive income from PGC reclassified to below income from operations.

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#### EBITDA

|                        | Q2 2005   | Q1 2005   | Q4 2004   | Q3 2004   | Q2 2004   | Q1 2004  | Q4 2003  | Q3 2003  |
|------------------------|-----------|-----------|-----------|-----------|-----------|----------|----------|----------|
| River Rock             | \$ 10,431 | \$ 10,404 | \$ 11,336 | \$ 10,461 | \$ 948    | \$ -     | \$ -     | \$ -     |
| Coquitlam              | 5,250     | 5,243     | 5,676     | 4,941     | 6,230     | 6,580    | 6,255    | 4,909    |
| Holiday Inn            | 406       | 435       | 562       | 473       | 733       | 1,080    | 640      | 972      |
| Richmond & Renaissance | -         | -         | (6)       | 74        | 3,130     | 3,812    | 2,753    | 3,736    |
| View Royal             | 2,312     | 2,263     | 2,351     | 2,143     | 1,964     | 2,059    | 2,231    | 1,925    |
| Nanaimo                | 1,234     | 1,106     | 1,198     | 1,455     | 1,069     | 876      | 1,057    | 686      |
| Hastings Racecourse    | 880       | 138       | 236       | 937       | 217       | -        | -        | -        |
| Fraser Downs & Sandown | 1,036     | 331       | -         | -         | -         | -        | -        | -        |
| Nova Scotia            | 823       | -         | -         | -         | -         | -        | -        | -        |
| TBC                    | 721       | 27        | -         | -         | -         | -        | -        | -        |
| Other & Corporate      | (5,139)   | (4,645)   | (4,658)   | (4,150)   | (3,482)   | (4,469)  | (3,669)  | (2,686)  |
|                        | \$ 17,954 | \$ 15,302 | \$ 16,695 | \$ 16,334 | \$ 10,809 | \$ 9,938 | \$ 9,267 | \$ 9,542 |

#### Average tables open / day

|                        | Q2 2005 | Q1 2005 | Q4 2004 | Q3 2004 | Q2 2004 | Q1 2004 | Q4 2003 | Q3 2003 |
|------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| River Rock             | 83      | 83      | 68      | 64      | 53      | -       | -       | -       |
| Coquitlam              | 32      | 32      | 32      | 31      | 32      | 32      | 32      | 35      |
| Holiday Inn            | 30      | 28      | 28      | 27      | 30      | 31      | 29      | 29      |
| Richmond & Renaissance | -       | -       | -       | -       | 45      | 48      | 47      | 48      |
| View Royal             | 16      | 16      | 16      | 15      | 16      | 17      | 16      | 16      |
| Nanaimo                | 9       | 9       | 9       | 9       | 9       | 9       | 9       | 10      |
| Nova Scotia            | 45      | -       | -       | -       | -       | -       | -       | -       |
|                        | 215     | 168     | 153     | 146     | 185     | 137     | 133     | 138     |

#### Average slot machines

|              | Q2 2005 | Q1 2005 | Q4 2004 | Q3 2004 | Q2 2004 | Q1 2004 | Q4 2003 | Q3 2003 |
|--------------|---------|---------|---------|---------|---------|---------|---------|---------|
| River Rock   | 1000    | 1000    | 1,000   | 1,000   | 950     | -       | -       | -       |
| Coquitlam    | 450     | 450     | 450     | 450     | 450     | 450     | 450     | 314     |
| View Royal   | 425     | 425     | 425     | 425     | 425     | 425     | 425     | 425     |
| Nanaimo      | 380     | 380     | 380     | 380     | 380     | 380     | 380     | 380     |
| Fraser Downs | 420     | 61      | -       | -       | -       | -       | -       | -       |
| Nova Scotia  | 1139    | -       | -       | -       | -       | -       | -       | -       |
|              | 3,814   | 2,316   | 2,255   | 2,255   | 2,205   | 1,255   | 1,255   | 1,119   |

Gaming revenues increased in the second quarter of 2005 by \$7,394, or 19%, over the previous quarter mainly due to the acquisition of Orangeville and MEG. The Company's Greater Vancouver area gaming revenues for the second quarter and first quarter of 2005 have decreased slightly from the fourth quarter of 2004. The decrease is attributed primarily to seasonality, ongoing construction at River Rock and Coquitlam facilities and increased competitor expansions, which have created temporary minor fluctuations in performance of our nearby casinos. Our Vancouver Island casinos have experienced steady increases in gaming win, as they have faced no competitor expansions. The overall hold percentage on table games has normalized in the second quarter of 2005 compared to the prior quarter.

Racetrack revenues increased by \$5,142, or 268% in the second quarter of 2005 over the first quarter of 2005. This increase is mainly attributed to the acquisition of Orangeville and the start of live racing at Hastings Racecourse on April 16, 2005. HEI racetrack revenues for the second

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quarter of 2005, increased by 39% compared to the same quarter in the prior year. This increase is primarily due to the increased number of live-race days to 27 in the second quarter of 2005, from 24 days in the same quarter of 2004. The total number of live-race days for 2005 has been increased from 72 to 83.

### Operating Results in Washington

|   | Three Months Ended June 30, |              |            | Six Months Ended June 30, |               |            |
|---|-----------------------------|--------------|------------|---------------------------|---------------|------------|
|   | 2005                        | 2004         | % Chg      | 2005                      | 2004          | % Chg      |
| Gaming revenues   | \$ 6,272                    | \$ 4,470     | 40%        | \$ 12,082                 | \$ 9,598      | 26%        |
| Food & beverage revenues  | 1,322                       | 1,021        | 29%        | 2,656                     | 2,372         | 12%        |
| Other income  | 133                         | 166          | (20%)      | 251                       | 318           | (21%)      |
| Revenues  | <b>7,727</b>                | <b>5,657</b> | <b>37%</b> | <b>14,989</b>             | <b>12,288</b> | <b>22%</b> |
| Human resources   | 4,013                       | 3,711        | 8%         | 7,889                     | 7,666         | 3%         |
| Marketing and promotion, occupancy costs and operating supplies | 2,241                       | 2,141        | 5%         | 4,345                     | 4,526         | (4%)       |
|   | <b>6,254</b>                | <b>5,852</b> | <b>7%</b>  | <b>12,234</b>             | <b>12,192</b> | <b>0%</b>  |
| EBITDA  | 1,473                       | (195)        | 855%       | 2,755                     | 96            | 2770%      |
| EBITDA % of revenues  | 19%                         | (3%)         |            | 18%                       | 1%            |            |
| Stock-based compensation  | 27                          | -            | n/a        | 38                        | -             | n/a        |
| Amortization  | 486                         | 601          | (19%)      | 962                       | 1,007         | (4%)       |
| Income (loss) from operations                                   | \$ 960                      | \$ (796)     | 221%       | \$ 1,755                  | \$ (911)      | 293%       |
| Earnings (loss) per common share:                               |                             |              |            |                           |               |            |
| Basic   | \$ 0.01                     | \$ (0.01)    | 200%       | \$ 0.02                   | \$ (0.02)     | 200%       |
| Diluted   | \$ 0.01                     | \$ (0.01)    | 200%       | \$ 0.02                   | \$ (0.02)     | 200%       |
| Weighted average number of common shares:                       |                             |              |            |                           |               |            |
| 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    |            |

In order to consolidate the Canadian operating results with Washington State operating results, the following elimination adjustment is required:

|                 |      |          |      |          |
|-----------------|------|----------|------|----------|
| Human Resources | \$ - | \$ (131) | \$ - | \$ (259) |
|-----------------|------|----------|------|----------|

Gaming revenues in Washington for the second quarter of 2005 increased by 40% to \$6,272 compared to \$4,470 the same quarter in 2004. Gaming revenues for the six months ended June 30, 2005, increased by 26% compared to the same period in the previous year. These increases are due an increase in actual revenues of 9%, and the acquisition of the remaining non-controlling interests in the US subsidiaries in July 2004. The US subsidiaries were proportionately consolidated prior to the acquisitions and are now fully consolidated.

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Since gaining full control of the operations in the third quarter of 2004 and being able to directly apply our gaming experience to the operations and implement restructuring, the Washington operations have improved significantly, with an increase in revenues of 37% in the second quarter of 2005 over the same quarter in the prior year, compared to an increase of only 5% in operating expenses. Operating expenses for the six months ended June 30, 2005 increased by only 0.3% over the same period in the prior year compared to 22% increase in revenues for the same period. EBITDA as a percentage of revenue for the six months ended June 30, 2005 was 18%, a significant improvement from 1% for the same period last year. These strong results for 2005 reflect the continued growth of our player base in our newer facilities in Kent and Lakewood, the corporate restructuring in the third quarter of 2004 which has reduced expenses, and a general change in business attitude and customer relations that has led to an overall increase in revenues.

Human resources, the largest component of the Washington operation's expenses, increased by 8% in the second quarter of 2005 over the same quarter in the prior year, compared to an increase in revenues of 37%. Human resources for the six months ended June 30, 2005, increased by 3% over the same period in the prior year, compared to an increase in revenues of 22%. Human resources costs have improved from 66% of revenues in the second quarter last year to 52% of revenues this quarter. Human resources costs for the six months ended June 30, 2005, are 53% of revenues compared to 62% for the same period last year.

With three consecutive quarter of profitability recorded, the Company has partially recorded the benefit of prior year's tax losses in the second quarter of 2005.

The tables below further segment our Washington revenues and costs by casino location. The information provided is based on the Company's ownership percentage at the time, and is stated in CAD thousands of dollars, except for average tables per day.

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#### Gaming revenues

|                              | Q2 2005  | Q1 2005  | Q4 2004  | Q3 2004  | Q2 2004  | Q1 2004  | Q4 2003  | Q3 2003  |
|------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| Kent                         | \$ 1,085 | \$ 963   | \$ 985   | \$ 926   | \$ 956   | \$ 889   | \$ 448   | \$ -     |
| Everett                      | 1,313    | 1,049    | 1,179    | 1,311    | 1,461    | 1,845    | 1,447    | 1,277    |
| Lakewood                     | 1,712    | 1,938    | 1,657    | 1,621    | 1,017    | 1,334    | 1,458    | 659      |
| Tukwila                      | 2,162    | 1,860    | 2,181    | 1,997    | 1,036    | 1,060    | 958      | 1,138    |
| Other & Corporate            | -        | -        | -        | -        | -        | -        | -        | -        |
|                              | \$ 6,272 | \$ 5,810 | \$ 6,002 | \$ 5,855 | \$ 4,470 | \$ 5,128 | \$ 4,311 | \$ 3,074 |
| Number of days in operations | 91       | 90       | 92       | 92       | 91       | 91       | 92       | 92       |
| Daily gaming revenues        | \$ 69    | \$ 65    | \$ 65    | \$ 64    | \$ 49    | \$ 56    | \$ 47    | \$ 33    |

#### Food and beverage and other income

|                   | Q2 2005  | Q1 2005  | Q4 2004  | Q3 2004  | Q2 2004  | Q1 2004  | Q4 2003  | Q3 2003  |
|-------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| Kent              | \$ 203   | \$ 186   | \$ 163   | \$ 160   | \$ 159   | \$ 163   | \$ 102   | \$ -     |
| Everett           | 292      | 260      | 286      | 301      | 320      | 363      | 327      | 263      |
| Lakewood          | 577      | 629      | 630      | 511      | 451      | 676      | 893      | 422      |
| Tukwila           | 377      | 381      | 359      | 324      | 178      | 237      | 288      | 243      |
| Other & Corporate | 6        | (4)      | -        | -        | 79       | 64       | 79       | 84       |
|                   | \$ 1,455 | \$ 1,452 | \$ 1,438 | \$ 1,296 | \$ 1,187 | \$ 1,503 | \$ 1,689 | \$ 1,012 |

#### EBITDA

|                   | Q2 2005  | Q1 2005  | Q4 2004  | Q3 2004 | Q2 2004  | Q1 2004  | Q4 2003  | Q3 2003  |
|-------------------|----------|----------|----------|---------|----------|----------|----------|----------|
| Kent              | \$ 79    | \$ 61    | \$ 24    | \$ (77) | \$ (239) | \$ (359) | \$ (400) | \$ -     |
| Everett           | 227      | 76       | 94       | 122     | 142      | 484      | 255      | 91       |
| Lakewood          | 594      | 874      | 411      | 213     | (177)    | 89       | (369)    | (661)    |
| Tukwila           | 1087     | 683      | 803      | 554     | 190      | 225      | 140      | 176      |
| Other & Corporate | (514)    | (412)    | (188)    | (248)   | (111)    | (148)    | (166)    | 200      |
|                   | \$ 1,473 | \$ 1,282 | \$ 1,144 | \$ 564  | \$ (195) | \$ 291   | \$ (540) | \$ (194) |

#### Average tables open / day

|          | Q2 2005 | Q1 2005 | Q4 2004 | Q3 2004 | Q2 2004 | Q1 2004 | Q4 2003 | Q3 2003 |
|----------|---------|---------|---------|---------|---------|---------|---------|---------|
| Kent     | 10      | 10      | 10      | 10      | 10      | 10      | 10      | 10      |
| Everett  | 12      | 12      | 12      | 11      | 11      | 11      | 11      | 11      |
| Lakewood | 13      | 13      | 13      | 13      | 15      | 15      | 15      | 15      |
| Tukwila  | 15      | 15      | 15      | 15      | 15      | 15      | 15      | 15      |
|          | 50      | 50      | 50      | 49      | 51      | 51      | 51      | 51      |

Gaming revenues in Washington in the second quarter of 2005 increased to \$6,272, up from \$5,810 in the prior quarter. This represents an increase of 8%, which is partly due to an increase of 2% drop combined with a 1% increase in average hold percentage, and a continued growth of our player base and return of our customers who tried some of the new competitors in the market in the previous quarters.

EBITDA increased by \$191, or 15% in the second quarter of 2005, compared to the prior quarter. EBITDA as a percentage of revenues has improved from 18% in the first quarter of 2005, to 19% in the current quarter. These increases in revenues and EBITDA in the second quarter of 2005 compared to the first quarter of 2005 are a result of management's continuous

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efforts to reduce costs while maintaining outstanding customer service.

The Washington casinos do not achieve the same level of EBITDA relative to revenues as compared to BC due to the greater number of competitors, limited size of operations, lower betting limits, limited hours of operations and lack of slot machines.

### LIQUIDITY AND CAPITAL RESOURCES

#### Financial Position

| As at                                   | June 30, 2005     | December 31, 2004 |
|---|-------------------|-------------------|
| Cash and cash equivalents               | \$ 47,815         | \$ 43,133         |
| Other current assets                    | 53,494            | 25,880            |
| Property, plant and equipment           | 257,511           | 125,352           |
| Due from Provincial Gaming Corporations | 196,163           | 102,065           |
| Other assets                            | 133,084           | 65,985            |
|   | <b>\$ 688,067</b> | <b>\$ 362,415</b> |
| Current liabilities                     | \$ 72,411         | \$ 41,973         |
| Long-term debt                          | 330,079           | 154,000           |
| Other long-term liabilities             | 42,213            | 12,372            |
| Shareholders' equity                    | 243,364           | 154,070           |
|   | <b>\$ 688,067</b> | <b>\$ 362,415</b> |

Total assets have increased by 90% since December 31, 2004, primarily due to the construction of River Rock, Coquitlam expansion and the acquisitions of Orangeville and MEG. Other current assets increased mainly due to the increase of \$16,518 for the PGC current receivable and the increase in prepaid expenses of \$9,522 primarily due to the acquisitions of Orangeville and MEG, as well as increase in deposits for equipment for the River Rock Hotel. The increase in amounts due from PGC is due to the addition of the OCI and MD due from NSGC in the amount of \$49,875 (\$14,518 for current portion is included above in "other current assets") and the increase in FDIF receivable due to the River Rock and Coquitlam projects. The increase in other assets is mainly due to the deposit of \$48,124 for the acquisition of Georgian Downs and \$21,391 allocated to intangible assets for electronic gaming rights and horseracing licences for Orangeville. The electronic gaming rights for Orangeville represent the estimated fair value of the right to operate slot machines and electronic gaming positions at Fraser Downs. The electronic gaming rights for Fraser Downs are amortized straight-line over the remaining 19 year term of the operational services agreement. The horseracing licence is the estimated fair value of the right to operate live horse racing at Fraser Downs and Sandown granted by the GPEB and CPMA. The licence has an indefinite life and is not subject to amortization.

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In the six months ended June 30, 2005, the Company spent \$73,200 for the capital projects underway at River Rock, Coquitlam and Orangeville. In the six months ended June 30 2005, BCLC approved FDIF \$63,879 for construction costs relating to River Rock and construction costs for the Coquitlam expansion. The FDIF receivable is non-interest bearing and was discounted over periods of approximately eight to eleven years. The receivable was recorded at its fair market value using discount rates ranging from 3.95% to 4.37% per annum. The imputed discount of \$27,384 was applied in the six months ended June 30, 2005 to reduce the FDIF receivable and increase the related asset.

Total liabilities have increased by 113% since December 31, 2004, mostly due to the draw down on the \$200,000 credit facility of \$176,240 to fund acquisitions and capital expansions, and the increase of \$30,994 in the future income tax liability arising from fair market valuing of the acquired assets of Orangeville and MEG.

Shareholders' equity increased by 57% mainly due to the treasury offering of 1,500,000 common shares in January 2005, and the exercise of stock options and warrants.

### Changes in Cash Position

| Cash flows:   | Three Months Ended March 31, |          | Six Months Ended June 30, |            |
|---|------------------------------|----------|---------------------------|------------|
|   | 2005                         | 2004     | 2005                      | 2004       |
| Cash inflow from operating activities                   | \$ 16,761                    | \$ 3,388 | \$ 16,804                 | \$ 9,385   |
| Cash inflow from financing activities                   | 163,927                      | 51,839   | 240,903                   | 55,964     |
| Cash outflow from investing activities                  | (176,099)                    | (45,527) | (253,099)                 | (69,911)   |
| Effect of foreign exchange on cash and cash equivalents | 87                           | 239      | 74                        | 387        |
| Increase (decrease) in cash                             | \$ 4,676                     | \$ 9,939 | \$ 4,682                  | \$ (4,175) |

The Company's cash and cash equivalents as at June 30, 2005 amounted to \$47,815, an increase of \$4,682, compared to \$43,133 at the end of 2004. Working capital has increased by \$1,858 from \$27,040 at the end of the year to \$28,898 as at June 30, 2005.

The primary financing activities for the six months ended June 30, 2005, were the issuance of common shares for net cash proceeds of \$65,911, and a draw down on the \$200,000 credit facility of \$176,240. In the six months ended June 30, 2005, \$636 of debt was repaid.

The Company used \$253,099 for investing activities in the six months ended June 30, 2005, primarily for the acquisitions of Orangeville, Weinlager, and MEG for an aggregate cash amount of \$120,725, deposit on the acquisition of Georgian Downs of \$48,124, additions to property, plant and equipment of \$77,219 mainly for the construction of River Rock and the Coquitlam expansion, and \$9,262 to prepay the leases on land presently occupied by River Rock up to the year 2041, partially offset by \$8,008 FDIF received.

### Outstanding Share Data

As at June 30, 2005, there were 75,483,254 common shares outstanding as compared to 69,989,689 common shares as at December 31, 2004. During the six months ended June 30, 2005, 3,750,000 shares were issued through a treasury offering for net proceeds of \$59,261,

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718,565 shares issued through the exercise of options for proceeds of \$1,925 and 1,025,000 shares issued through the exercise of warrants for proceeds of \$4,769.

As at June 30, 2005, there were 5,830,749 stock options outstanding at a weighted average exercise price of \$12.46 and no warrants outstanding.

The book value of each common share at June 30, 2005, is \$3.22 calculated by dividing shareholders' equity by the 75,483,254 common shares outstanding.

Subsequent to June 30, 2005, 63,750 stock options were exercised at prices ranging from \$1.72 to \$9.04 per common share and there were 75,547,004 common shares outstanding as at July 31, 2005.

### Future Cash Requirements

The Company believes that its current capital plans and requirements can be funded from existing cash, cash generated from operations, credit and debt facilities, and the proceeds from the exercise of stock options. To the extent that these resources are inadequate, or the Company pursues other business opportunities, the Company may raise additional funds through the expansion of credit lines, public or private debt or equity financing. If additional funds are raised through the issuance of equity securities, or the exercise of stock options, 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. No assurance can be given that additional financing will be available, or that it can be obtained on terms favourable to the Company and its shareholders. If adequate funds are not available, the Company may be required to delay, limit, or eliminate some or all of its proposed expansions. The Company believes it will be able to meet all its debt covenants even if current capital plans and requirements are funded from debt.

## COMMITMENTS, GUARANTEES, CONTINGENCIES AND LITIGATION

### Commitments

| Contractual Obligations        | Payments Due by Period as at June 30, 2005 |                           |             |                      |            |
|--------------------------------|--|---------------------------|-------------|----------------------|------------|
|                                | Less than 1<br>year                        | 1 - 3 years               | 4 - 5 years | More than 5<br>years | Total      |
| Long-term debt                 | \$ 463                                     | \$ 177,194 <sup>(1)</sup> | \$ 41,076   | \$ 111,623           | \$ 330,355 |
| Capital lease obligations      | 247  | 186                       | -           | -                    | 433        |
| Operating leases and contracts | 2,310                                      | 4,707                     | 3,100       | 7,157                | 17,274     |
| Purchase commitments           | 150,000                                    | -                         | -           | -                    | 150,000    |
| Acquisitions (Flamboro)        | 75,000                                     | -                         | -           | -                    | 75,000     |
| Total                          | \$ 228,020                                 | \$ 182,087                | \$ 44,176   | \$ 118,780           | \$ 573,062 |

<sup>(1)</sup> Subsequent to June 30, 2005, the credit facility, which accounted for \$176 million of this amount was repaid in full with the proceeds from the Series B Notes and Special Warrants

The estimated purchase commitments include planned expansions for the construction of River

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Rock, and the Coquitlam, HEI, Orangeville and Bear Mountain expansions.

The Fraser Downs lease calls for per annum rent of \$250 subject to annual increases for inflation for the duration of the lease, with the minimum per annum rent increasing to \$300 as of March 2009, plus 1% of the net win of the Fraser Downs casino up to \$38,500, 2% from \$38,500 to \$43,800 and 4% of the net win over \$43,800. The lease is for twenty years from March 1, 2004 to February 28, 2024, plus a ten year option.

The Sandown lease is based on (a) the greater of \$1 per race day or 1% of the total gross pari-mutuel handle, with an annual minimum of \$50 and (b) 20% of net food and beverage concessions revenue. The lease period is January 1 to September 30 of each year, expiring on September 30, 2017.

Certain electronic equipment at the Fraser Downs and Sandown racetracks is leased for an amount based on daily mutuel wagering. The minimum rental payment shall not be less than \$260 for each year of the agreement expiring in 2008.

The Nova Scotia Casino Sydney is committed to a lease expiring in 2015 for land upon which the casino is situated. The terms of the lease provide for annual rental payments of \$300 and the Company has the option to extend the term of the lease for one additional term of 30 years.

The Company's wholly owned subsidiary, HEI, is engaged with the Company in collective bargaining. There are two unions, UNITE Local 40 represents the food and beverage employees and their collective agreement expired March 31, 2005. A positive strike vote has been taken by the membership, and as a result, the Union, upon 72 hours notice, could commence job action. A second union, COPE represents the pari-mutuel and associated employees at HEI. Their collective agreement expires July 31, 2005. COPE has served HEI with Notice to bargain and dates are set for August 2005.

### **Guarantees & Letters of Credit**

The Company has issued letters of credit to guarantee performance under contracts and gaming cash floats in the aggregate amount of \$23,542 at June 30, 2005.

### **Contingencies**

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

### **Litigation**

The only proceeding that we consider to be outside the normal course of business is the petition issued by the Musqueam Indian Band ("Band") against the City of Richmond on March 22, 2004, asserting that the City did not give sufficient prior notice to the community before issuing the development permit for the River Rock Casino Resort. We were not named as a party to the proceeding, however, out of consideration of the Company's interest, we have added the Company as a party to the action in order to ensure that our position is heard.

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The BC Supreme Court rendered its judgement with the result that all of the Band's complaints concerning the alleged defects in the approval process were dismissed. However, the Court found that the BCLC had failed to meet a duty to consult with the Band when it contemplated moving the casino to its current location, based upon the Band's aboriginal title claim to those lands. No order was made against the Company and the Court specifically refused to impact the casino. The Court found that it would not be appropriate to make an order that would have the effect of shutting down the casino or otherwise impair the River Rock Project.

The time period for appeal of the decision has not yet expired. The Company believes that this decision will have no adverse effect on the Company or on the River Rock Project

### **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.

This related party transaction was 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**

#### *Facility Development Improvement Fund ("FDIF")*

For each BC casino location, the Company has entered into a ten year operational services agreement with a ten year renewal option with BCLC. Under these agreements, qualifying expenditures under the FDIF are recorded as a receivable from BCLC and as a reduction in the cost of the related asset or operating expense at the later of the time the expenditure is made by the Company or approval is given by BCLC.

The FDIF receivable is non-interest bearing and is discounted using a discount rate management believes to be the market rate of interest for a similar instrument with similar terms and conditions. In addition, management estimates the amount of and timing of future reimbursements from BCLC based on current and committed scope of operations. The imputed discount accretes to the FDIF receivable over its term as other income.

#### *Operator's Capital Investment ("OCI") and Mandatory Deferrals ("MD")*

Under the existing operating contract with the NSGC, MEG is entitled to repayment of its capital investment, through the OCI and 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.

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#### *Fair Value of Net Assets Acquired in Business Acquisitions*

As part of the accounting for acquisitions made during the year, management estimates the fair market values of assets acquired for the purpose of allocating the purchase price. Where necessary, management supplements its estimates with opinions of independent third party advisors.

#### *Long-lived Assets and Goodwill Impairment Test*

Long-lived assets and goodwill are tested for impairment at least on an annual basis, normally at year end, or when other conditions exist that may indicate that impairment could exist in the carrying value of long-lived assets or goodwill. To identify whether long-lived asset impairment exists, the Company compares the fair market of undiscounted cash flows expected from the asset's use and eventual disposition against its carrying value. To identify whether goodwill impairment exists, the Company compares the fair value of the reporting unit to which the goodwill relates to the carrying value. When the carrying value exceeds its fair value, the excess over carrying value is charged to operations in the period in which the impairment occurred. The impairment tests had no impact on the Company's results for the period ended June 30, 2005.

#### *Stock-based compensation*

The fair value of all stock-based awards is estimated using the Black-Scholes model at the date of grant and is expensed to operations over each award's vesting period.

### **DEFINITIONS USED IN THE MD&A**

#### *Non-GAAP Measure*

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 method 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 expense (net of interest income), income Taxes, Depreciation and Amortization, stock-based compensation, accretive income from PGC and non-operating (income) expense. EBITDA is derived from the consolidated statement of income, and is computed as revenues less human resources, marketing and promotion, occupancy costs and operating supplies. EBITDA is a useful measure of cash available prior to debt service, capital expenditures, non-recurring or unusual items and income taxes. A reconciliation of EBITDA to the comparable GAAP measure is shown under “Results of Operations” in this MD&A. In the reported financial results for the first quarter of 2005 and fourth quarter of 2004, accretive income from PGC was included in “other income”, grouped with “Revenues”, and thus was included in

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EBITDA. In the current presentation, accretive income from PGC is shown below "Income from Operations", and thus is not in EBITDA. The six months results for 2005 include the restated first quarter of 2005 results for this change in presentation. The change reduced the EBITDA for the first quarter of 2005 by \$1,424.

Adjusted EBITDA - means EBITDA plus amounts received from the PGC on account of FDIF, OCI, and MD. The following table reconciles EBITDA to Adjusted EBITDA.

|                 | Three Months Ended June 30, |           | Six Months Ended June : |           |
|-----------------|-----------------------------|-----------|-------------------------|-----------|
|                 | 2005                        | 2004      | 2005                    | 2004      |
| EBITDA          | \$ 19,427                   | \$ 10,614 | \$ 36,011               | \$ 20,843 |
| FDIF received   | 4,301                       | 2,534     | 8,008                   | 5,064     |
| Adjusted EBITDA | 23,728                      | 13,148    | # 44,019                | 25,907    |

#### *Other Definitions*

Drop – means the collective amount of money customers are willing to wager against the casino, and is commonly computed as the aggregate of the money counted in the drop boxes. Drop is a measure of the customer activity at a casino.

FDIF – means Facility Development Improvement Fund. COSAs at our BC casinos, the existing and expected RCOSAs at our BC racecourses and the expected bingo BCOSA at our community gaming centre with BCLC provide for the reimbursement of certain of the Company's qualifying capital and operational expenditures. Based on discussion with BCLC, we anticipate that our RCOSA for slots at Hastings Racecourse will also contain FDIF provisions and be similar to the RCOSA at Fraser Downs. Under new operational service agreements with BCLC, the FDIF concept has been renamed as the Facilities Development Commission.

The FDIF is calculated and reimbursed weekly at the rate of 3% of the win amount from casino gaming activities, 7% of the slot win and 5% of the bingo win from the community gaming centre and 5% of the slot win from the racecourse casino. As a result of the FDIF, we expect that a significant portion of the capital construction costs for our announced projects will be reimbursed by BCLC. The FDIF receivable is drawn down based on the gaming win at the rates indicated above and is irrevocable on the assumption that the Company continues to operate under valid COSAs, RCOSAs and BCOSA.

Hold percentage – means the ratio of table win divided by table drop. The hold percentage cannot be directly controlled and fluctuates with the statistical variations in casino games.

Non-operating (income) expense – means (income) loss from investments, foreign exchange (gain) loss and non-controlling interest.

Operating expenses – means amortization, human resources, stock-based compensation, marketing and promotion, occupancy costs and operating supplies.

Operating income (or income from operations) – means revenues less operating expenses.

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Provincial Gaming Corporations (“PGC”) – means BCLC, NSGC and OLG.

Revenues – means the sum of the following:

- Casino gaming in BC – gaming win is net of commissions paid to BCLC (which are 60% of the win on most table games, 75% of the slot machine win at the casino facilities, and 80% of the slot win at racecourse facilities) and net of accruals for anticipated payouts of progressive slot machine jackpots and progressive table game payouts.
- Bingo and slots at a community gaming centre in BC – gaming win is net of commissions paid to BCLC (which are 82% of the win on slots, and 40% to 75% of the weekly bingo win).
- Horseracing in BC – racetrack gaming revenues represent total wagering less amounts returned as winning wagers, provincial and federal taxes, and includes the host track share of wagering on the Company’s races simulcast to and received from other associations.
- Casino gaming in Washington - gaming win is net of county gaming taxes at various rates ranging from 10% to 14% for card and progressive jackpot games, 5% on pull-tabs and 2% on amusement games.
- Casino gaming in Nova Scotia – from the month of acquisition to June 30, 2005, gaming win is net of 20% win tax paid to the province of Nova Scotia and an additional 1.5% for the capital replacement reserve.
- Food and beverage revenues – revenues are recorded at the retail price at the time of service. Food and beverage revenues in Nova Scotia are recorded at retail price less amount reserved for the capital replacement reserve.
- Other income - ATM commissions, advertising revenues, and other income from ancillary services.

Win – the gaming win is generally the amount wagered on gaming activities, less the payout or prizes to winning customers. Win can fluctuate with the statistical variations of casino games.

### **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 [www.gcgaming.com](http://www.gcgaming.com).