



GREAT CANADIAN GAMING CORPORATION

AUDITORS' REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2006

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

Auditors' Report

To the Shareholders of
Great Canadian Gaming Corporation

We have audited the consolidated balance sheets of Great Canadian Gaming Corporation as at December 31, 2006 and 2005 and the consolidated statements of income (loss), shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
March 16, 2007

GREAT CANADIAN GAMING CORPORATION

Consolidated Balance Sheets

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

As at December 31,

		2006	2005
ASSETS			(Note 3)
CURRENT			
Cash and cash equivalents		\$ 56,773	\$ 69,812
Restricted cash		2,556	6,598
Accounts receivable		13,353	13,098
Income taxes receivable		9,907	4,533
Due from Nova Scotia Gaming Corporation, current	Note 6	17,057	15,353
Prepays, deposits and other assets		12,912	9,037
Future income taxes	Note 12	1,257	1,875
		113,815	120,306
Due from Nova Scotia Gaming Corporation	Note 6	17,733	28,607
Property, plant and equipment	Note 7	565,824	518,807
Promissory notes receivable and other assets	Note 10	1,280	8,544
Intangible assets	Note 8	202,045	209,887
Goodwill	Note 9	30,552	37,498
Future income taxes	Note 12	9,435	-
		\$ 940,684	\$ 923,649
LIABILITIES			
CURRENT			
Gaming revenues payable		\$ 11,525	\$ 10,030
Accounts payable and accrued liabilities		50,483	56,854
Income taxes payable		-	3,694
Deferred credit and other liabilities, current		2,470	-
Long-term debt, current	Note 11	1,216	3,252
Future income taxes	Note 12	7,553	-
		73,247	73,830
Long-term debt	Notes 11 / 25	390,324	438,279
Deferred credit and other liabilities		3,278	5,385
Future income taxes	Note 12	78,969	81,874
		545,818	599,368
Non-controlling interests		41	733
SHAREHOLDERS' EQUITY			
Share capital and other equity	Note 13	335,833	247,727
Cumulative foreign currency translation		(5,349)	(7,163)
Retained earnings		64,341	82,984
		394,825	323,548
		\$ 940,684	\$ 923,649

Contingencies, commitments and litigation

Notes 21 / 22

GREAT CANADIAN GAMING CORPORATION

Consolidated Statements of Income (Loss)

(In thousands, except for share and per share information)
For the years ended December 31,

		2006		2005	
					(Note 3)
REVENUES	Note 15	\$	385,253	\$	294,444
EXPENSES					
Human resources			178,609		142,537
General and administration			32,596		21,872
Operating supplies			27,399		20,457
Occupancy costs			33,698		19,474
Marketing and promotion			14,714		13,534
Amortization			37,101		22,616
Stock-based compensation	Note 13		6,333		5,312
Restructuring costs	Note 23		10,026		-
			340,476		245,802
			44,777		48,642
Interest and financing costs, net	Note 11(e)		(51,022)		(9,388)
Impairment of investments and long-lived assets	Note 16		(3,098)		(8,200)
Goodwill impairment	Notes 2 / 9		(9,929)		-
Foreign exchange (loss) gain			(1,332)		203
INCOME (LOSS) BEFORE INCOME TAXES			(20,604)		31,257
Income tax (recovery) expense	Note 12		(4,030)		14,394
INCOME (LOSS) BEFORE NON-CONTROLLING INTERESTS			(16,574)		16,863
Non-controlling interests			2,069		1,193
NET INCOME (LOSS)		\$	(18,643)	\$	15,670
EARNINGS (LOSS) PER COMMON SHARE	Note 14				
Basic		\$	(0.22)	\$	0.20
Diluted		\$	(0.22)	\$	0.20
WEIGHTED AVERAGE NUMBER OF COMMON SHARES	Note 14				
Basic			84,471,204		76,626,504
Diluted			84,471,204		78,402,986

See Accompanying Notes to the Consolidated Financial Statements

GREAT CANADIAN GAMING CORPORATION
Consolidated Statements of Shareholders' Equity
(In thousands, except for share and per share information)

	Common Shares		Contributed Surplus	Share Capital And Other Equity	Cumulative Foreign Currency Translation Adjustments	Retained Earnings	Shareholders' Equity
	Number	Amount	Amount	Amount			
At December 31, 2004, as previously reported	69,989,689	\$ 97,312	\$ 4,489	\$ 101,801	\$ (5,908)	\$ 58,177	\$ 154,070
Cumulative effect due to changes in accounting policy (Note 3)	-	-	-	-	-	9,137	9,137
At December 31, 2004, as adjusted	69,989,689	97,312	4,489	101,801	(5,908)	67,314	163,207
Exercise of incentive stock options	981,327	4,973	(1,907)	3,066	-	-	3,066
Treasury offering, net of tax effected issuance costs of \$2,181	3,750,000	60,069	-	60,069	-	-	60,069
Issuance of common shares, upon exercise of special warrants	3,703,704	72,709	-	72,709	-	-	72,709
Stock based compensation	-	-	5,312	5,312	-	-	5,312
Exercise of warrants	1,025,000	4,770	-	4,770	-	-	4,770
Effect of foreign currency translation	-	-	-	-	(1,255)	-	(1,255)
Net income (Note 3)	-	-	-	-	-	15,670	15,670
At December 31, 2005	79,449,720	239,833	7,894	247,727	(7,163)	82,984	323,548
Exercise of incentive stock options	490,550	1,450	(430)	1,020	-	-	1,020
Treasury offering, net of tax effected issuance costs of \$295	6,206,361	79,705	-	79,705	-	-	79,705
Stock based compensation and restructuring costs	-	-	7,381	7,381	-	-	7,381
Unrealized effect of foreign currency translation	-	-	-	-	3,845	-	3,845
Realized effect of foreign currency translation	-	-	-	-	(2,031)	-	(2,031)
Net loss (Note 3)	-	-	-	-	-	(18,643)	(18,643)
At December 31, 2006	86,146,631	\$ 320,988	\$ 14,845	\$ 335,833	\$ (5,349)	\$ 64,341	\$ 394,825

GREAT CANADIAN GAMING CORPORATION

Consolidated Statements of Cash Flows

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

For the years ended December 31,

	2006		2005	
			(Note 3)	
Cash Flows from Operating Activities				
Net income (loss)	\$	(18,643)	\$	15,670
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Amortization		37,101		22,616
Impairment of investments and long-lived assets		3,098		8,638
Goodwill impairment		9,929		-
Non-cash interest and financing costs		8,945		1,672
Stock-based compensation and non-cash restructuring costs		7,381		5,312
Foreign exchange (gain) loss		1,332		(203)
Non-controlling interest and others		(245)		2,396
Future income taxes		(4,011)		(2,896)
Changes in non-cash operating working capital		(13,763)	Note 17	1,343
Net cash provided by operating activities		31,124		54,548
Cash Flows from Investing Activities				
Restricted cash		4,042		909
Investment in and advances to equity investees		(9)		(1,056)
Funds received from Nova Scotia Gaming Corporation		23,650		6,260
Funds advanced to Nova Scotia Gaming Corporation to purchase plant and equipment		(15,197)		-
Purchase of property, plant and equipment, net of related accounts payable		(82,696)		(194,329)
Proceeds from disposal of property, plant and equipment		-		5,947
Consolidation of cash of Georgian Downs		-		1,286
Acquisitions and related contingent payments, net of cash acquired		(1,100)		(182,104)
River Rock prepaid lease		-		(9,262)
Promissory notes		163		(28,568)
Net cash used in investing activities		(71,147)		(400,917)
Cash Flows from Financing Activities				
Proceeds from long-term debt		396,816		419,252
Repayment of long-term debt		(446,807)		(177,346)
Deferred financing costs		(4,073)		(4,449)
Bond forward		-		1,731
Common shares issued for cash, net of issuance costs		80,569		138,137
Net cash provided by financing activities		26,505		377,325
Effect of foreign exchange on cash and cash equivalents		479		(90)
Net Cash (Outflow) Inflow		(13,039)		30,866
Cash and cash equivalents, Beginning of the period		69,812		38,946
Cash and cash equivalents, End of the period	\$	56,773	\$	69,812
Supplemental Disclosure				
Interest received	\$	4,745	\$	2,424
Interest and Series A and B Notes prepayment fees paid	\$	57,580	\$	16,054
Income taxes paid	\$	9,234	\$	18,634
Non-Cash Investing and Financing Activities				
Conversion of promissory note to preferred shares	\$	-	\$	6,917

See Accompanying Notes to the Consolidated Financial Statements

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005
(Expressed in thousands, except for share and per share information)

1. NATURE OF BUSINESS

Great Canadian Gaming Corporation (the "Company"), is a multi-jurisdictional gaming and entertainment operator with operations in British Columbia, Ontario, and Nova Scotia in Canada, and Washington State in the United States of America. The Company operates eleven casinos, a thoroughbred racetrack, four standardbred racetracks (three of which offer slot machines), a community gaming centre, a hotel, two show theatres and numerous associated food and beverage and entertainment facilities.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are presented in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

a) *Principles of consolidation*

These consolidated financial statements include the accounts of the Company, its subsidiaries and variable interest entities. Variable interest entities are entities subject to control by the Company on a basis other than by ownership of voting interests where the Company has an obligation to absorb the majority of an entity's expected losses or the right to receive the expected residual returns.

Significant inter-company balances and transactions with subsidiaries and variable interest entities are eliminated upon consolidation.

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005
(Expressed in thousands, except for share and per share information)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Principal operating entities

<u>Entity</u>	<u>Abbreviation</u>	<u>Ownership interest % as at December 31, 2006 and 2005</u>
Flamboro Downs Limited	Flamboro Downs	100%
Georgian Downs Limited	Georgian Downs	100% ⁽¹⁾
Great American Gaming Corporation	GAGC	100%
Great Canadian Casinos Inc.	GCC	100%
Great Canadian Entertainment Centres Ltd.	GCEC	100%
Hastings Entertainment Inc.	HEI	100%
Jack O'Clubs Gaming Hall Ltd.	Jack O'Clubs	67%
Mayfield Consulting Canada Inc.	Mayfield	0% ⁽²⁾
Metropolitan Entertainment Group	MEG	100%
Orangeville Raceway Limited	Orangeville	100%
TBC Teletheatre B.C.	TBC	50% ⁽³⁾

⁽¹⁾ The Company accounted for the investment in and the operating results of Georgian Downs using the equity method from July 2, 2005 to September 30, 2005 since the Company had significant influence over its operations but was awaiting regulatory approval of the acquisition (Note 4(b)). Georgian Downs' operating results are consolidated from October 1, 2005.

⁽²⁾ Mayfield and certain associated companies of Mayfield Consulting Canada Inc. (hereinafter called Mayfield) were contracted by the Company to provide food and beverage, and hotel management services in certain locations. Under the terms of the various management services contracts, the Company is the primary beneficiary of Mayfield, even though the Company has no share ownership in Mayfield, as the Company bears the principal risks and rewards of Mayfield's operations. Mayfield is consolidated from the inception date of each applicable management services contract as a variable interest entity. The Mayfield companies that are consolidated provide services only to the Company. See Note 23.

⁽³⁾ On March 18, 2005, the Company increased its ownership interest in TBC to 50% and effectively controlled it from that date (Note 4(e)). TBC's operating results are consolidated from March 18, 2005.

c) Uncertainty in management estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Estimates are used for, but not limited to, the fair value of net assets acquired in business combinations, impairment of goodwill and long-lived assets, estimated useful lives of property, plant and equipment and intangible assets, stock-based compensation, income taxes and contingencies. Actual results may differ from those estimates

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005
(Expressed in thousands, except for share and per share information)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Cash and cash equivalents

Cash and cash equivalents include cash and liquid investments with an original maturity of three months or less.

e) Facility Development Commission

The Facility Development Commission ("FDC", formerly known as the Facility Development Improvement Fund) is a compensation component of the Company's Casino Operational Services Agreements ("COSAs") with the British Columbia Lottery Corporation ("BCLC"). FDC is earned (payable by BCLC to the Company) as a fixed percentage of gaming win, subject to the Company incurring sufficient Approved Amounts (a defined term in the COSAs and generally consists of approved capital or operating expenditures related to the development or improvement of gaming properties), and is paid weekly to the Company. Approved Amounts are reduced by the FDC receipts.

FDC is recorded as part of revenues on the statement of income (loss) when earned (when it is payable by BCLC to the Company), limited to the extent that sufficient Approved Amounts have previously been made by the Company (Note 3). If there is sufficient Approved Amounts, the FDC earned in any one period from BCLC is based on certain percentages of the win from gaming activities of that period at the Company's British Columbia casinos, community gaming centre and racetrack with slot machines. Currently, these FDC percentages range from 3% to 5% of the win from gaming activities (Note 15).

As at December 31, 2006, the Company has \$350,445 (2005 - \$342,426) in Approved Amounts to be recovered by future FDC payments from BCLC. These Approved Amounts have not been reflected in these financial statements. Recovery of Approved Amounts requires that our operating agreements with BCLC remain in good standing.

f) Marketing fees to BCLC

The Company contributes between 0.5% and 1.5% of the gaming win in four of its BC casinos to BCLC as prepayment for marketing programs. The Company records the contribution to BCLC as a prepaid expense and expenses the prepayment based on confirmation of expenditures made by BCLC from this fund. In the event of and to the extent that the amounts contributed are not expended on marketing programs within the defined periods, the Company will be entitled to repayment of the contribution.

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005
(Expressed in thousands, except for share and per share information)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Capital reserve account

The Amended and Restated Operating Contract (“AROC”) with the Nova Scotia Gaming Corporation (“NSGC”) includes a provision for reimbursement of certain of the Company’s qualifying expenditures under the Capital Reserve Account (“CRA”).

The Company is required under the AROC to make contributions to the CRA equal to 5% of the annual gross operation revenues from the two Nova Scotia casinos. Reimbursement of qualifying expenditures is received from the CRA, or if there is insufficient balance in the CRA, is recorded as a receivable from NSGC and recorded as a reduction in the historical cost of the related expenditures at the time approval is given by NSGC. According to the AROC, to the extent a receivable balance exists, the Company earns interest on the balance at a rate of prime plus 2% per annum. Management believes this interest rate to be the market rate of interest of a similar instrument with similar terms and conditions. As a result, the Company does not discount the receivable.

The replacement assets acquired using CRA funds are the property of the Company until the end of the AROC, at which time, the assets revert to NSGC.

h) Investments

The Company accounts for its investments in companies over which it has significant influence on the equity basis of accounting whereby the investments are initially recorded at cost and adjusted for the Company’s share of income or losses of the investee companies.

Investments in companies which are not subject to significant influence are accounted for using the cost method whereby the investments are recorded at cost and earnings are recognized to the extent received or receivable.

When there is a loss in the value of an investment that is other than a temporary decline, the investment is written down to estimated realizable value.

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005
(Expressed in thousands, except for share and per share information)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization and amounts approved under CRA. Amortization is expensed on a straight-line basis from the month the asset is put in use over the estimated useful lives of the assets at the following rates:

Land	not amortized
Buildings	20 to 40 years
Aircraft	20 years
Equipment	1 to 5 years
Enterprise Resource Planning systems	5 years
Leasehold improvements and interests	lesser of useful life or lease term

During the construction period of significant facilities, the Company capitalizes construction and overhead costs, including interest, directly attributable to the construction project. The costs of construction of the Company's gaming and ancillary facilities are classified as properties under development. When the property or portion thereof is substantially complete and ready for use, costs cease to be capitalized, are transferred from properties under development to their respective asset categories, and are amortized over the asset's estimated useful life.

j) Intangible assets

The Company's finite-lived intangible assets consist primarily of electronic gaming rights, operational service agreements, siteholder agreements and horseracing licences. Intangible assets are amortized over the estimated useful life ranging from five to twenty years. Judgment is used to estimate an intangible asset's useful life and is based on an analysis of all pertinent factors, including expected use of the intangible asset, contractual provisions that enable renewal or extension of the intangible asset's legal or contractual life without substantial cost, and renewal history. Changes in the estimate of an intangible asset's useful life are treated as a change in accounting estimate and are applied prospectively.

Intangible assets are tested for impairment consistent with the method described for long-lived assets below (Note 2(l)). The intangible assets impairment test had no impact on the Company's results for the years ended December 31, 2006 and 2005.

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005
(Expressed in thousands, except for share and per share information)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Goodwill

Goodwill represents the excess of the purchase price of acquired companies over the estimated fair value of the tangible and intangible net assets acquired. Goodwill is tested for impairment at least annually and whenever events or circumstances indicate that its carrying value may not be fully recoverable. The impairment test consists of allocating goodwill to the Company's reporting units and then comparing the carrying value of the reporting units, including goodwill, to their fair values. The Company determines fair value using price-to-earnings multiples or discounted cash flows, whichever is the most appropriate under the circumstances. The excess of the carrying value amount over the fair value of goodwill, if any, is charged to operations in the period the impairment occurred. The goodwill impairment test resulted in an impairment charge for the year ended December 31, 2006 (Note 9).

l) Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when the carrying value of a long-lived asset intended for use exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. The impairment loss is measured as the excess of the carrying value of the asset over its fair value.

m) Deferred financing costs

Deferred financing costs relate to the costs associated with securing long-term financing and credit facilities. These costs are amortized on a straight-line basis over the term of the related debt and credit facilities. When a debt facility is retired by the Company, any remaining balances of related deferred financing costs are expensed to income in the period that the debt facility is retired. During the year ended December 31, 2006, the Company redeemed the Series A and Series B Senior Secured Notes, and in the same period, wrote off the balance of associated deferred financing costs (Notes 10 and 11).

n) Hedges

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

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005
(Expressed in thousands, except for share and per share information)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Translation of foreign operations and foreign currency transactions

The Company's financial statements are presented in Canadian dollars. The Company's non-Canadian operations are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated into Canadian dollars using the exchange rate in effect on the balance sheet date. Revenue and expenses are translated at average exchange rates prevailing during the year. The resulting translation gains and losses are included as a separate component of shareholders' equity.

Transactions completed in foreign currencies are translated into Canadian dollars at the rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are reflected in the financial statements at the exchange rate prevailing at the balance sheet date with the resulting gain or loss included in the statement of income (loss) in the period which it occurs unless the monetary asset or liability is hedged with a financial instrument, in which case the hedged rate is used.

p) Stock-based compensation

The Company applies the fair value method of accounting for all stock option awards. Under this method, the Company recognizes compensation expense for stock options awarded using the Black-Scholes model based on the fair value of the options at the later of the date of grant or the date of shareholder approval of any new share option plan from which options were granted. The Company assumes that all awards will vest and recognizes the effect of forfeitures as they occur. The fair value of the options is expensed over the expected life of the options.

q) Revenue recognition

The Company records revenues in the following manner:

Gaming revenues, which include revenues from table games, slot machines, bingo games, FDC from BCLC, and the siteholder payments from Ontario Lottery and Gaming Corporation ("OLG") are recorded when earned and payable to the Company after deduction for the portion of gaming and other revenues payable to BCLC, OLG, and NSGC, accruals for payouts on progressive games, and gaming taxes payable to Washington State.

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005
(Expressed in thousands, except for share and per share information)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Revenue recognition (Continued)

Racetrack revenues are recorded when earned and payable to the Company, net of amounts returned as winning wagers, provincial and federal taxes, and purses for wagering. Wagering revenue also includes the net amount of the host track share of wagering on races simulcast to other associations.

Hotel, food and beverage, entertainment and other operating revenues are recognized as goods are delivered and services are performed.

Revenues are recognized net of promotional allowances, which are primarily complementary food and beverage provided to customers. The retail value of food and beverage furnished to customers without charge is included in gross revenue and then deducted as promotional allowances before arriving at net revenues.

r) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated tax payable for the current year. Future income taxes relate to the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future income tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment or substantive enactment.

s) Earnings per common share

Basic earnings per common share are calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per common share are presented using the treasury stock method and are calculated by dividing net earnings applicable to common shares by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued.

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005
(Expressed in thousands, except for share and per share information)

3. CHANGE IN ACCOUNTING POLICY

Effective September 30, 2006, the Company changed its accounting policy for the FDC and records FDC as revenues in the statement of income (loss) as it is earned (when it is payable by BCLC to the Company), limited to the extent that sufficient Approved Amounts exist. Approved Amounts to be recovered through future FDC payments from BCLC are disclosed in the notes to the consolidated financial statements (Note 2(e)).

The Company has elected to adopt the new accounting policy as it believes it more accurately reflects the nature of the current compensation arrangements with BCLC, provides better information on the cash flows of the Company and portrays property, plant and equipment on the balance sheet at amortized historical cost.

Previously, the FDC was accounted for as a form of government assistance upon approval by the BCLC of the Approved Amounts. Approved Amounts were recorded at the time of BCLC's approval as due from provincial gaming corporation on the balance sheet and reduced the cost of the related asset or operating expense. The due from provincial gaming corporation was recorded on a discounted basis using a discount rate that management believed to be the market rate of interest for a similar instrument with similar terms and conditions. The FDC received reduced the due from provincial gaming corporation receivable. The accretive income recognized on the statement of income (loss) increased the due from provincial gaming corporation receivable.

The Company's former accounting policy for the FDC, while in accordance with Canadian generally accepted accounting principles, had increased in complexity, both in its application and in user understanding, and required significant management estimates, as a result of increases in the amount of the Company's capital expenditures and Approved Amounts. In considering these factors, management initiated a review of its accounting policy for FDC.

The Canadian Institute of Chartered Accountants Handbook Section on "Accounting Changes", effective January 1, 2007 with earlier adoption encouraged, requires where entities consider a voluntary change in accounting policies that the new policy result in more reliable and more relevant information about the effects of transactions on the entity's financial position, financial performance or cash flows.

The Company believes the new change in accounting policy for FDC is preferable to the prior method employed, and results in more reliable and more relevant presentation in the financial statements. The new policy does not require the significant management estimates inherent in the old policy. These estimates affected the determination of the due from provincial gaming corporation receivable, amortization expense, and accretive income.

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

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005
(Expressed in thousands, except for share and per share information)

3. CHANGE IN ACCOUNTING POLICY (Continued)

The change in accounting policy was recorded effective September 30, 2006 and the following tables outline the impact of the change in accounting policy on the accounts in the 2006 consolidated financial statements. The Company has not determined the effect of the change for the three-month period ended December 31, 2006.

<u>Consolidated Balance Sheets</u>	Increase (Decrease)	
	September 30, 2006	December 31, 2005
<u>Assets</u>		
Due from Provincial Gaming Corporation	\$ (252,059)	\$ (244,878)
Property, plant and equipment	240,012	235,736
Intangible and other assets	14,722	14,121
	<u>\$ 2,675</u>	<u>\$ 4,979</u>
<u>Liabilities & Shareholders' Equity</u>		
Future income taxes	\$ (1,024)	\$ (249)
Retained earnings	3,699	5,228
	<u>\$ 2,675</u>	<u>\$ 4,979</u>

¹⁾ With the change in accounting policy for FDC, all amounts in "Due from Provincial Gaming Corporation" are due from the Nova Scotia Gaming Corporation. Accordingly, the caption "Due from Provincial Gaming Corporation" has been amended to "Due from Nova Scotia Gaming Corporation".

<u>Consolidated Statements of Income (Loss)</u>	Increase (Decrease)	
	Nine-Months Ended September 30, 2006	Twelve-Months Ended December 31, 2005
Revenues	\$ 14,243	\$ 16,340
Expenses:		
Human resources	-	1,563
General and administration	6	-
Operating supplies	37	452
Occupancy costs	347	2,905
Marketing and promotion	(6)	214
Amortization	8,075	9,828
	<u>8,459</u>	<u>14,962</u>
	5,784	1,378
Interest and financing, net	-	(20)
Accretive income	(8,088)	(7,548)
Income (loss) before income taxes	<u>(2,304)</u>	<u>(6,190)</u>
Income taxes	(775)	(2,280)
Net income (loss)	<u>\$ (1,529)</u>	<u>\$ (3,910)</u>

GREAT CANADIAN GAMING CORPORATION
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3. CHANGE IN ACCOUNTING POLICY (Continued)

	Increase (Decrease)	
	Nine-Months Ended September 30, 2006	Twelve-Months Ended December 31, 2005
<u>Consolidated Statements of Cash Flows</u>		
Net cash provided by operating activities	\$ 14,243	\$ 16,340
Net cash used in investing activities	(14,243)	(16,340)
Net cash inflow	\$ -	\$ -
	Increase (Decrease)	
	Nine-Months Ended September 30, 2006	Twelve-Months Ended December 31, 2005
<u>Earnings (Loss) per Common Share</u>		
Basic	\$ (0.02)	\$ (0.05)
Diluted	\$ (0.02)	\$ (0.05)

4. ACQUISITIONS IN 2005

Acquisitions are accounted for using the purchase method, whereby the purchase price is allocated to the fair value of assets and liabilities at the acquisition date, and the results of operations are included in the consolidated financial statements from the date of acquisition. To the extent that certain acquisition agreements provide for contingent consideration based on future financial performance, these payments, if any, will be treated as additional costs of the purchase (Notes 9 and 22(c)).

In 2006, the Company paid an additional \$1,100 in respect of contingent consideration.

GREAT CANADIAN GAMING CORPORATION
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4. ACQUISITIONS IN 2005 (Continued)

Significant 2005 Acquisitions

Company	Flamboro Downs	Georgian Downs	MEG	Orangeville	Weinlager	Total
Operations	Racetrack ⁽¹⁾	Racetrack ⁽¹⁾	Casino	Racetrack & Casino (Note 3)	Food & Beverage	
Acquisition date	19-Oct-05	2-Jul-05	31-May-05	18-Mar-05	10-Jan-05	
% Ownership acquired	100%	100%	100%	100%	50%	
% Ownership achieved	100%	100%	100%	100%	100%	
Cash	\$ 33,761	\$ 25,842	\$ 93,117	\$ 40,000	\$ 1,225	\$ 193,945
Working capital adjustment	681	281	-	-	-	962
Acquisition costs	1,190	1,255	1,875	305	103	4,728
Total purchase price	\$ 35,632	\$ 27,378	\$ 94,992	\$ 40,305	\$ 1,328	\$ 199,635
Cash and cash equivalents	\$ 506	\$ 1,358	\$ 8,207	\$ 3,603	\$ (143)	\$ 13,531
Restricted cash	3,320	-	-	-	-	3,320
Net working capital	(3,153)	(339)	(7,079)	(3,726)	298	(13,999)
Due from NSGC	-	-	50,856	-	-	50,856
Property, plant and equipment	22,199	22,524	24,205	20,266	812	90,006
Intangible assets	69,000	37,000	34,881	44,670	-	185,551
Goodwill ⁽²⁾	15,433	854	-	-	1,427	17,714
Long-term debt	(44,194)	(279)	-	(6,099)	-	(50,572)
Due to the Company	-	(22,308)	-	-	(691)	(22,999)
Other liabilities	-	-	-	(1,392)	(375)	(1,767)
Future income taxes	(27,479)	(11,432)	(16,078)	(17,017)	-	(72,006)
Net assets acquired	\$ 35,632	\$ 27,378	\$ 94,992	\$ 40,305	\$ 1,328	\$ 199,635

⁽¹⁾ Each of Flamboro Downs and Georgian Downs has a siteholder agreement with OLG to host slot machines at its premises.

⁽²⁾ Goodwill is not tax-deductible.

a) Flamboro Downs

On October 19, 2005, the Company completed the purchase of the outstanding common shares of Flamboro Downs. Flamboro Downs operates a standardbred racetrack and is a siteholder for slot machines operated by OLG in Flamborough, Ontario.

b) Georgian Downs

On July 2, 2005, Great Canadian Gaming (Ontario) Ltd. ("GCGO") acquired all of the outstanding shares of Georgian Downs as a bare trustee for the Company until regulatory approval was received. Georgian Downs, located in Innisfil, Ontario, is an operator of a standardbred racing facility and a siteholder for slot machines operated by OLG.

GREAT CANADIAN GAMING CORPORATION
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4. ACQUISITIONS IN 2005 (Continued)

b) Georgian Downs (Continued)

On September 30, 2005, after obtaining the required regulatory approvals, the bare trustee arrangement was cancelled and the Company received legal title to all of the outstanding shares of GCGO. The Company has consolidated Georgian Downs' financial position as at September 30, 2005. For the period from July 2, 2005 to September 30, 2005, the Company included the operating results of Georgian Downs under the equity method, which is included in impairment of investments and long-lived assets in the statement of income (loss), as the Company had significant influence.

As part of the Georgian Downs acquisition agreement, the Company is committed to future contingent payments as disclosed in Note 22(c).

c) Metropolitan Entertainment Group

On May 31, 2005, the Company completed the purchase of the partnership interests of MEG, a Nova Scotia partnership which owned Casino Nova Scotia Halifax and Casino Nova Scotia Sydney. At acquisition, the Company initiated its MEG integration plan to improve operations and reduce costs. As a result, the Company included \$2,364 of accrued liabilities related to the restructuring, primarily severance, as part of the identifiable liabilities acquired. As at December 31, 2006, \$nil (2005 - \$178) of this restructuring accrual remains in accounts payable and accrued liabilities.

d) Orangeville Raceway Limited

On March 18, 2005, the Company completed the purchase of the outstanding common shares of Orangeville. Orangeville owns and operates two standardbred racing facilities in BC: Fraser Downs Racetrack & Casino in Surrey ("Fraser Downs"), and Sandown Park in North Saanich ("Sandown"). As part of the Orangeville acquisition agreement, the Company is committed to future contingent payments as disclosed in Note 22(c).

The net of the amounts assigned to assets acquired and liabilities assumed exceeded the cost of the purchase ("excess" – sometimes referred to as "negative goodwill"). The Company has included in other liabilities a provision of \$1,392 for the contingent consideration equivalent to the lesser of the maximum amount of the contingent consideration and the excess.

As at December 31, 2006, based on net gaming and racing revenues earned from the date of acquisition, additional acquisition payments of \$2,821 are required. The additional payments required have been charged to the provision for contingent consideration and the amount in excess of the provision has been recorded as goodwill.

GREAT CANADIAN GAMING CORPORATION
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4. ACQUISITIONS IN 2005 (Continued)

e) *TBC Teletheatre B.C.*

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

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

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

On January 10, 2005, the Company purchased the remaining 50% interest in Weinlager & Amici Caffè (Coquitlam) Ltd. and Weinlager & Amici Caffè (Victoria) Ltd. (collectively "Weinlager"). Weinlager owned the food and beverage assets at the Company's Coquitlam, Holiday Inn, Nanaimo and View Royal casinos.

5. CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH

Cash and cash equivalents includes the following:

	December 31, 2006	December 31, 2005
Cash in bank	\$ 29,934	\$ 45,979
Cash floats	9,238	11,718
Cash equivalents	17,601	12,115
	\$ 56,773	\$ 69,812

Cash equivalents includes investments in term deposits, commercial paper, bankers' acceptances, money market investments and guaranteed investment certificates with original maturities within three months of December 31, 2006.

Cash and cash equivalents excludes cash floats of \$16,475 (2005 - \$16,125) provided by BCLC for use in BC casino operations. Since these cash floats are owned by BCLC, they are not reflected in the Company's cash and cash equivalents balances. The Company has issued letters of credit in favour of BCLC as security for these amounts (Note 21(a)).

Restricted cash is composed primarily of \$317 related to payments for construction projects (2005 - \$4,898), \$520 held for capital expenditures that require approval from OLG (2005 - \$1,335), and \$1,502 for horsemen's purse pools (2005 - \$365).

GREAT CANADIAN GAMING CORPORATION
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6. DUE FROM NOVA SCOTIA GAMING CORPORATION

Due from Nova Scotia Gaming Corporation includes the operator's capital investment ("OCI") and mandatory deferrals ("MD"), and Capital Reserve Account ("CRA") receivable from Nova Scotia Gaming Corporation.

	December 31, 2006	December 31, 2005
OCI, MD and CRA receivables, beginning of year	\$ 43,960	\$ -
OCI and MD receivables from acquisition of MEG Note 4	-	50,856
OCI premium amortization	(1,028)	(947)
OCI, MD and principal repayment received	(15,299)	(6,260)
CRA funds received	(8,351)	-
Funds advanced to NSGC for cash purchases of property, plant and equipment	15,197	-
CRA qualified purchases of property, plant and equipment included in accounts payable	438	-
Change in interest receivable	(127)	311
	34,790	43,960
Less: current portion	17,057	15,353
	\$ 17,733	\$ 28,607

On July 1, 2005, the Company entered into an Amended and Restated Operating Contract ("AROC") with NSGC to operate the two Nova Scotia casinos. The Company is entitled to the repayment of MEG's initial capital investment in building the casinos through the OCI and MD.

The OCI and MD receivables accrue interest on the outstanding balance at 12% and prime plus 1% per annum, respectively. Since the OCI receivable accrues interest at a rate higher than the rate which management believes to be the market rate of interest for a similar instrument with similar terms and conditions at the time of acquisition, the OCI receivable balance acquired at acquisition includes a premium. The premium on the OCI receivable is amortized over the term of the OCI to result in an effective interest rate of approximately 2.91%.

The OCI is repaid in monthly instalments of \$1,094 to April 2007, and the MD is repaid in monthly instalments of \$100 to April 2007, monthly instalments of \$900 from May 2007 to April 2009, and \$200 in May 2009.

The CRA receivable accrues interest on the outstanding balance at prime plus 2% per annum, and is repaid based on 5% of the annual gross operation revenues from the two Nova Scotia casinos.

Interest payments received on the OCI and MD and the amortization of the premium on OCI are recorded to interest and financing costs on the statement of income (loss).

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

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7. PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2006

	Historical Cost	Less: Accumulated Amortization	Net Book Value
Land	\$ 62,501	\$ -	\$ 62,501
Buildings	459,734	26,879	432,855
Properties under development	6,558	-	6,558
Aircraft	6,112	299	5,813
Equipment	63,921	38,285	25,636
Enterprise Resource Planning systems	7,569	3,934	3,635
Equipment under capital lease	1,268	555	713
Leasehold improvements and interests	34,484	6,371	28,113
	\$ 642,147	\$ 76,323	\$ 565,824

As at December 31, 2005 (Note 3)

	Historical Cost	Less: Accumulated Amortization	Net Book Value
Land	\$ 29,501	\$ -	\$ 29,501
Buildings	417,711	9,575	408,136
Properties under development	19,717	-	19,717
Aircraft	6,859	115	6,744
Equipment	55,295	29,229	26,066
Enterprise Resource Planning systems	5,138	2,660	2,478
Equipment under capital lease	2,921	2,025	896
Leasehold improvements and interests	30,782	5,513	25,269
	\$ 567,924	\$ 49,117	\$ 518,807

See Note 11 for interest and financing costs capitalized to property, plant and equipment.

GREAT CANADIAN GAMING CORPORATION
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8. INTANGIBLE ASSETS

	December 31, 2006	December 31, 2005
		(Note 3)
Cost	\$ 216,390	\$ 214,688
Accumulated amortization	(14,345)	(4,801)
	\$ 202,045	\$ 209,887

Intangible assets relate primarily to gaming licenses. As described in Note 4, the Company's business acquisitions during the year included \$Nil (2005 - \$185,551) of intangible assets. Intangible assets are amortized over their estimated useful lives, primarily 20 years, resulting in amortization expense of \$9,544 for the year ended December 31, 2006 (2005 - \$4,290). Included in intangible assets are \$28,485 in intangible assets relating to the potential expansion at Hastings Racecourse not currently subject to amortization until the expansion opens.

9. GOODWILL

	December 31, 2006	December 31, 2005
Balance, beginning of year	\$ 37,498	\$ 20,038
Acquisitions	-	17,714
Additions for contingent consideration	2,967	-
Impairment charge	(9,929)	-
Foreign exchange translation	16	(254)
Balance, end of year	\$ 30,552	\$ 37,498

The additions to goodwill in 2006 relate to further contingent consideration based on financial performance relating to previous years' acquisitions (Note 22(c)).

The impairment charge in 2006 reflects the full write-off of goodwill associated with the investment in HEI, the Company's subsidiary that operates Hastings Racecourse. The write-off resulted from a year-end review of our operations and normal course impairment tests associated therewith.

10. PROMISSORY NOTES RECEIVABLE AND OTHER ASSETS

	December 31, 2006	December 31, 2005
Queen of Diamonds Cruises (VCC) Limited promissory note receivable	\$ 120	\$ 1,000
Deferred financing costs, Series A and B Senior Secured Notes	-	6,438
Other	1,446	2,435
	1,566	9,873
Less: current portion	286	1,329
	\$ 1,280	\$ 8,544

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10. PROMISSORY NOTES RECEIVABLE AND OTHER ASSETS (Continued)

Queen of Diamonds

On July 15, 2005, the Company disposed of its interest in Queen of Diamonds Cruises (VCC) Limited and Queen of Diamonds Cruises Ltd. As part of the disposal, the Company acquired a non-interest bearing promissory note receivable of \$1,400, repayable on demand and secured by a limited recourse pledge of the proceeds from the sale of the vessel, M.V. Queen of Diamonds. As at December 31, 2006, based on an assessment of the security, the Company has recorded a further write-down of \$880 (2005 - \$400) on the promissory note, which is included in impairment of investments and long-lived assets on the statement of income (loss) for the year ended December 31, 2006.

Deferred Financing Costs

The deferred financing costs associated with the Series A and B Senior Secured Notes were written off at the time of redemption and cancellation of these notes (Note 11(b)) and are included in interest and financing costs, net in the statement of income (loss).

11. LONG-TERM DEBT

	December 31,	December 31,
	2006	2005
Bridge Credit Facility - Revolving Credit Facility	\$ 95,000	\$ -
Bridge Credit Facility - Non-Revolving Credit Facility	250,000	-
Credit Facility	-	93,000
Series A Senior Secured Notes	-	150,000
Series B Senior Secured Notes	-	150,000
Flamboro Promissory Note	41,694	44,194
HEI Promissory Note	3,412	3,889
Obligations under capital leases and other debt	1,434	448
	391,540	441,531
Less: current portion	1,216	3,252
	\$ 390,324	\$ 438,279

The expected repayment of long-term debt for years subsequent to December 31, 2006 is as follows:

2007	\$	1,216
2008		1,119
2009		616
2010		654
2011		658
Thereafter		387,277
	\$	391,540

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11. LONG-TERM DEBT (Continued)

The Bridge Credit Facility was repaid and retired subsequent to the year-end. The Bridge Credit Facility and the Flamboro Promissory Note are shown as long-term debt on the balance sheet since they have been or will be repaid using proceeds from long-term debt issued subsequent to the year-end (Note 25(a)).

a) *Bridge Credit Facility*

On September 29, 2006, the Company closed on a \$450,000 Bridge Credit Facility consisting of two tranches: a \$250,000 non-revolving credit facility and a \$200,000 revolving credit facility. This revolving credit facility replaced the Company's former \$200,000 credit facility. The Bridge Credit Facility expires on October 1, 2007 and, among other covenants, requires the Company to maintain a Net Debt to Adjusted EBITDA (defined terms in the Bridge Credit Facility agreement) ratio of 4.25 or less, to be measured quarterly. Other covenants in the Bridge Credit Facility agreement include limiting the Company's ability to make investments, incur additional indebtedness or sell assets. The Bridge Credit Facility is guaranteed by the Company and its principal subsidiaries, and is secured by the Company's principal assets.

The interest rate for both tranches of the Bridge Credit Facility is based on the Company's Net Debt to Adjusted EBITDA ratio and is adjusted quarterly. The initial advances under the Bridge Credit Facility bear interest at either the Toronto-Dominion Bank's Canadian prime rate or the Canadian banker's acceptance rate plus 1.50%. The maximum rate of interest occurs at a Net Debt to Adjusted EBITDA ratio of 4.25 and would be the prime rate plus 0.375% or banker's acceptance rate plus 1.875%. The interest rates otherwise determined by the Net Debt to Adjusted EBITDA ratio increase by 0.25% after 90, 180 and 270 days from September 29, 2006.

Amounts accrued or paid that are associated with the issuance of new debt instruments or establishment of new debt or credit facilities are deferred, included in prepaids, deposits, and other assets on the balance sheet, and are amortized on a straight-line basis over the term of the related debt to interest and financing costs, net on the statement of income (loss). Costs of \$2,720 associated with establishing the Bridge Credit Facility are deferred and amortized over the expected term of the facility.

Subsequent to year-end, the Bridge Credit Facility was refinanced under a debt facility (Note 25(a)). As a result, the debt associated with the Bridge Credit Facility is shown as long-term debt on the balance sheet as at December 31, 2006.

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11. LONG-TERM DEBT (Continued)

b) Redemption of Series A and B Senior Secured Notes and Credit Facility

On September 29, 2006, using proceeds provided by the Bridge Credit Facility, the Company redeemed and cancelled its Series A Senior Secured Notes and Series B Senior Secured Notes (collectively, the "Notes"). In redeeming the Notes, the Company paid \$300,000 in principal, \$25,214 in prepayment fees, and \$6,309 in accrued interest. The Company's old Credit Facility was replaced by the new revolving credit facility of the Bridge Credit Facility.

Amounts accrued or paid to lenders in connection with a settlement of debt instruments and deferred financing costs existing at the time of settlement are expensed to interest and financing costs, net on the statement of income (loss).

The prepayment fees, accrued interest, previously deferred financing costs and an unrecognized interest rate hedge gain of \$1,543 totaling \$30,904 associated with the redeemed Notes are included in interest and financing costs, net on the statement of income (loss).

Prior to the redemption of the Notes, on March 27, 2006, the holders of the Company's Notes and the lenders of the Credit Facility (collectively, the "Lenders") agreed to amend certain terms, including the financial covenants, related to the Notes and the Credit Facility.

In consideration, the Company agreed with the Lenders to pay amendment fees of approximately \$1,350, increase the coupon rate on the Notes by 0.375% per annum for a defined period, not make any third party acquisitions unless certain conditions were met, and issue sufficient equity to notionally reduce the Net Debt to Adjusted EBITDA ratio to 2.75 or less at March 31, 2006.

Amounts accrued or paid to lenders in connection with a modification of debt instruments not representing a settlement of debt were deferred, included in promissory notes receivable and other assets on the balance sheet and amortized on a straight-line basis over the remaining term of the amended debt to interest and financing costs, net on the statement of income (loss). Amounts accrued or paid to non-lenders were expensed to interest and financing costs, net on the statement of income (loss).

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11. LONG-TERM DEBT (Continued)

c) *Flamboro Promissory Note*

The Flamboro Promissory Note, acquired as part of the acquisition of Flamboro Downs, bears interest between 6% and 7% per annum depending on the Government of Canada Bond yield rate, and requires a lump sum payment of \$41,694 on June 30, 2007, and is secured by certain assets of Flamboro Downs. The Flamboro Promissory Note is shown as long-term debt on the balance sheet at December 31, 2006, as it will be repaid using proceeds from long-term debt issued subsequent to year-end (Note 25(a)).

d) *HEI Promissory Note*

The HEI Promissory note, acquired as part of the acquisition of HEI, bears interest at 6% per annum, is repayable in quarterly instalments of principal and interest of \$175 until December 31, 2012, and is secured by a general security agreement with a first charge against all of HEI's assets.

e) *Interest and financing costs, net*

Interest and financing costs, net consists of:

	Year Ended December 31,	
	2006	2005
		(Note 3)
Interest expense on long-term debt	\$ (24,813)	\$ (11,989)
Interest income	4,695	2,601
Interest expense, net	(20,118)	(9,388)
Series A and B Notes prepayment fees	(25,214)	-
Series A and B Notes deferred financing costs	(7,233)	-
Series B Note interest rate hedge gain	1,543	-
Series A and B Notes redemption costs	(30,904)	-
	\$ (51,022)	\$ (9,388)

Interest and financing costs capitalized to property, plant and equipment for the year ended December 31, 2006 were \$1,620 (2005 - \$5,570).

GREAT CANADIAN GAMING CORPORATION
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12. INCOME TAXES

The Company's income tax expense (recovery) for the years ended December 31 is as follows:

	2006	2005
		(Note 3)
Current tax expense (recovery)	\$ (147)	\$ 17,287
Future tax expense (recovery)	(3,883)	(2,893)
	\$ (4,030)	\$ 14,394
Canadian basic statutory tax rate	35.12%	35.25%
Expected income tax provision (recovery) for the current year	\$ (7,236)	\$ 11,018
Effect of change in tax rates on future income taxes	(4,399)	(1,334)
Non-deductible goodwill impairment	3,496	-
Benefit of capital losses not recognized	1,630	3,113
Non-deductible stock-based compensation	2,513	1,848
Other	(34)	(251)
	\$ (4,030)	\$ 14,394

Temporary differences and carry-forwards which give rise to future income tax assets and liabilities at December 31 are as follows:

	2006	2005
		(Note 3)
Future income tax asset (liability)		
Tax loss carry-forwards	\$ 4,296	\$ 6,474
Valuation allowance	(404)	(404)
Series A and B Notes redemption costs	8,351	-
Share issue costs	1,697	2,194
Deferred financing costs	2,073	(418)
Due from Nova Scotia Gaming Corporation	(10,415)	(15,447)
Property, plant and equipment	(6,529)	1,251
Intangible assets	(67,810)	(73,992)
Deferred partnership income	(8,086)	(449)
Other	997	792
	\$ (75,830)	\$ (79,999)
Presented on the Consolidated Balance Sheet as:		
Future income tax asset		
Current	\$ 1,257	\$ 1,875
Non-current	9,435	-
	10,692	1,875
Future income tax liability		
Current	(7,553)	-
Non-current	(78,969)	(81,874)
	(86,522)	(81,874)
Future income tax liabilities, net	\$ (75,830)	\$ (79,999)

The Company has Canadian non-capital loss carry-forwards for tax purposes of approximately \$12,000 (2005 - \$14,000 Canadian, \$4,000 U.S.) available to reduce future years' income for tax purposes. The loss carry-forwards expire in varying amounts and in varying years to 2026.

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13. SHARE CAPITAL

a) Private placements

i) Private placement of units

On March 28, 2006, the Company completed a private placement of 6,206,361 units at a price of \$12.89 per unit for gross proceeds of \$80,000. The Company's Chairman and Chief Executive Officer participated in the private placement for \$50,000 of the total offering. Each unit is comprised of one common share and one share purchase warrant, which is exercisable into one common share at an exercise price of \$12.89 for a period of up to two years from the closing date. The net proceeds of the unit have been allocated between the common share and share purchase warrant based on the residual value method. The fair value of the common share component was determined to be \$12.89 based on its trading price prior to closing. A residual value of \$nil was assigned to the share purchase warrant component. The Company incurred share issue costs of \$295 on the private placement.

These share purchase warrants were the only warrants outstanding at December 31, 2006.

ii) 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 \$2,181.

iii) Private placement of Special Warrants

On August 3, 2005, the Company completed a placement of 3,703,704 special warrants (the "Special Warrants") at a price of \$20.25 per Special Warrant for gross proceeds of \$75,000. The cost of the placement, net of future income taxes, reduced the gross proceeds by \$2,291. On September 8, 2005, the 3,703,704 Special Warrants were converted into common shares.

b) Common share subdivision

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

As at December 31, 2006 and 2005, the Company is authorized to issue an unlimited number of common shares with no par value.

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13. SHARE CAPITAL (Continued)

c) *Stock-based compensation plans*

i) *Stock option plans*

At the Annual General Meeting held on June 15, 2005, the Company adopted a new stock option plan to conform to the TSX Company Manual amendments made effective January 1, 2005, and transferred all outstanding stock options under the 1999 and 2003 plans to the new 2005 Stock Option Plan (the "2005 Plan"). Under the 2005 Plan, the maximum number of stock options reserved for issuance is limited to 10% of the common shares issued and outstanding from at any given time. As at December 31, 2006, 3,469,101 common shares remain available for granting.

Under the 2005 Plan, no one individual may receive stock options in excess of 5% of the issued and outstanding common shares of the Company. Stock options granted from June 16, 2004 vest over three years and expire five years from the date of grant.

Stock options under the 2005 Plan are as follows:

	2006		2005	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Oustanding at beginning of year	5,624,237	\$ 13.07	4,005,564	\$ 7.10
Granted	1,650,000	11.89	2,731,250	18.16
Cancelled/Expired	(1,638,125)	17.59	(131,250)	11.09
Exercised	(490,550)	2.09	(981,327)	3.13
Oustanding at end of year	5,145,562	\$ 12.30	5,624,237	\$ 13.07

Options outstanding and exercisable at December 31, 2006 are as follows:

Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$1.72-\$4.00	312,500	0.9 years	\$ 3.08	312,500	\$ 3.08
\$6.74-\$9.04	690,250	2.0 years	8.31	690,250	8.31
\$11.60-\$13.94	3,018,437	3.3 years	11.90	1,367,855	11.87
\$17.37-\$17.99	583,750	3.1 years	17.96	332,083	17.96
\$18.47-\$20.47	540,625	3.0 years	18.86	296,874	18.78
	5,145,562	2.9 years	\$ 12.30	2,999,562	\$ 11.49

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13. SHARE CAPITAL (Continued)

c) Stock-based compensation plans (Continued)

i) Stock option plans (Continued)

The fair values of stock options granted during 2006 were determined using the Black-Scholes option pricing model with the following assumptions: no dividends are to be paid; expected volatility of 44% to 45% (2005 – 41% to 43%); risk-free interest rates of 4.0% to 4.4% (2005 – 2.8% to 3.6%); and expected lives of three years (2005 – three years).

During the year ended December 31, 2006, the total compensation expense related to the fair value of stock options was \$6,333 (2005 - \$5,312), of which \$6,126 (2005 - \$5,288) was to employees and directors and \$207 (2005 - \$24) was to consultants.

ii) Employee share purchase plan

Eligible employees of the Company may elect to participate in the Employee Share Purchase Plan (the “Share Purchase Plan”) by contributing up to 5% of their gross pay with the Company matching 25% of the contributions. As at December 31, 2006, 289,979 (2005 – 203,184) common shares were held under the Share Purchase Plan and 38% of employees participated in the Plan (2005 – 31%).

d) Warrants

	Equivalent Number of Common Shares	Weighted-Average Exercise Price
Outstanding as at January 1, 2005	1,187,590	\$ 4.50
Exercised	(1,025,000)	4.65
Expired/Cancelled	(162,590)	3.50
Outstanding and exercisable as at December 31, 2005	-	\$ -
Granted	6,206,361	12.89
Exercised	-	-
Expired/Cancelled	-	-
Outstanding and exercisable as at December 31, 2006	6,206,361	\$ 12.89

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14. EARNINGS PER COMMON SHARE

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

	Year Ended December 31,	
	2006	2005
Net income (loss), as reported (A)	\$ (18,643)	\$ 15,670
Weighted average number of common shares outstanding (B)	84,471,204	76,626,504
Dilutive adjustment for stock options	-	1,556,144
Dilutive adjustment for warrants	-	220,338
Diluted weighted-average number of common shares (C)	84,471,204	78,402,986
Earnings per common share		
Basic (A/B)	\$ (0.22)	\$ 0.20
Diluted (A/C)	\$ (0.22)	\$ 0.20

In a period where there is a net loss, the diluted weighted average number of common shares is equivalent to the basic weighted average number of common shares, as the effect of the conversion of options and warrants would be anti-dilutive to the loss per common share.

15. REVENUES

	Year Ended December 31,	
	2006	2005
Gross table win	\$ 245,907	\$ 229,485
Gross slot win	500,520	373,091
Gross racetrack	119,839	87,743
Facility Development Commission	19,054	16,340
Food and beverage	56,199	37,917
Hotel revenues	9,320	2,165
Other gaming revenues	2,393	1,696
Other non-gaming revenues	5,832	4,903
	959,064	753,340
Less:		
Gaming, taxes and other commissions	(474,840)	(387,111)
Racetrack purses	(89,453)	(65,142)
Less: Promotional allowances	(9,518)	(6,643)
Revenues	\$ 385,253	\$ 294,444

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16. IMPAIRMENT OF INVESTMENTS AND LONG-LIVED ASSETS

	Year Ended December 31,	
	2006	2005
Income from investments	\$ 6	\$ 438
Impairment of investments, property, plant and equipment	(809)	(7,913)
Loss on disposal of investments	(2,221)	(999)
(Loss) gain on sale of property, plant and equipment	(74)	274
Impairment of investments and long-lived assets	\$ (3,098)	\$ (8,200)

The Company's investments include investments in common shares and Class A Preference shares of Creation Casinos Inc. ("Creation"), a related party. On February 27, 2006, Creation announced that it ceased operations of its only operating asset, a casino in Lithuania. As a result, the Company fully wrote down the carrying values of its investment in Creation's common shares of \$90 and preference shares of \$7,400 in the year ended December 31, 2005. As a result, the carrying values of these assets are \$Nil as at December 31, 2006 and 2005.

17. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

	Year Ended December 31,	
	2006	2005
Changes in non-cash operating working capital		
Accounts receivable	\$ (127)	\$ (4,485)
Prepays, deposits and other assets	(3,999)	(2,398)
Gaming revenues payable	1,494	3,759
Accounts payable and accrued liabilities	(2,063)	6,876
Income taxes receivable	(5,374)	-
Income taxes payable	(3,694)	(2,409)
	\$ (13,763)	\$ 1,343

18. SEGMENTED INFORMATION

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

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18. SEGMENTED INFORMATION (Continued)

Statement of income (loss)

Year Ended December 31, 2006

	Canada	US	Inter- company	Total
Revenues	\$ 358,859	\$ 26,394	\$ -	\$ 385,253

Year Ended December 31, 2005

	Canada	US	Inter- company	Total
Revenues	\$ 266,207	\$ 28,237	\$ -	\$ 294,444

Balance sheet:

As at December 31, 2006

	Canada	US	Inter- company	Total
Property, plant and equipment	\$ 547,870	\$ 17,954	\$ -	\$ 565,824
Goodwill	22,812	7,740	-	30,552
Total assets	936,978	35,598	(31,892)	940,684

As at December 31, 2005

	Canada	US	Inter- company	Total
Property, plant and equipment	\$ 499,359	\$ 19,448	\$ -	\$ 518,807
Goodwill	29,858	7,640	-	37,498
Total assets	922,324	41,074	(39,749)	923,649

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19. RELATED PARTY TRANSACTIONS

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

During the years ended December 31, 2006 and 2005, the Company had the following transactions with related parties:

	Year Ended December 31,	
	<u>2006</u>	<u>2005</u>
<u>Statement of Income (Loss)</u>		
Other Income		
Interest income from senior management and Creation Casinos Inc., a company that has a director who is a member of senior management of the Company	\$ 14	\$ 114
ATM revenues from a company that has a director who is a member of senior management of the Company	1,465	1,021
Rental income from a dealer training services provider controlled by a director of the Company	31	-
Human Resources		
Amounts for dealer training services provided by a company controlled by a director of the Company	798	1,164
<u>Balance Sheet</u>		
Accounts Payable and Accrued Liabilities		
Severance not yet paid to a former employee who is also a director of the Company	\$ 220	\$ 440
Promissory Notes Receivable and Other Assets		
Amounts due from senior management of the Company	282	281
Accounts Receivable		
ATM accounts receivable due from a company that has a director who is a member of senior management of the Company	176	65

These related party transactions were recorded at the exchange amount, which is the amount of consideration paid or received as established and agreed to by the related parties.

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20. EMPLOYEE FUTURE BENEFITS

The Company maintains a defined contribution pension plan for its Canadian employees. Under this plan, eligible employees contribute a minimum of 2% to a maximum of 15% of their base salary. The Company makes contributions representing 2% of eligible employees' base pay. Contributions made by the Company during the year ended December 31, 2006 totalled \$4,060 (2005 - \$1,398).

21. CONTINGENCIES AND LITIGATION

a) Letters of credit

As at December 31, 2006, letters of credit in the amount of \$25,426 (2005 - \$25,536) were outstanding as security in connection with gaming cash floats and road improvements, landscaping and development permits.

b) Litigation

The Company is involved in other claims and litigation arising in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of the Company.

c) Hastings Park Conservancy

A community group called the Hastings Park Conservancy, opposing the introduction of slot machines at Hastings Racecourse, challenged in the Supreme Court of British Columbia a City of Vancouver by-law amendment permitting slot machines at Hastings Racecourse. This challenge was unsuccessful, as the Supreme Court upheld Vancouver by-law amendment. The community group has filed an appeal with the appellate court. We believe that the appeal is without merit and is unlikely to result in the Supreme Court's original ruling being overturned.

If the appellate overturns the Supreme Court ruling and quashes the by-law amendment, this could result in a delay in the development of Hastings Racecourse. If we are unable to install slot machines at Hastings Racecourse, our investment in that operation would be adversely affected.

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21. CONTINGENCIES AND LITIGATION

d) Guarantees and indemnifications

The Company provides guarantees and indemnifications in conjunction with transactions in the normal course of operations. These are recorded as liabilities when reasonable estimates of the obligations can be made. Guarantees and indemnifications that the Company has provided include obligations to indemnify:

- i)* directors and officers of the Company and its subsidiaries for potential liability while acting as a director or officer of the Company together with various expenses associated with defending and settling such suits or actions due to association with the Company, the risk of which is mitigated by the Company's directors' and officers' liability insurance;
- ii)* certain vendors of acquired companies or property for obligations that may or may not have been known at the date of the transaction;
- iii)* certain financial institutions for costs that they may incur as a result of representations made in our debt offering documents;
- iv)* lessors of leased properties for personal injury claims that may arise at the facilities we operate; and
- v)* Mayfield Canada Inc. for certain claims that may arise related to their former employees.

22. COMMITMENTS

a) Commitments

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

2007	\$	4,129
2008		3,468
2009		3,062
2010		3,008
2011		2,606
Thereafter		20,617
	\$	<u>36,890</u>

The above commitments primarily relate to property leases for the Company's head office location, Fraser Downs Racetrack, and Nova Scotia casinos in Halifax and Sydney, and payments to fund responsible gaming centres at two of our casino locations.

The Company has a commitment to pay a consultant future amounts dependent upon the consultant directly or indirectly being responsible for future acquisitions and expansions of our Ontario operations.

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22. COMMITMENTS (Continued)

b) Capital expansion

The Company currently has approved capital expansion expenditures over the next twelve months totalling approximately \$28,200, consisting of \$10,300 for a parkade adjacent to the River Rock Casino Resort, \$3,700 for other River Rock redevelopments, and \$14,200 for maintenance capital expenditures. The Company expects to fund these expenditures from existing cash, cash flows from operations, and advances from debt facilities.

c) Contingent payments on acquisition

As a condition of various acquisition agreements, the Company is committed to make future contingent consideration payments as follows:

- i) Georgian Downs* - As part of the acquisition of Georgian Downs, the Company provided a consultant a finder's fee equal to a notional equity interest in that company. The notional equity interest entitles the consultant to future finder's fee remuneration depending on the operating results of the company. The consultant has an option to sell (a "put option") his notional equity interest in Georgian Downs to the Company from January 2006 for consideration calculated using a predefined formula based on Georgian Down's operating results for the 12-month period preceding the option's exercise. The Company similarly has a call option to purchase the consultant's notional equity interest from June 2012 for consideration calculated using the same predefined formula. By applying the predefined consideration formula, the consultant's put option had a value of \$nil at December 31, 2006.
- ii) Orangeville* - Payments to the former owners for a period of up to four years from March 18, 2005 based on defined levels of net gaming and racing revenues of the acquired operations.
- iii) Vetter Management Services Ltd.* - Payments to the former owners Bear Mountain Bingo (now operated as Chances Gaming Entertainment in Dawson Creek) based on a percentage of the gross slot revenues over a specified minimum level for the first three years following the acquisition.
- iv) O'Aces LLC* - Payments to the former owners based on 20% of the defined operating results of O'Aces operations of the Great American Casino in Kent, Washington for each of the calendar years 2004, 2005 and 2006 up to a cumulative maximum of US\$500.

The payments were treated as additional costs of the respective purchases. As at December 31, 2006, \$2,967 (2005: nil) in contingent payments were required under the acquisition agreements. These payments were treated as additional costs of the respective acquisitions and recorded as goodwill on the balance sheet.

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23. RESTRUCTURING COSTS

The Company undertook several initiatives to improve operational efficiencies and implement restructuring initiatives and recorded a restructuring cost of \$10,026 (2005 - \$Nil). The majority of the restructuring costs related to employee severances (41%) and buyout of the Mayfield contract (56%) as described in the following paragraph. As at December 31, 2006, there were \$3,607 (2005 - \$650) of restructuring costs remaining in accounts payable and accrued liabilities which consists primarily of severances and payments associated with the buyout of the Mayfield contract.

Effective October 31, 2006, the Company entered into an agreement with Mayfield for the buyout of services that would have otherwise been provided by Mayfield in connection with food and beverage operations at each of the Company's facilities in British Columbia. Pursuant to this agreement, the Company assumed effective control of the food and beverage operations for all British Columbia facilities in October 2006, except for the River Rock Casino Resort and the Boulevard Casino which the Company assumed control of in January 2007. The Company paid Mayfield \$2,800 on November 2, 2006 and \$2,800 on January 2, 2007.

24. FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, restricted cash, accounts receivable, due from Nova Scotia Gaming Corporation, deposits, promissory notes receivable, gaming revenues payable, accounts payable and accrued liabilities, long-term debt approximate their carrying value.

The Company was exposed to floating interest rate risk on its Bridge Credit Facility as the outstanding borrowings bear interest at the Canadian bank prime rate or the bankers' acceptance rate plus 1.50%. The Company did not hold any financial instruments to mitigate this risk as it was management's intention to refinance the Bridge Credit Facility with a long-term floating rate revolving credit facility and long-term fixed rate debt instruments (Note 25 (a)).

25. SUBSEQUENT EVENTS

(a) Debt Refinancing

On February 14, 2007, the Company closed on its debt refinancing. The refinancing consisted of three components: (i) an undrawn \$200,000 Senior Secured Revolving Credit Facility; (ii) a US\$170,000 Senior Secured Term Loan B; and (iii) US\$170,000 of Senior Subordinated Notes. The gross proceeds of the debt refinancing were \$401,900, not including up to \$200,000 available from the Senior Secured Revolving Credit Facility, which was undrawn at closing. The net proceeds were used to repay and retire the Bridge Credit Facility, provide cash collateral for the repayment of the Flamboro Promissory Note in June 2007, pay the costs and fees associated with the refinancing and provide cash for working capital purposes.

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25. SUBSEQUENT EVENTS (Continued)

(a) Debt Refinancing (Continued)

The transaction costs associated with establishing the Bridge Credit Facility, which were \$936 at December 31, 2006 and included in prepaids, deposits, and other assets on the balance sheet, were written off to interest and financing costs, net on the statement of income (loss) subsequent to the year-end.

The Senior Secured Revolving Credit Facility (the "Revolving Credit Facility") and the Senior Secured Term Loan B (the "Term Loan B") are guaranteed and secured by substantially all of the assets of the Company and its subsidiaries. Both the Revolving Credit Facility and the Term Loan B require the Company to comply with operational and financial covenants. The financial covenants are (capitalized terms are defined in the underlying debt agreements and are tested quarterly): Total Debt to Adjusted EBITDA ratio of 5.0 or less; Senior Debt to Adjusted EBITDA ratio of 3.5 or less, and Interest Coverage ratio of greater than 2.0 for the first three years following closing and greater than 2.25 thereafter.

Subject to compliance with all operational and financials covenants, the Company has the option to increase the Revolving Credit Facility or issue additional term loans by up to \$150,000 on the same terms and conditions in the case of the Revolving Credit Facility and on the same terms and conditions except with limitations on the then market interest rate margin in the case of the term loans.

The Revolving Credit Facility has a term of 5 years. The interest rate (on advanced amounts) and the commitment fee (on the unused facility) on the Revolving Credit Facility are based on the Company's Total Debt to Adjusted EBITDA ratio, which is calculated quarterly. The undrawn Revolving Credit Facility bears an initial commitment fee of 0.350% until March 31, 2007. Any advances under the Revolving Credit Facility made prior to March 31, 2007 bear interest at either the Toronto-Dominion Bank's Canadian prime rate plus 0.375% or the Canadian bankers' acceptance rate plus 1.625%.

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25. SUBSEQUENT EVENTS (Continued)

(a) Debt Refinancing (Continued)

The following table summarizes the interest rate and commitment fee on the Revolving Credit Facility that will apply subsequent to March 31, 2007:

<u>Total Debt / Adjusted EBITDA</u>	<u>Margin on Bankers' Acceptances or Eurodollar Rate Advances & Letters of Credit</u>	<u>Margin on Canadian Prime Rate or U.S. Base Rate Advances</u>	<u>Commitment Fee</u>
>= 4.50	2.250%	1.000%	0.500%
4.00 to < 4.50	1.875%	0.625%	0.400%
3.50 to < 4.00	1.625%	0.375%	0.350%
3.00 to < 3.50	1.375%	0.125%	0.300%
2.50 to < 3.00	1.125%	0.000%	0.250%
2.00 to < 2.50	0.875%	0.000%	0.200%
< 2.00	0.750%	0.000%	0.175%

The Term Loan B is denominated in US dollars (US\$170,000) and bears interest at a floating rate (LIBOR plus 1.50%), payable quarterly. The Company has hedged both the currency risk and the floating interest rate risk to effectively result in a principal of \$200.8 million in Canadian dollars and a fixed interest rate of approximately 6.1% per annum (Note 25(b)). The Term Loan B has a term of 7 years and is repayable without premium or penalty, subject to customary costs, at any time. Principal repayments of \$502 are required quarterly, with the balance due on maturity, which is February 13, 2014.

The Senior Subordinated Notes (the "Subordinated Notes") are guaranteed by the Company and substantially all of its subsidiaries, and are unsecured. The Senior Subordinated Notes are denominated in US dollars (US\$170.0 million) and bear interest at a rate of 7.25%, payable semi-annually. The Company has hedged the currency risk and the US fixed interest rate to effectively result in a principal of \$201.1 million in Canadian dollars at a fixed interest rate of approximately 6.6% per annum (Note 25(b)). The Subordinated Notes have a term of 8 years with the principal amount of the notes repayable on maturity, which is February 15, 2015. There are provisions for early redemptions of the Subordinated Notes during defined periods prior to maturity with payment of defined premiums.

The Senior Subordinated Notes require the Company to comply with operational and financial covenants. The financial covenant requires the Company to maintain a Fixed Charge Coverage ratio of greater than 2.0 (capitalized term is defined in the underlying note agreement and is tested on the occurrence of specified events).

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25. SUBSEQUENT EVENTS (Continued)

(a) Debt Refinancing (Continued)

The Subordinated Notes have been structured so that interest payments are not subject to Canadian withholding taxes. To the extent that Canadian tax regulations change to impose a withholding tax on the interest payments, the Company has agreed to gross-up the interest payments to ensure the holder of the Subordinated Notes receives the same amount in the absence of the withholding tax, subject to certain requirements and limitations.

All the debt facilities have: (i) mandatory repayments in the case of proceeds from certain asset sales or receipt of insurance proceeds that are not re-invested by the Company within certain time limits; (ii) restrictions on certain asset sales, acquisitions, and distributions; (iii) limitations on the incurrence of additional debt or indebtedness or liens; and (iv) provisions for the Company to re-purchase and re-issue portions of the Term Loan B and/or Subordinated Notes should the holder be required to register with a gaming authority having jurisdiction over the Company and either refuses or is found to be unsuitable for registration.

The transaction costs of establishing the Revolving Credit Facility, Term Loan B and the Subordinated Notes will be recorded in the first quarter of 2007 as a reduction of the balance of the related debt and expensed to interest and financing costs, net on the statement of income (loss) over the term of the related debt using the effective interest method.

With these new debt facilities in place and the retirement of the Bridge Credit Facilities, the Company's principal repayments of the Term Loan B and the Subordinated Notes for each of the next 5 years is shown below:

2007	\$	1,506
2008		2,008
2009		2,008
2010		2,008
2011		2,008
Thereafter		392,362
	\$	401,900

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25. SUBSEQUENT EVENTS (Continued)

(b) Cross Currency Interest Rate Swaps and Hedge Accounting

In anticipation of issuance of the Company's debt refinancing, the Company entered into a series of cross currency interest rate swaps that effectively converted the \$170,000 U.S. dollar floating interest rate Term Loan B into Canadian dollar fixed interest rate debt and the \$170,000 U.S. dollar fixed interest rate Subordinated Notes into Canadian dollar fixed interest rate debt.

The cross currency interest rate swap agreements are:

Debt	Notional		Interest Rate		Maturity Date
	Receive	Pay	Pay (CAD)	Receive (USD)	
Term Loan B	\$170,000 USD ⁽¹⁾	\$200,800 CAD ⁽¹⁾	6.1%	US LIBOR+1.50%	February 13, 2014
Subordinated Notes	\$170,000 USD	\$201,110 CAD	6.6%	7.25%	February 15, 2015

(1) The cross currency interest rate swap's notional principal on the Term Loan B reduces by 0.25% quarterly to match the scheduled principal reductions on the debt.

These cross currency interest rate swaps have been evaluated by the Company and have been designated as effective hedges of the cash flows associated with the U.S. dollar floating interest rate Term Loan B and the U.S. dollar fixed interest rate Subordinated Notes. The Company has applied hedge accounting to these swaps, as it believes hedge accounting to be representative of the economic substance of the underlying transactions.

(b) Racing Operations at Georgian Downs

Effective December 31, 2006, the Company's horse racing contract at Georgian Downs expired without being renewed. On January 1, 2007, live racing and simulcast wagering ceased and members of the Ontario Harness Horse Association ("OHHA") began protesting at Georgian Downs. On March 6, 2007, OHHA ratified a new agreement with Georgian Downs that led to the resumption of live racing on March 10, 2007. Throughout the stoppage, the slot floor operated by OLG remained open for business.

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26. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which differ from those principles that the Company would have followed had its consolidated financial statements been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP").

Material variations between financial statement items under Canadian GAAP and the amounts determined under U.S. GAAP are presented in the following reconciliation, which was prepared to comply with the requirements of Item 17 of Form 20-F of the United States Securities and Exchange Commission.

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26. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

BALANCE SHEET

(expressed in thousands of Canadian dollars)

As at December 31, 2006

	Notes					Under U.S. GAAP	
	Under CDN GAAP	a	b	c	d		e
	\$	\$		\$	\$	\$	
ASSETS							
CURRENT							
Cash and cash equivalents	56,773	-	-	-	-	56,773	
Restricted cash	2,556	-	-	-	-	2,556	
Accounts receivable	13,353	-	-	-	(143)	13,210	
Income taxes receivable	9,907	-	-	-	-	9,907	
Due from Nova Scotia Gaming Corporation, current	17,057	-	-	-	-	17,057	
Prepays, deposits, and other assets	12,912	-	-	-	-	12,912	
Future income taxes	1,257	-	-	-	-	1,257	
	113,815	-	-	-	(143)	113,672	
Due from Nova Scotia Gaming Corporation	17,733	-	-	-	-	17,733	
Property, plant and equipment	565,824	-	-	-	(365)	565,459	
Promissory notes receivable and other assets	1,280	-	-	-	-	1,280	
Intangible assets	202,045	-	-	-	-	202,045	
Goodwill	30,552	-	-	-	105	30,657	
Future income taxes	9,435	-	-	-	-	9,435	
	940,684	-	-	-	(260)	(143)	940,281
LIABILITIES							
CURRENT							
Gaming revenues payable	11,525	-	-	-	-	11,525	
Accounts payable and accrued liabilities	50,483	-	-	-	-	50,483	
Deferred credit and other long-term liabilities, current	2,470	-	-	-	-	2,470	
Long-term debt, current	1,216	-	-	-	-	1,216	
Future income taxes	7,553	-	-	-	-	7,553	
	73,247	-	-	-	-	73,247	
Long-term debt	390,324	-	-	-	-	390,324	
Deferred credit and other liabilities	3,278	-	-	-	-	3,278	
Future income taxes	78,969	-	-	-	(103)	78,866	
	545,818	-	-	-	(103)	-	545,715
Non-controlling interests	41	-	-	-	-	-	41
SHAREHOLDERS' EQUITY							
Share capital and other equity	335,833	(12,516)	-	-	-	-	323,317
Cumulative foreign currency translation	(5,349)	-	-	5,349	-	-	-
Retained earnings	64,341	12,516	2,031	-	(240)	(143)	78,505
Accumulated other comprehensive income (loss)	-	-	(2,031)	(5,349)	83	-	(7,297)
	394,825	-	-	-	(157)	(143)	394,525
	940,684	-	-	-	(260)	(143)	940,281

See accompanying notes.

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005
(Expressed in thousands, except for share and per share information)

26. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(expressed in thousands of Canadian dollars, except share and per share information)

For the year ended December 31, 2006

	Notes					Under U.S. GAAP
	Under CDN GAAP	a	b	c	d	
	\$	\$		\$	\$	\$
REVENUES	385,253	-	-	-	-	385,253
EXPENSES						
Human resources	178,609	-	-	-	-	178,609
General & administration	32,596	-	-	-	-	32,596
Operating supplies	27,399	-	-	-	-	27,399
Occupancy costs	33,698	-	-	-	-	33,698
Marketing and promotion	14,714	-	-	-	-	14,714
Amortization	37,101	-	-	-	(211)	36,890
Stock-based compensation	6,333	-	-	-	-	6,333
Restructuring costs	10,026	-	-	-	-	10,026
Goodwill impairment	9,929	-	-	-	-	9,929
	350,405	-	-	-	(211)	350,194
	34,848	-	-	-	211	35,059
Interest and financing costs, net	(51,022)	-	-	-	-	(51,022)
Impairment of investments and long-lived assets	(3,098)	-	-	-	-	(3,098)
Foreign exchange gain (loss)	(1,332)	-	2,031	-	-	699
INCOME (LOSS) BEFORE INCOME TAXES	(20,604)	-	2,031	-	211	(18,362)
Income tax expense (recovery)	(4,030)	-	-	-	63	(3,967)
INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST	(16,574)	-	2,031	-	148	(14,395)
Non-controlling interests	2,069	-	-	-	-	2,069
NET INCOME (LOSS)	(18,643)	-	2,031	-	148	(16,464)
OTHER COMPREHENSIVE INCOME (LOSS)						
Change in foreign currency translation adjustments	-	-	(2,031)	1,814	4	(213)
COMPREHENSIVE INCOME (LOSS)	(18,643)	-	-	1,814	152	(16,677)
EARNINGS PER COMMON SHARE						
Basic	(0.22)					(0.19)
Diluted	(0.22)					(0.19)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES						
Basic	84,471,204					84,471,204
Diluted	84,471,204					84,471,204

See accompanying notes.

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005
(Expressed in thousands, except for share and per share information)

26. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

STATEMENT OF CASH FLOWS

(expressed in thousands of Canadian dollars)

For the year ended December 31, 2006

	Notes						Under U.S. GAAP
	Under CDN	a	b	c	d	e	
	GAAP						
	\$	\$		\$	\$	\$	\$
Cash Flows from Operating Activities							
Net income (loss)	(18,643)	-	2,031	-	148	-	(16,464)
Adjustments to reconcile net income (loss) to net cash provided by operating activities							
Amortization	37,101	-	-	-	(148)	-	36,953
Impairment of investments and long-lived assets	3,098	-	-	-	-	-	3,098
Goodwill impairment	9,929	-	-	-	-	-	9,929
Non-cash interest and financing costs	8,945	-	-	-	-	-	8,945
Stock-based compensation and non-cash restructuring costs	7,381	-	-	-	-	-	7,381
Foreign exchange gain	1,332	-	(2,031)	-	-	-	(699)
Non-controlling interest and others	(245)	-	-	-	-	-	(245)
Future income taxes	(4,011)	-	-	-	-	-	(4,011)
Changes in non-cash operating working capital	(13,763)	-	-	-	-	-	(13,763)
Net cash provided by operating activities	31,124	-	-	-	-	-	31,124
Cash Flows from Investing Activities							
Restricted cash	4,042	-	-	-	-	-	4,042
Investment in and advances to equity investees	(9)	-	-	-	-	-	(9)
Funds received from Nova Scotia Gaming Corporation	23,650	-	-	-	-	-	23,650
Funds advanced to Nova Scotia Gaming Corporation to purchase plant and equipment	(15,197)	-	-	-	-	-	(15,197)
Purchase of property, plant and equipment, net of related accounts payable	(82,696)	-	-	-	-	-	(82,696)
Acquisitions and related contingent payments, net of cash acquired	(1,100)	-	-	-	-	-	(1,100)
Promissory notes	163	-	-	-	-	-	163
Net cash used in investing activities	(71,147)	-	-	-	-	-	(71,147)
Cash Flows from Financing Activities							
Proceeds from long-term debt	396,816	-	-	-	-	-	396,816
Repayment of long-term debt	(446,807)	-	-	-	-	-	(446,807)
Deferred financing costs	(4,073)	-	-	-	-	-	(4,073)
Common shares issued for cash, net of issuance costs	80,569	-	-	-	-	-	80,569
Net cash provided by financing activities	26,505	-	-	-	-	-	26,505
Effect of foreign exchange on cash and cash equivalents	479	-	-	-	-	-	479
Net Cash Inflow	(13,039)	-	-	-	-	-	(13,039)
Cash and cash equivalents, Beginning of year	69,812	-	-	-	-	-	69,812
Cash and cash equivalents, End of year	56,773	-	-	-	-	-	56,773
Supplemental Disclosure							
Interest received	4,745	-	-	-	-	-	4,745
Interest paid	57,580	-	-	-	-	-	57,580
Income taxes paid	9,234	-	-	-	-	-	9,234

See accompanying notes.

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005
(Expressed in thousands, except for share and per share information)

26. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

Notes to the Reconciliation Between Canadian and U.S. GAAP as at and for the Year Ended December 31, 2006

a) Stock-based compensation

Prior to 2006, under Canadian GAAP, the Company applied the fair value method of accounting for all stock option awards, recognizing compensation expense that was recorded as a charge against earnings. Under U.S. GAAP, the Company accounted for those awards under the recognition and measurement provisions of APB No. 25, "Accounting for Stock Issued to Employees" (APB 25), and its related interpretations. Effective January 1, 2006, the Company adopted SFAS No. 123 (Revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"), using the modified-prospective application transition method. Results for prior periods have not been restated. Because the fair value recognition provisions of SFAS No. 123, "Stock-Based Compensation", and SFAS No. 123(R) were materially consistent under our equity plans, the adoption of SFAS No. 123(R) did not have a significant impact on our financial position or our results of operations. Prior to our adoption of SFAS No. 123(R), benefits of tax deductions in excess of recognized compensation costs were reported as operating cash flow.

b) Foreign exchange loss

Under Canadian GAAP, a proportionate amount of the cumulative foreign currency translation account is recognized in net income on a partial realization or disposition of an investment in a self-sustaining foreign subsidiary. Under U.S. GAAP such recognition occurs only when there has been a substantially complete realization of the investment.

c) Foreign currency translation

Under U.S. GAAP, changes in the cumulative foreign currency translation account are included in comprehensive income and the cumulative foreign currency translation account balance is included as a component of accumulated other comprehensive income.

d) Pre-Opening costs

Under Canadian GAAP, incremental costs incurred by the Company from the opening of a new gaming facility are capitalized and are amortized over a period not exceeding five years. Under U.S. GAAP, these costs are required to be expensed as incurred. The use of disparate exchange rates under U.S. GAAP gave rise to a foreign currency translation adjustment. Under U.S. GAAP, this adjustment is reported as a component of accumulated OCI.

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005
(Expressed in thousands, except for share and per share information)

26. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

Notes to the Reconciliation Between Canadian and U.S. GAAP as at and for the Year Ended December 31, 2006 (Continued)

e) Accounting for variable interest entities

Under Canadian GAAP, AcG-15 requires the consolidation of variable interest entities with transition provisions requiring consolidation for interim periods beginning on or after November 1, 2004 with no prior period restatement required. Under U.S. GAAP, the Company was required to consolidate its variable interest entities for its fiscal 2004 year. For U.S. GAAP purposes, the Company identified two variable interest entities in 2004 of which the Company was the primary beneficiary, Mayfield Consulting Canada Inc. and Weinlager & Amici Caffè Ltd. In accordance with FASB Interpretation 46 ("FIN 46"), the Company has consolidated these entities with a restatement of prior periods with a cumulative-effect adjustment as of the beginning of 2004. For Canadian GAAP, since 2005 Mayfield was consolidated as a variable interest entity under AcG-15, and Weinlager & Amici Caffè Ltd. was consolidated as a subsidiary of the Company attained 100% ownership since January 2005.

f) Presentation of consolidated financial statements

There are also presentation adjustments related to stock-based compensation and gain on sale of property and long-lived assets, which have no impact on shareholder's equity and net loss.

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005
(Expressed in thousands, except for share and per share information)

26. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

BALANCE SHEET
(expressed in thousands of Canadian dollars)
As at December 31, 2005

	Notes					Under U.S. GAAP
	Under CDN GAAP	a	b	c	d	
	\$	\$	\$	\$	\$	\$
ASSETS						
CURRENT						
Cash and cash equivalents	69,812	-	-	-	-	69,812
Restricted cash	6,598	-	-	-	-	6,598
Accounts receivable	13,098	-	-	-	(143)	12,955
Income taxes receivable	4,533	-	-	-	-	4,533
Due from Nova Scotia Gaming Corporation, current	15,353	-	-	-	-	15,353
Prepays, deposits, and other assets	9,037	-	-	-	-	9,037
Future income taxes	1,875	-	-	-	-	1,875
	120,306	-	-	-	(143)	120,163
Due from Nova Scotia Gaming Corporation	28,607	-	-	-	-	28,607
Property, plant and equipment	518,807	-	-	(580)	-	518,227
Promissory notes receivable and other assets	8,544	-	-	-	-	8,544
Intangible assets	209,887	-	-	-	-	209,887
Goodwill	37,498	-	-	105	-	37,603
	923,649	-	-	(475)	(143)	923,031
LIABILITIES						
CURRENT						
Gaming revenues payable	10,030	-	-	-	-	10,030
Accounts payable and accrued liabilities	56,854	-	-	-	-	56,854
Income taxes payable	3,694	-	-	-	-	3,694
Long-term debt, current	3,252	-	-	-	-	3,252
	73,830	-	-	-	-	73,830
Long-term debt	438,279	-	-	-	-	438,279
Deferred credit and other liabilities	5,385	-	-	-	-	5,385
Future income taxes	81,874	-	-	(166)	-	81,708
	599,368	-	-	(166)	-	599,202
Non-controlling interests	733	-	-	-	-	733
SHAREHOLDERS' EQUITY						
Share capital and other equity	247,727	(12,516)	-	-	-	235,211
Cumulative foreign currency translation	(7,163)	-	7,163	-	-	-
Retained earnings	82,984	12,516	-	(388)	(143)	94,969
Accumulated other comprehensive income (loss)	-	-	(7,163)	79	-	(7,084)
	323,548	-	-	(309)	(143)	323,096
	923,649	-	-	(475)	(143)	923,031

See accompanying notes.

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005
(Expressed in thousands, except for share and per share information)

26. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

STATEMENT OF INCOME AND COMPREHENSIVE INCOME
(expressed in thousands of Canadian dollars, except share and per share information)
For the year ended December 31, 2005

	Notes					Under U.S. GAAP
	Under CDN GAAP	a	b	c	d	
	\$	\$	\$	\$	\$	\$
REVENUES	294,444	-	-	-	-	294,444
EXPENSES						
Human resources	142,537	-	-	-	-	142,537
General and administration	21,872	-	-	-	-	21,872
Operating supplies	20,457	-	-	-	-	20,457
Occupancy costs	19,474	-	-	-	-	19,474
Marketing and promotion	13,534	-	-	-	-	13,534
Amortization	22,616	-	-	(225)	-	22,391
Stock-based compensation	5,312	(4,082)	-	-	-	1,230
Restructuring costs	-	-	-	-	-	-
	245,802	(4,082)	-	(225)	-	241,495
	48,642	4,082	-	225	-	52,949
Interest and financing, net	(9,388)	-	-	-	-	(9,388)
Impairment of investments and long-lived assets	(8,200)	-	-	-	-	(8,200)
Foreign exchange gain (loss)	203	-	-	-	-	203
INCOME (LOSS) BEFORE INCOME TAXES	31,257	4,082	-	225	-	35,564
Income tax (recovery) expense	14,394	-	-	68	-	14,462
INCOME (LOSS) BEFORE NON-CONTROLLING INTERESTS	16,863	4,082	-	157	-	21,102
Non-controlling interests	1,193	-	-	-	-	1,193
NET INCOME (LOSS)	15,670	4,082	-	157	-	19,909
OTHER COMPREHENSIVE INCOME (LOSS)						
Change in foreign currency translation adjustments	-	-	(1,255)	15	-	(1,240)
COMPREHENSIVE INCOME (LOSS)	15,670	4,082	(1,255)	172	-	18,669
EARNINGS PER COMMON SHARE						
Basic	0.20					0.26
Diluted	0.20					0.25
WEIGHTED AVERAGE NUMBER OF COMMON SHARES						
Basic	76,626,504	-				76,626,504
Diluted	78,402,986	216,187				78,619,173

See accompanying notes.

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005
(Expressed in thousands, except for share and per share information)

26. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

STATEMENT OF CASH FLOWS
(expressed in thousands of Canadian dollars)
For the year ended December 31, 2005

	Notes					Under U.S. GAAP
	Under CDN GAAP	a	b	c	d	
	\$	\$	\$	\$	\$	\$
Cash Flows from Operating Activities						
Net income	15,670	4,082	-	157	-	19,909
Adjustments to reconcile net income to net cash provided by operating activities			-	-	-	
Amortization	22,616	-	-	(225)	-	22,391
Impairment of investments and long-lived assets	8,638	-	-	-	-	8,638
Non-cash interest and financing costs	1,672	-	-	-	-	1,672
Stock-based compensation and non-cash restructuring costs	5,312	(4,082)	-	-	-	1,230
Foreign exchange gain (loss)	(203)	-	-	-	-	(203)
Non-controlling interest and others	2,396	-	-	-	-	2,396
Future income taxes	(2,896)	-	-	68	-	(2,828)
Changes in non-cash operating working capital	1,343	-	-	-	-	1,343
Net cash provided by operating activities	54,548	-	-	-	-	54,548
Cash Flows from Investing Activities						
Restricted cash	909	-	-	-	-	909
Investment in and advances to equity investees	(1,056)	-	-	-	-	(1,056)
Funds received from Nova Scotia Gaming Corporation	6,260	-	-	-	-	6,260
Purchase of property, plant and equipment, net of related accounts payable	(194,329)	-	-	-	-	(194,329)
Proceeds from disposal of property, plant and equipment	5,947	-	-	-	-	5,947
Consolidation of cash of Georgian Downs	1,286	-	-	-	-	1,286
Acquisitions and related contingent payments, net of cash acquired	(182,104)	-	-	-	-	(182,104)
River Rock prepaid lease	(9,262)	-	-	-	-	(9,262)
Promissory notes	(28,568)	-	-	-	-	(28,568)
Net cash used in investing activities	(400,917)	-	-	-	-	(400,917)
Cash Flows from Financing Activities						
Proceeds from long-term debt	419,252	-	-	-	-	419,252
Repayment of long-term debt	(177,346)	-	-	-	-	(177,346)
Deferred financing costs	(4,449)	-	-	-	-	(4,449)
Bond forward	1,731	-	-	-	-	1,731
Common shares issued for cash, net of issuance costs	138,137	-	-	-	-	138,137
Net cash provided by financing activities	377,325	-	-	-	-	377,325
Effect of foreign exchange on cash and cash equivalents	(90)	-	-	-	-	(90)
Net Cash Inflow	30,866	-	-	-	-	30,866
Cash and cash equivalents, Beginning of year	38,946	-	-	-	-	38,946
Cash and cash equivalents, End of year	69,812	-	-	-	-	69,812
Supplemental Disclosure						
Interest received	2,424	-	-	-	-	2,424
Interest paid	16,054	-	-	-	-	16,054
Income taxes paid	18,634	-	-	-	-	18,634
Non-Cash Investing and Financing Activities						
Conversion of promissory note to preferred shares	6,917	-	-	-	-	6,917

See accompanying notes.

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005
(Expressed in thousands, except for share and per share information)

26. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

Notes to the Reconciliation Between Canadian and U.S. GAAP as at and for the Year Ended December 31, 2005

a) Stock-based compensation

Under Canadian GAAP, the Company applies the fair value method of accounting for all stock option awards, recognizing compensation expense that is recorded as a charge against earnings. Under U.S. GAAP, the Company accounted for those awards under the recognition and measurement provisions of APB No. 25, "Accounting for Stock Issued to Employees" (APB 25), and its related interpretations. During 2005, the Company granted options to employees, of which stock-based compensation expense was recorded pursuant to APB 25.

b) Foreign currency translation

Under U.S. GAAP, changes in the cumulative foreign currency translation account are included in comprehensive loss and the cumulative foreign currency translation account balance is included as a component of accumulated other comprehensive loss.

c) Pre-Opening costs

Under Canadian GAAP, incremental costs incurred by the Company from the opening of a new gaming facility are capitalized and are amortized over a period not exceeding five years. Under U.S. GAAP, these costs are required to be expensed as incurred. The use of disparate exchange rates under U.S. GAAP gave rise to a foreign currency translation adjustment. Under U.S. GAAP, this adjustment is reported as a component of accumulated OCI.

d) Accounting for variable interest entities

Under Canadian GAAP, AcG-15 requires the consolidation of variable interest entities with transition provisions requiring consolidation for interim periods beginning on or after November 1, 2004 with no prior period restatement required. Under U.S. GAAP, the Company was required to consolidate its variable interest entities for its fiscal 2004 year. For U.S. GAAP purposes, the Company identified two variable interest entities in 2004 of which the Company was the primary beneficiary, Mayfield Consulting Canada Inc. and Weinlager & Amici Caffè Ltd. In accordance with FASB Interpretation 46 ("FIN 46"), the Company has consolidated these entities with a restatement of prior periods with a cumulative-effect adjustment as of the beginning of 2004. For Canadian GAAP, in 2005 Mayfield was consolidated as a variable interest entity under AcG-15, and Weinlager & Amici Caffè Ltd. was consolidated as a subsidiary of the Company attained 100% ownership in January 2005.

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

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

26. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

Notes to the Reconciliation Between Canadian and U.S. GAAP as at and for the Year Ended December 31, 2005 (Continued)

e) Presentation of consolidated financial statements

There are also presentation adjustments related to stock-based compensation and gain on sale of property and long-lived assets, which have no impact on shareholder's equity and net loss.

f) Deferred financing costs

Under Canadian GAAP, the Company accounts for the financing costs associated with the Series A and B Senior Secured Notes on a straight-line basis over the term of the notes. Under U.S. GAAP, the Company is required to account for these costs using the effective interest rate method. The impact of this difference is immaterial.

Recent accounting pronouncements

In July 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes". FIN No. 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its consolidated financial statements uncertain tax positions that it has taken or expects to take on a tax return (including a decision whether to file or not to file a return in a particular jurisdiction). Under the model, the consolidated financial statements will reflect expected future income tax consequences of such positions presuming the taxing authorities' full knowledge of the position and all relevant facts, but without considering time values. The evaluation of tax positions under FIN No. 48 will be a two-step process, whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position; and, (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company would recognize the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. FIN No. 48 also revises disclosure requirements and introduces a prescriptive, annual, tabular roll-forward of the unrecognized tax benefits. The Company is reviewing the guidance (which is effective for the first quarter of 2007) to determine the potential impact, if any, on its consolidated financial statements.

GREAT CANADIAN GAMING CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2005
(Expressed in thousands, except for share and per share information)

26. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

Recent accounting pronouncements (Continued)

In September 2006, the SEC Staff issued Staff Accounting Bulletin 108, “Quantifying Misstatements in the Financial Statements” (“SAB 108”). SAB 108 requires that misstatements identified in the current year financial statements that result from misstatements of prior year financial statements be quantified and evaluated using a dual approach that includes both an income statement and balance sheet assessment of any misstatement. The guidance is effective for fiscal years ending after November 15, 2006. The Company is reviewing the guidance to determine the potential impact, if any, on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Post-retirement Plans – amendment of FASB Statements No. 87, 88, 106, and 132(R)”. Under SFAS No. 158, employers must recognize a net liability or asset to report the funded status of their defined benefit pension and other post-retirement benefit plans on their balance sheets. The guidance is effective for the Company’s December 31, 2006 financial statements. The Company is reviewing the guidance to determine the potential impact, if any, on its consolidated financial statements.

In October 2006, the FASB issued FSP FAS 123(R)-5, “Amendment to FASB Staff Position FAS 123(R)-1”. The FSP concludes that for stock-based compensation instruments that were originally issued as employee compensation and then modified, and that modification is made to the terms of the instrument solely to reflect an equity restructuring that occurs when the holders are no longer employees, no change in the recognition or remeasurement of the instruments will result if both (1) there is no increase in the fair value of the award (i.e., the holder is made whole), or the anti-dilution provision is not added to the terms of the award in contemplation of an equity restructuring, and (2) all holders of the same class of equity instruments are treated in the same manner. The FSP is effective for the Company in fourth-quarter 2006. The Company is reviewing the guidance to determine the potential impact, if any, on its consolidated financial statements.