



# GREAT CANADIAN GAMING CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2006

*As at March 16, 2007*

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

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

## **INTRODUCTION**

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

This management's discussion and analysis ("MD&A") of the business, financial review, results of operations, liquidity and capital resources, and other financial information of the Great Canadian Gaming Corporation (the "Company", "we", "our") is dated as of March 16, 2007. This MD&A should be read in conjunction with the audited consolidated financial statements of the Company and the accompanying notes to those consolidated financial statements for the years ended December 31, 2006 and 2005 ("Annual Financial Statements").

The Annual Financial Statements are prepared under Canadian Generally Accepted Accounting Principles ("GAAP") and include the operating results of the Company, its subsidiaries, entities where the Company is the primary beneficiary and on a proportionate basis, the accounts of its joint ventures. Unless expressly stated otherwise, all financial information is presented in Canadian dollars. Certain of the prior year and prior quarter comparative figures have been adjusted to conform to the current year's and current quarter's presentation.

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

### **Non-GAAP Measures**

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

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

Gross revenues means revenues on the statement of income (loss) plus the portion of the gaming win and other revenues retained by British Columbia Lottery Corporation ("BCLC") and Nova Scotia Gaming Corporation ("NSGC"); gaming taxes paid to the Washington State

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

Gambling Commission ("WSGC"); accruals for payouts of progressive games; payments to horse racing pools; and promotional allowances.

Table drop means the collective amount of money customers wager on table games against the casino, and is commonly computed as the aggregate of money counted in the casino drop boxes. Table hold is calculated as the table drop plus or minus the net change in table chip inventory. Table hold percentage is the ratio of table hold divided by table drop. Table hold percentage fluctuates with the statistical variations or volatility inherent in casino games. As a result, we believe table drop is a more meaningful measure of casino performance. Slot win is the aggregate of money customers have placed into slots or electronic machines (the coin-in) less the payout or prizes to winning customers.

### **Forward-Looking Statements**

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

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

The Company cautions that this list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in the Company's continuous disclosure documents filed with the Canadian securities regulatory authorities from time to time, including in the "Risk Factors" section of the Company's Annual Information Form for fiscal 2006, or as identified in the Company's disclosure record on [www.sedar.com](http://www.sedar.com).

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

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

---

## BUSINESS DESCRIPTION

### General

Great Canadian Gaming Corporation is a multi-jurisdictional gaming and entertainment operator with operations in British Columbia ("BC"), Ontario and Nova Scotia, Canada, and Washington State, United States of America ("Washington"). 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 various associated food and beverage and entertainment facilities.

Information on the Canadian and Washington State gaming industries, regulatory environment and our operating agreements in these jurisdictions are included in our Annual Information Form located on the SEDAR website at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.gcgaming.com](http://www.gcgaming.com).

The Company's principal operating entities as at December 31, 2006 are:

<u>Entity</u>	<u>Abbreviation</u>	<u>Ownership interest %</u>
Flamboro Downs Holdings Ltd. <sup>(1)</sup>	Flamboro Downs	100%
Georgian Downs Limited	Georgian Downs	100%
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% <sup>(2)</sup>
Metropolitan Entertainment Group	MEG	100%
Orangeville Raceway Ltd.	Orangeville	100%
TBC Teletheatre B.C.	TBC	50%

<sup>(1)</sup> On January 1, 2007, Flamboro Downs Holdings Ltd. changed its name to Flamboro Downs Ltd.

<sup>(2)</sup> 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. 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 our 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 Boulevard Casino which was assumed in January, 2007.

# GREAT CANADIAN GAMING CORPORATION

## Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

### Operations in Canada

The following table summarizes our Canadian casino operations as at December 31, 2006:

Facility and Location	Year Built/ Renovated	Additional Facilities and Activities	Slot Machines	Table Games	Operating Agreements Expiry Date <sup>(1)</sup>
<b>British Columbia</b>					
River Rock Casino Resort, Richmond, B.C.	Casino: 2004 Hotel & Theatre: 2005	222 room hotel, 950 seat show theatre, 9 dining options, conference facilities, pool/spa, teletheatre <sup>(2)</sup> , marina	920	109	June 23, 2014/ June 23, 2024
Boulevard Casino, Coquitlam, B.C.	Casino: 2005 Theatre: 2006	1,100 seat show theatre, 4 dining options, teletheatre <sup>(2)</sup>	939	69	November 16, 2015/ November 16, 2025
View Royal Casino, Victoria, B.C.	2001	2 dining options	437	24	February 28, 2011/ February 28, 2021
Nanaimo Casino, Nanaimo, B.C.	1997	1 dining option	380	12	February 28, 2011/ February 28, 2021
Casino on Broadway, Vancouver, B.C.	2005	Concession	-	36	February 28, 2011/ February 28, 2021
Chances Gaming Entertainment, Dawson Creek, B.C.	2006	Bingo, 1 dining option, teletheatre <sup>(2)</sup>	140	-	June 30, 2016/ June 30, 2026
Hastings Racecourse (Thoroughbred Racing), Vancouver, B.C. <sup>(3)</sup>	2002	3 dining options, concession, teletheatre <sup>(2)</sup>	- <sup>(3)</sup>	-	-
Fraser Downs Racetrack and Casino <sup>(4)</sup> (Standardbred Racing), Surrey, B.C.	2005	6 dining options, show lounge, teletheatre <sup>(2)</sup>	440	-	March 31, 2014/ March 31, 2024
TBC Teletheatre B.C. <sup>(2)</sup>	-	Teletheatres <sup>(2)</sup>	-	-	-
<b>Ontario</b>					
Georgian Downs (Standardbred Racing), Innisfil, Ontario	2001	5 dining options, concession	451	-	November 26, 2011/ November 26, 2016
Flamboro Downs (Standardbred Racing), Flamborough, Ontario	2001	4 dining options, entertainment lounge, conference facility	752	-	October 10, 2010/ October 10, 2015
<b>Nova Scotia</b>					
Casino Nova Scotia Halifax <sup>(5)</sup> , Halifax, Nova Scotia	2006	3 dining options, entertainment lounge, conference facility	728	40	July 1, 2015/ July 1, 2025 <sup>(5)</sup>
Casino Nova Scotia Sydney <sup>(5)</sup> , Sydney, Nova Scotia	2006	2 dining options, lounge	338	11	July 1, 2015/ July 1, 2025 <sup>(5)</sup>
			5,525	301	

<sup>(1)</sup> Subject to renewal terms, at the option of Company, for ten years in BC and NS. Subject to renewal terms, at the option of the Ontario Lottery Gaming Corporation ("OLG"), for five years in ON.

<sup>(2)</sup> We own or hold an interest in 19 teletheatres in British Columbia. We own and operate three teletheatres; one at each of Hastings Racecourse, Fraser Downs Racetrack and Casino, and Sandown Racetrack. The remaining 16 teletheatres, including the teletheatres at River Rock Casino Resort, Boulevard Casino, and Chances Gaming Entertainment are operated by TBC Teletheatres B.C. We own a 50% interest in TBC Teletheatres B.C. and the remaining 50% interest is held by two horseman's associations, the British Columbia Standardbred Association and the Horsemen's Benevolent and Protective Association.

<sup>(3)</sup> We have been granted approval by the City of Vancouver to install 600 slot machines. This approval is currently subject to a legal challenge. See "Operations in Canada - British Columbia - Development Projects Update". The redevelopment of our Hastings Racecourse Facility has been delayed and we still face challenges that prevent us from commencing this project.

<sup>(4)</sup> The subsidiary that operates Fraser Downs Racetrack and Casino also operates Sandown Racetrack in North Saanich, B.C. In 2006, Sandown operated for approximately 10 race days. Sandown Racetrack is not scheduled to run any live races in 2007.

<sup>(5)</sup> The Casino Nova Scotia Halifax and Casino Nova Scotia Sydney operate under a single operating agreement.

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

---

The following table summarizes our racetrack operations and the number of actual live race days in 2006 and those expected for 2007:

Name	Location	Live Race Days	
		2006	2007 Expected
Hastings Racecourse	Vancouver, BC	78	68
Fraser Downs Racetrack and Casino	Surrey, BC	99	100
Georgian Downs	Innisfil, ON	117	104
Flamboro Downs	Flamborough, ON	258	225
		<u>552</u>	<u>497</u>

All of our racetrack operations are outfitted for simulcast wagering. This allows patrons to place wagers on live horse racing events from around the world.

#### British Columbia

##### *Development projects update*

Boulevard Casino, Coquitlam - The second phase of the Boulevard expansion opened on September 15, 2006 with the 1,100 seat Red Robinson Show Theatre. This show theatre is similar to the show theatre at River Rock in functionality and adds to the attraction of the casino. As at December 31, 2006, approximately \$118.2 million of construction and equipment costs had been spent on the Boulevard Casino expansion project since 2005. We do not expect any further costs on this expansion. These costs substantially qualify as approved amounts under the Facility Development Commission ("FDC") with the British Columbia Lottery Corporation ("BCLC").

Chances Gaming Entertainment in Dawson Creek - On July 5, 2006, the Company opened Chances Gaming Entertainment in Dawson Creek as a replacement for Bear Mountain Community Gaming Centre. The new facility opened with a bingo hall, a larger slot gaming floor with 123 slot machines (which has since been increased to 140 slot machines by December 31, 2006), two electronic blackjack tables (10 gaming positions), an entertainment floor, food and beverage facilities and a teletheatre. As at December 31, 2006, approximately \$12.9 million of land, construction and equipment costs had been spent on this project. We do not expect any further costs on this project. These costs substantially qualify as approved amounts under the FDC.

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

On November 2, 2005, Hastings Park Conservancy filed a petition in the Supreme Court of BC seeking an order to quash the City of Vancouver bylaw permitting slot machines at Hastings Racecourse. The Supreme Court of BC dismissed the petition on August 18, 2006. However, on September 15, 2006, the Hastings Park Conservancy filed an appeal to the BC Court of

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

Appeal. No date has been set to hear the appeal. See further information in the "Litigation" section.

The construction and development of our planned expansion of Hastings Racecourse has been delayed by this litigation and remains subject to the issuance of the development permit and concluding an operating agreement with the City of Vancouver. The Company's scope of development and the development costs for Hastings Racecourse will be determined once greater clarity is obtained regarding the timing of the project and requirements of the City of Vancouver. The development costs are expected to substantially qualify as approved amounts under the FDC. As at December 31, 2006, approximately \$4.5 million had been spent on this project.

#### *British Columbia Lottery Corporation Facility Development Commission Approved Amounts*

As at December 31, 2006, we had \$350,445 in approved amounts to be recovered by future FDC payments from BCLC as compared to \$342,426 at the end of 2005. These approved amounts have not been reflected in revenues on the statement of income (loss) or as amounts due from Provincial Gaming Corporation on the balance sheet. Recovery of approved amounts requires that our operating agreements with BCLC remain in good standing.

#### *Accelerated Facility Development Commission*

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

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

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

#### *Market and Regulatory*

In BC, gaming activities are managed and conducted by BCLC, a provincial crown corporation. BCLC in turn engages service suppliers, such as the Company, to operate the gaming activities pursuant to operational services agreements. The Company earns a commission based on the gaming win, but a significant portion of that gaming win is retained by BCLC.

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

BCLC has announced that there will be no additional gaming licenses issued in the province, thus we believe the market and regulatory environment favours the incumbent service suppliers in the province. BCLC has however, adopted a growth strategy aimed at moving the per capita gaming win in British Columbia to a level closer to the Canadian average by establishing fewer, but higher-quality facilities sized to fit the marketplace. In its 2006-2009 service plan, the BCLC estimated that British Columbia's casino gaming win would grow to \$1.29 billion by its fiscal year ended March 31, 2009, up from a level of \$1.085 billion for the fiscal year ended March 31, 2006, for an estimated compound annual growth rate of over 4%.

BCLC's growth strategy has resulted in a substantial increase in the number of slot machines and, to a lesser extent, gaming tables in British Columbia. The number of slot machines in operation has increased from 2,999 in 2002 to 5,504 in 2006. During this period, our facilities accounted for approximately 57% of the slot machine and 89% of the table game growth.

Other BCLC policy initiatives that have provided opportunities to grow the gaming business in British Columbia include permitting full beverage services and live entertainment on gaming floors, increasing betting limits and increasing the hours that the operators may stay open to 24 hours per day. As well, the FDC component of the operational services agreements encourages service suppliers such as the Company to receive additional commissions by investing capital in improving or expanding their gaming facilities.

The 2006 year was a period of relative stability in the gaming marketplace in Greater Vancouver. We anticipate this stability will continue until late-2007 when a competitor has announced it will open a new replacement casino in New Westminster. Until that time, we expect further growth of the market to occur within the existing casinos. We believe our investments in best-in-class facilities have given us a suite of properties, features and amenities that give us a competitive advantage. We also expect that our River Rock and Boulevard Casinos will allow us to target marketing to the underserved tourism sector.

#### *Competition*

In BC, there are currently 17 casinos and two horseracing tracks that have significant operating seasons (Hastings Racecourse, and Fraser Downs Racetrack and Casino). Our direct competition in the Greater Vancouver area is limited to Edgewater Casino Inc., Gateway Casinos Inc. and Gateway Casinos Income Fund.

In September 2006, Edgewater Casino, located in the City of Vancouver, announced that it was sold to a division of Paragon Gaming. Until it was sold to Paragon, the casino was operating under creditor protection since May 2006. Based on information published by BCLC, Edgewater's facility has 600 slot machines and 49 gaming tables.

Based on information published by BCLC, Gateway Casinos Income Fund's Burnaby facility has 679 slots and 34 gaming tables and its Langley facility has 530 slots and 36 gaming tables. Gateway Casinos Income Fund is building a new Burnaby casino to house up to 1,000 slot machines and 60 table games to replace the current Burnaby casino. The 100,000 square foot casino will also incorporate a hotel, food and beverage and conference facilities, and is expected to open in the late spring of 2008. Gateway Casinos Inc. is building a new casino in

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

New Westminster to house up to 600 slot machines and 60 table games to replace a riverboat casino in New Westminster that has 362 slot machines and 18 table games. The 100,000 square foot facility will also have food and beverage outlets and is expected to open in the fourth quarter of 2007. These new facilities may have a competitive impact on the Company's existing casinos.

On Vancouver Island, where our View Royal and Nanaimo casinos are located, we operate the only two casinos. BCLC is entertaining proposals to introduce slot machines into existing operators with a view to creating new community gaming centres, like our Chances Gaming Entertainment. There may be increased competition for the Company on Vancouver Island should community gaming centres open.

According to the latest annual report of BCLC for its fiscal year ended March 31, 2006, we have a 49% market share in British Columbia (as measured by the gaming win), and our facilities housed 43% of the slot machines and 56% of the gaming tables in BC.

For the BCLC nine-month period ended December 31, 2006 (BCLC's fiscal year ends March 31), the Company had 44% of the province's slot machines and generated 45% of the province's win from slot machines. During the same period, the Company had 54% of the province's table games and generated 62% of the province's win from table games. The Company's share of the province's total win from slot machines and table games was 49%.

#### *Seasonality*

While the Company's BC casinos operate year-round, our racetracks are subject to seasonal variations due to planned limited live racing seasons. Live racing at Hastings Racecourse operates from late-April to early-November. Live racing at Fraser Downs operates from mid-October to late-June. Even without live racing, simulcast racing at both locations continues to operate year-round.

While Greater Vancouver and Vancouver Island, where our BC casinos are located, do not generally experience harsh weather during the summer or winter months like the rest of Canada, extreme weather conditions can have a negative impact on short-term attendance at our BC casinos.

#### Ontario

##### *Development projects update*

On October 24, 2006, the Company completed the purchase of land adjacent to Georgian Downs for total consideration of approximately \$28.9 million. The Company is considering ways to improve Georgian Downs and the acquired property may be used for future development of the facilities. Any future development of gaming is subject to OLG participation and approval.

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

#### *Market and Regulatory*

In Ontario, gaming activities are managed and conducted by the Ontario Lottery and Gaming Corporation ("OLG"), a provincial crown corporation. The OLG operates three different gaming models: commercial casinos (four sites, \$1.6 billion of revenue in 2004-05); racetrack slots (16 sites, \$1.4 billion of revenue in 2004-05); and charity casinos (six sites, \$479.0 million of revenue in 2004-05). In Ontario, the Company operates two racetracks, with slot operations run by OLG pursuant to siteholder agreements. The Company earns a siteholder payment based on the win generated from the OLG slot machines, but a substantial portion of that win is retained by OLG.

As a result of a comprehensive market assessment, the mandate for the OLG, as set out in its 2004/05 Annual Report, is to focus on social responsibility in gaming and to ensure the competitiveness of Ontario's gaming industry. In particular, but subject to local requirements made on a facility-by-facility basis to maximize revenues and contribute to local economies, the OLG has indicated that there will be:

- no additional commercial or charity casinos;
- no additional racetrack slot facilities;
- no video lottery terminals in neighbourhood bars and restaurants;
- no slot machines in bingo halls; and
- no provincial involvement in Internet gaming.

We believe that the above initiatives will generally allow the incumbent operators in the province to focus their resources on the development of existing gaming operations rather than trying to capture market share by advocating for and promoting construction of new casinos. Focusing resources on existing casinos will improve the quality of casinos in the province which, in turn, will lead to a higher proportion of the money spent on entertainment in the province of Ontario being directed towards the gaming industry. Increasing spending from local players is important, as the OLG Annual Report also highlighted the difficulties at tourist focused commercial properties, with delays at border crossings, the rising value of the Canadian dollar, and increasing competition from U.S. casinos combining to create challenges for gaming facilities that rely upon U.S. customers for a significant portion of their revenue.

#### *Competition*

The Company operates two live horseracing facilities (with slots operated by OLG) that are located within a one hour drive of the Greater Toronto Area ("GTA"). The GTA has a population of approximately 5.9 million, or about 42% of the province of Ontario. In Ontario, our direct competitors within a two hour drive of the GTA are Casino Niagara (slot machines and table games), Niagara Fallsview Casino Resort (slot machines and table games), Casino Rama (slot machines and table games), Woodbine Racetrack (thoroughbred racing, teletheatre betting and slot machines), Brantford Charity Casino (slot machines and table games), Great Blue Heron Charity Casino (slot machines and table games), Mohawk Racetrack (thoroughbred racing, teletheatre betting and slot machines) and Ajax Downs (slot machines). Casino Rama is Ontario's only First Nations commercial casino and operates 2,300 slot machines and 120 table games on 192,200 square feet of gaming area.

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

#### *Seasonality*

The Company's Ontario racetracks operate year-round and are typically subject to seasonal variations associated with extreme weather conditions.

#### Nova Scotia

##### *Development projects update*

On June 1, 2006 and November 22, 2006 respectively, the Company re-launched its Casino Nova Scotia Halifax and Casino Nova Scotia Sydney after making substantial gaming floor operational improvements and upgrades to slot technology and surveillance equipment. The Company expects that the full cost of the capital plan will be reimbursed under the Capital Reserve Accounts ("CRA") from the Nova Scotia Gaming Corporation ("NSGC"). As at December 31, 2006, approximately \$16.0 million of construction and equipment costs had been spent on this project. We do not expect any further costs on this project.

##### *Market and Regulatory*

In Nova Scotia, gaming activities are managed and conducted by the NSGC, a provincial crown corporation. The NSGC operates two different gaming models: commercial casinos, of which we operate the only two in the province, and video lottery terminals, which are permitted in licensed liquor establishments, curling clubs and on First Nations' land. The Company is a service supplier to the NSGC and earns a commission based on the gaming win, but a substantial portion of that gaming win is retained by NSGC. The NSGC in its latest annual report reported that gaming revenues from casinos and video lottery terminals were \$277.9 million in its 2005-2006 fiscal year.

In 2004, the Government of Nova Scotia announced a plan to increase social responsibility toward gaming and to curtail the expansion of gaming in the province. The limitation on expansion was specifically targeted at reducing the accessibility to video lottery terminals by removing 1,000 machines (or approximately 30% of the video lottery terminals in existence prior to the reduction) in current retail locations. An initial 800 machines were removed in 2005, and an additional 200 machines are scheduled to be removed through attrition. In addition, changes to the operation of video lottery terminals have also been implemented by reducing the speed of play the machines are capable of by 30%, reducing the hours of video lottery terminal operations, and implementing other tools for players to monitor their gaming wins or losses. NSGC's plan has been to remove video lottery terminals from licensed liquor establishments. We do not anticipate any impact on the number of slot machines in Casino Nova Scotia Halifax or Casino Nova Scotia Sydney.

##### *Competition*

We are the sole casino operator in Nova Scotia. Our competition in the Maritime provinces is primarily limited to the Membertou Entertainment Complex and Charlottetown Driving Park. The Membertou Entertainment Complex is located in Membertou, Nova Scotia approximately 2.4 kilometres from our Sydney Casino, and is a 40,000 square foot facility that houses 140 video lottery terminals, a bingo parlour, and a full-service entertainment and conference center.

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

---

Charlottetown Driving Park is a standardbred racetrack with 225 slot machines, located on Prince Edward Island.

#### *Seasonality*

The gaming industry in Nova Scotia has historically peaked during the summer months, primarily as a result of the influx of tourists and weather conditions. As a result, revenues in these months are normally higher than in others.

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

The following table summarizes the Washington gaming facilities and operating levels as at December 31, 2006:

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

---

#### *Market and Regulatory*

In Washington State, gaming operations are regulated by the Washington State Gambling Commission ("WSGC") and fall into three categories: charitable, commercial and tribal. The Company operates four commercial card rooms in the Greater Seattle area.

The commercial gaming environment in Washington State is highly regulated but does not have the same significant barriers to entry as do our Canadian operations. Our Washington State card room operations are conducted pursuant to house banked card room licenses which limit the number of table games to fifteen per location. These card room licenses must be renewed annually with WSGC, and our renewals have historically been granted automatically by the WSGC.

#### *Competition*

Competition is abundant among commercial card rooms and tribal casinos. Tribal casinos, with their ability to offer a broader array of games such as slot machines, electronic gaming devices, and table games with higher betting limits, are at a significant advantage to card rooms which can only offer a limited number of card games with lower limits at a maximum of 15 tables. Additionally, tribal casinos are subject to lower taxation than non-tribal casinos which allows tribal casinos a competitive advantage in terms of supporting marketing and overhead expense.

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

---

#### BUSINESS STRATEGY

Our goal is to be the leading gaming and entertainment company in our chosen markets by providing superior destinations, experiences, products and services. To meet these goals, we have adopted the strategies listed below. As provincial crown corporations are the sole entities in Canada permitted to conduct casino style gaming activities, we, as a gaming service supplier, work closely with our provincial crown corporation partners to develop our business strategy. The agreement of our crown corporation partners may be necessary to implement certain business strategies and would be required with respect to those strategies related to the deployment of gaming assets. While we plan to follow the below noted strategies, the adoption of plans and priorities by our provincial crown corporation partners may require us to amend our business strategies, including those strategies with regard to the location and mix of our gaming assets and the terms under which we operate these assets.

***Continuously improve our operating efficiency.*** We have implemented several initiatives within our business to help maintain and improve profitability. In particular, we are focused on optimizing the operations of our new and newly-renovated facilities and acquired operations. We have implemented and plan to implement further initiatives to: develop carefully focused marketing efforts, including developing joint marketing plans with our provincial crown corporation partners; adopt more efficient products and technologies used in managing our business; optimize employee base size; and manage staffing levels appropriately. All these initiatives are aimed at improving profitability. In addition, we are also working to continually improve our human resource policies and programs in an effort to increase our employee retention rates.

***Complete the build out of and grow our current assets.*** We have invested substantially over the last several years to expand and improve our operations. As a result, we have many assets that are new or newly-renovated or acquired, and believe we are well positioned to capture the benefits (in the form of increased revenues and improved profitability) of the investments that have been made to date. Additionally incumbent gaming operators like us have opportunities to better penetrate the market and capture unmet demand with relatively low risk of potential competition from new market entrants. Accordingly, we believe that there is potential for us to benefit from the relatively underpenetrated state of the market by expanding some of our existing facilities. We are considering the next stage of development for our newer facilities and the possible renovation of our older properties, to maximize their utilization and profitability. Improvements to our newer facilities include the construction of a new parking garage at River Rock and the possible refinement and expansion of our product offerings through the addition of convention space and the addition of more entertainment options. We also may consider the deployment of additional new teletheatres. We are also planning a significant renovation of Hastings Racecourse, subject to the resolution of development issues.

***Look for appropriate expansion opportunities.*** The gaming industry in Canada, in its current form with large-scale, commercial casinos, is relatively new compared to that in the United States. We believe there are still significant growth opportunities in Canada and in particular British Columbia. Our primary focus over the next 12-24 months will be the build-out of our current facilities.

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

#### 2006 FINANCIAL HIGHLIGHTS AND MAJOR DEVELOPMENTS

	Year Ended December 31,				
	2006	2005	% Chg	2004	% Chg
Revenues	\$ 385,253	\$ 294,444	31%	\$ 188,125	57%
EBITDA <sup>(1)</sup>	\$ 98,237	\$ 76,570	28%	\$ 59,670	28%
Net income (loss)	\$ (18,643)	\$ 15,670		\$ 24,589	
Earnings (loss) per common share:					
Basic	\$ (0.22)	\$ 0.20		\$ 0.37	
Diluted	\$ (0.22)	\$ 0.20		\$ 0.35	
Total assets	\$ 940,684	\$ 923,649		\$ 373,597	
Long-term debt	\$ 390,324	\$ 438,279		\$ 154,000	
	Three Months Ended				
	December 31, 2006	September 30, 2006	% Chg	December 31, 2005	% Chg
Revenues	\$ 98,071	\$ 100,220	(2%)	\$ 89,524	10%
EBITDA <sup>(1)</sup>	\$ 25,434	\$ 26,985	(6%)	\$ 14,857	71%
Net income (loss)	\$ (11,534)	\$ (14,112)	(18%)	\$ (9,095)	27%
Earnings (loss) per common share:					
Basic	\$ (0.13)	\$ (0.16)		\$ (0.11)	
Diluted	\$ (0.13)	\$ (0.16)		\$ (0.11)	
Total assets	\$ 940,684	\$ 948,530		\$ 923,649	
Long-term debt	\$ 390,324	\$ 368,785		\$ 438,279	

(1) "EBITDA" is a non-GAAP measure and is defined in the "Introduction - Non-GAAP Measures" section of this MD&A.

#### Financial Highlights

For Great Canadian Gaming Corporation, the year ended December 31, 2006 was a year of strong progress towards our goals of driving better efficiencies and increased value from our past expansions and acquisitions. During 2006, we strengthened our senior operating and finance management teams, took the management of our hospitality operations in-house, and effected cost reductions and efficiencies that are benefitting operating margins. Initiatives to further improve our operating margins remain an important focus for the Company. Shortly after the year-end, we completed our refinancing with a long-term debt structure that provides the Company with enhanced flexibility to pursue value-creating growth opportunities in our chosen markets.

We believe we have established a solid foundation from which we can achieve sustained growth and increase stakeholder value.

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

For the year-ended December 31, 2006, our revenues increased 31% to \$385.3 million and EBITDA increased 28% to \$98.2 million over the year ended December 31, 2005. The revenues increase resulted primarily from a full year's benefit of acquisitions and expansions opened during 2005 and growth in existing operations. The EBITDA increase resulted from the same acquisitions, expansions, and growth in existing operations, a continued focus to improve operational efficiencies, and the fact that 2005 was negatively impacted by significant pre-opening and start-up costs.

The revenues increase in the fourth quarter of 2006 compared to the same quarter of 2005 resulted primarily from a full quarter's benefit of the Boulevard Casino expansion completed on November 17, 2005 and growth in existing operations. The EBITDA increase resulted from the same expansion and growth at existing operations and a continued focus to improve operational efficiencies.

In 2006, three significant, unusual events did not affect EBITDA but contributed to an overall net loss of \$18.6 million for the year and \$11.5 million for the fourth quarter of 2006. The three significant, non-recurring unusual costs affecting our 2006 results were

- In the third quarter, a \$20.4 million after-tax (\$30.9 million pre-tax) financing charge associated with the redemption of our Series A and B Senior Secured Notes;
- In the fourth quarter, a \$9.9 million (\$9.9 million pre-tax) goodwill impairment charge related to our investment in Hastings Entertainment Inc.; and
- In the fourth quarter, a \$3.7 million after-tax (\$5.6 million pre-tax) restructuring charge for the buyout of food and beverage and hospitality services from Mayfield Consulting Canada Inc. In total, restructuring charges were \$7.0 million after-tax (\$10.0 million pre-tax) for the year and \$4.6 million after-tax (\$7.0 million pre-tax) for the fourth quarter of 2006.

These three unusual items aggregated \$37.3 million on an after-tax basis and had a negative impact of \$0.44 on a per share basis for the year ended December 31, 2006. For the fourth quarter of 2006, these items aggregated \$14.5 million on an after-tax basis and had a negative impact of \$0.16 on a per share basis.

### **Major developments**

The following is a summary of the events that occurred in 2006 that have had or are expected to have a significant operational, financial, or reporting impact.

#### *Appointments of Chief Operating Officer and Chief Financial Officer*

As part of our initiatives to bolster our senior management team, subject to regulatory approval, we appointed Vincent Trudel as our new Chief Operating Officer in November 2006 and Milton Woensdregt as our new Chief Financial Officer in August 2006. Mr. Trudel received his regulatory approval on November 7, 2006 and Mr. Woensdregt received his regulatory approval on November 7, 2006.

Mr. Trudel possesses 25 years of regional casino and lottery management experience in Canada

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

and Europe, most recently as General Manager of Société des Loterie Vidéo (a subsidiary of Loto-Québec), as General Manager of Grupo Perelada, a privately-held Spanish company operating in various sectors including gaming and hospitality, and as President of Société des Casinos du Québec (a subsidiary of Loto-Québec).

Mr. Woensdregt possesses 27 years of senior accounting and management experience, most recently as the Interim Chief Financial Officer for The Provincial Health Services Authority in Vancouver, as Senior Vice President, Finance, Chief Financial Officer and Treasurer of Terasen Inc., and as a partner of KPMG.

#### *Redemption of Series A & B Senior Secured Notes and Bridge Credit Facility*

In order to provide the Company with greater financial flexibility, leverage more typical of the industry, capacity to fund future growth and expansion opportunities, and an opportunity to lower our overall cost of capital, we replaced the Series A and Series B Senior Secured Notes (the "Former Notes") in several steps.

On September 29, 2006, the Company secured \$450.0 million in bridge financing (the "Bridge Credit Facility"), of which \$365.0 million was drawn at closing, that allowed the redemption of \$300.0 million of the Former Notes, the payment of associated redemption costs, the repayment of amounts outstanding under the former credit facility and provide room for future growth and expansion.

The non-recurring costs associated with the redemption of the Former Notes, which amounted to \$30.9 million on a pre-tax basis, \$20.4 million on an after-tax basis and \$0.24 on a diluted earnings per share basis for the year ended December 31, 2006, are included in interest and financing costs, net on the statement of income (loss) in the third quarter and substantially contributed to the net loss for the year.

Additional details of the Company's 2006 financing transactions, including the amendment of the terms of the Former Notes in the first quarter of 2006, are described in the "Capital Resources" section of this MD&A.

#### *Refinancing of Bridge Facility with Flexible Long-Term Debt Structure*

On February 14, 2007, the Company closed on its debt refinancing to retire the Bridge Credit Facility. The debt refinancing consisted of three components: (i) an undrawn \$200.0 million Senior Secured Revolving Credit Facility (the "Revolving Credit Facility") with a term of 5 years; (ii) a US\$170.0 million Senior Secured Term Loan B (the "Term Loan B") with a term of 7 years; and (iii) US\$170 million Senior Subordinated Notes (the "Subordinated Notes") with a term of 8 years. The Company has the option to increase the Revolving Credit Facility or issue additional term loans by up to \$150.0 million under certain conditions. The gross proceeds of the Term Loan B and the Subordinated Notes were \$401.9 million.

The three components of the new debt facilities are guaranteed by the Company and its principal subsidiaries. The Revolving Credit Facility and the Term Loan B are secured by substantially all the assets of the Company and its principal subsidiaries.

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

---

The interest rate on the undrawn Revolving Credit Facility is based on the Company's Total Debt to Adjusted EBITDA ratio (defined in the underlying debt agreement) which is calculated quarterly.

The Term Loan B is denominated in US dollars and bears interest at LIBOR plus 1.50%, payable quarterly. The Company has hedged both the currency risk and the floating interest rate risk to result in a principal indebtedness of \$200.8 million in Canadian dollars and a fixed interest rate of approximately 6.1% per annum. The Term Loan B is repayable without premium or penalty at any time and requires principal repayments of \$502 quarterly, with the balance due on February 13, 2014.

The Senior Subordinated Notes is denominated in US dollars and bears interest at a rate of 7.25%, payable semi-annually. The Company has hedged the currency risk and the U.S. fixed interest rate to result in a principal indebtedness of \$201.1 million in Canadian dollars at a fixed interest rate of approximately 6.6% per annum. No principal repayments are required on the Subordinated Notes, which mature on February 15, 2015. There are provisions for early redemptions, at our option, of the Subordinated Notes during defined periods prior to maturity with payment of defined premiums.

All the debt facilities have: (i) requirements to comply with financial and operational covenants; (ii) mandatory repayments in the case of proceeds from certain asset sales or receipt of insurance proceeds that are not re-invested within certain time limits; (iii) restrictions on certain asset sales, acquisitions, and distributions; (iv) limitations on the incurrence of additional debt or indebtedness or liens; and (v) provisions 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 and either refuses or is found to be unsuitable for registration.

#### *Completed Development Projects*

The following development projects were completed in 2006 that affected the consolidated statement of operations. Discussion of these developments is in the "Business Description" section and the effect of these events on our financial performance is in the "Results of Operations" section.

#### **Summary of 2006 Significant Development Projects**

---

<b>Project</b>	<b>Completion Date</b>
Boulevard expansion Phase 2 (Red Robinson Show Theatre)	September 15, 2006
Chances Gaming Entertainment in Dawson Creek, a replacement for Bear Mountain Community Gaming Centre	July 5, 2006
Casino Nova Scotia - Halifax and Sydney re-launch	June 1, 2006 and November 22, 2006

---

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

#### *Canada Line Parking Garage*

On December 18, 2006 we announced that we had entered into a letter of intent with the Greater Vancouver Transportation Authority and Canada Line Rapid Transit Inc. (collectively, "GVTA") to construct a new 1,200 stall parking garage adjacent to the River Rock Casino Resort ("River Rock"). During the regular work day, the use of this parking garage will be reserved for transit commuters using the new rapid transit line connecting River Rock with downtown Vancouver, the Vancouver International Airport and the City of Richmond currently being constructed. Outside of the regular work day, the parking garage will be used for River Rock customers, which will help alleviate parking shortages currently experienced during evenings and weekends.

Subject to the execution of final agreements, the cost of the new parking garage is expected to be \$33.0 million and construction is expected to commence in mid-2007 and be completed in 2009. GVTA will transfer to us title to five parcels of land across from River Rock totalling approximately five acres. Approximately 2.6 acres of this land will be used for the parking garage development and the remainder of the land is reserved for potential future opportunities. GVTA will also contribute \$4.5 million toward the construction costs of the project.

#### *Restructuring Initiatives*

As part of our continuing focus on improving efficiency and controlling costs, we incurred \$10.0 million in restructuring costs during the year ended December 31, 2006, of which \$7.0 million were incurred in the fourth quarter of 2006. The restructuring costs related primarily to employee severances and for the voluntary buyout of our food and beverage and hospitality services with Mayfield Consulting Canada Inc. ("Mayfield").

In the fourth quarter of 2006, in order to gain additional efficiencies and improved operating margins, we entered into an agreement with Mayfield Consulting Canada Inc. to buyout the services that would have otherwise been provided by Mayfield in connection with food and beverage operations at each of our facilities in British Columbia. Pursuant to this agreement we 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 Boulevard Casino which we assumed control of in January 2007. The fee to buyout such services was \$5.6 million on a pre-tax basis, \$3.7 million on an after-tax basis and \$0.04 on a diluted loss per share basis for the year ended December 31, 2006.

#### *Business Process Improvement Initiatives*

As part of our initiatives to improve our operating efficiency and effectiveness, we also undertook a review of business processes related to the functions and activities of our Finance and Procurement departments. In 2006, our focus was on upgrades to the enterprise resource planning system, an improved annual budget model, the development of a strategy for procurement to payment, and the automation of manual transactions.

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

#### *Hastings Goodwill Impairment*

In the fourth quarter of 2006 we recorded a non-cash impairment charge of \$9.9 million on a pre-tax and post-tax basis or \$0.12 on a diluted loss per share basis. This impairment charge represented all of the goodwill associated with our investment in Hastings Entertainment Inc., the subsidiary that operates the Hasting Racecourse. The impairment charge resulted from a year-end review of our operations and normal course impairment tests associated therewith. Notwithstanding the write down, the Company is committed to the next stage of the Hastings Racecourse development.

#### *Change in Accounting Policy*

In the third quarter of 2006, we changed our accounting policy for the FDC, formerly called the Facility Development Improvement Fund, and now record FDC as revenues in the statement of income (loss) as it is earned (when it is payable to us by BCLC), limited to the extent that sufficient Approved Amounts (a defined term in the casino operational services agreements with BCLC) exist. We have elected to adopt this new accounting policy as we believe it better reflects the nature of the current compensation arrangements with BCLC, provides better information on our cash flows and portrays property, plant and equipment on the balance sheet at amortized historical cost.

Our 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 significant capital expansions, the value of the due from provincial gaming corporation on the balance sheet had grown substantially. In considering these factors, we initiated a review of the accounting policy for the FDC. We believe the change to the new accounting policy for the FDC is preferable to the prior method employed, and results in more reliable and more relevant presentation in the financial statements.

This change in the FDC accounting policy has been applied on a retrospective basis to prior periods, with the opening balance of comparative retained earnings and other financial information and amounts disclosed in the financial statements presented as if the new accounting policy had always been applied. This change in accounting policy and its impact on the previously reported periods is disclosed in note 3 in the Company's Annual Financial Statements for the year ended December 31, 2006.

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

## CONSOLIDATED RESULTS OF OPERATIONS

### *Impact of Acquisitions and Development Projects – Comparability of Information*

The operating results in the quarter and year ended December 31, 2006 include the full effect of results of operations from acquisitions and expansions completed during 2005. These acquisitions and expansions account primarily for the increase in revenues and expenses in 2006 compared to the corresponding period in 2005.

The acquisitions made during 2005 were: Orangeville Raceway Limited which operates Fraser Downs Racetrack and Casino and Sandown Racetrack on March 18, 2005; Metropolitan Entertainment Group which operates our two casinos in Nova Scotia on May 31, 2005; Georgian Downs Limited which operates Georgian Downs on July 2, 2005; and Flamboro Downs Holdings Limited which operates Flamboro Downs on October 19, 2005. The expansions completed during 2005 were: the River Rock Casino Resort's hotel, show theatre and food and beverage operations on August 19, 2005; Fraser Downs Racetrack and Casino on October 14, 2005; and the Boulevard casino (Phase 1) on November 17, 2005.

In addition, capital projects that were completed during 2006 were: the renovated Casino Nova Scotia Halifax casino, food and beverage operations re-opened on June 1, 2006; the new Chances Gaming Entertainment, a community gaming centre located in Dawson Creek, British Columbia, opened on July 5, 2006; the new Boulevard Casino show theatre (Phase 2) opened on September 15, 2006; and the renovated Casino Nova Scotia Sydney casino, re-opened on November 22, 2006.

The following table summarizes the key events and the approximate period of their impact on the consolidated operating results.

	Three Months Ended December 31,		Years Ended December 31,	
	2006	2005	2006	2005
River Rock hotel, theatre, and additional F&B outlets expansion	3 months	3 months	12 months	3.5 months
Orangeville acquisition	3 months	3 months	12 months	9.5 months
MEG acquisition	3 months	3 months	12 months	7 months
Georgian Downs acquisition	3 months	3 months	12 months	3 months equity method, 3 months consolidated
Flamboro Downs acquisition	3 months	2.5 months	12 months	2.5 months
Boulevard expansion - Phase 1	3 months	1.5 months	12 months	1.5 months
CNS Halifax renovation	3 months	0 months	7 months	0 months
Chances in Dawson Creek opening	3 months	0 months	6 months	0 months
Boulevard expansion - Phase 2	3 months	0 months	3.5 months	0 months
CNS Sydney renovation	1.5 months	0 months	1.5 months	0 months

# GREAT CANADIAN GAMING CORPORATION

## Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

### Discussion of Results

The following table summarizes our consolidated operating results for the three months and year ended December 31, 2006, with comparatives to prior periods, and the three month period ended September 30, 2006. These figures reflect the retrospective application of the change in accounting policy for the FDC.

	Three Months Ended					Year Ended		
	December 31, 2006	September 30, 2006	% Chg	December 31, 2005	% Chg	December 31, 2006	2005	% Chg
Gaming revenues	\$ 69,914	\$ 72,372	(3%)	\$ 63,689	10%	\$ 277,042	\$ 219,102	26%
Racetrack revenues	7,536	8,307	(9%)	7,181	5%	30,386	22,601	34%
Facility Development								
Commission	4,811	4,913	(2%)	4,213	14%	19,054	16,340	17%
Food and beverage revenues	14,303	13,458	6%	13,679	5%	53,137	35,976	48%
Hotel revenues	2,430	2,763	(12%)	1,766	38%	9,320	2,165	330%
Other non-gaming revenues	1,639	1,017	61%	1,344	22%	5,832	4,903	19%
	<b>100,633</b>	<b>102,830</b>	<b>(2%)</b>	<b>91,872</b>	<b>10%</b>	<b>394,771</b>	<b>301,087</b>	<b>31%</b>
Less: promotional allowances	(2,562)	(2,610)	(2%)	(2,348)	9%	(9,518)	(6,643)	43%
<b>Revenues</b>	<b>98,071</b>	<b>100,220</b>	<b>(2%)</b>	<b>89,524</b>	<b>10%</b>	<b>385,253</b>	<b>294,444</b>	<b>31%</b>
Human resources	45,077	45,625	(1%)	45,445	(1%)	178,609	142,537	25%
General and administration	8,109	8,021	1%	9,126	(11%)	32,596	21,872	49%
Operating Supplies	7,273	7,012	4%	7,425	(2%)	27,399	20,457	34%
Occupancy costs	8,618	8,218	5%	7,100	21%	33,698	19,474	73%
Marketing and promotion	3,560	4,359	(18%)	5,571	(36%)	14,714	13,534	9%
	<b>72,637</b>	<b>73,235</b>	<b>(1%)</b>	<b>74,667</b>	<b>(3%)</b>	<b>287,016</b>	<b>217,874</b>	<b>32%</b>
<b>EBITDA <sup>(1)</sup></b>	<b>25,434</b>	<b>26,985</b>	<b>(6%)</b>	<b>14,857</b>	<b>71%</b>	<b>98,237</b>	<b>76,570</b>	<b>28%</b>
EBITDA % of revenues	25.9%	26.9%		16.6%		25.5%	26.0%	
Amortization	9,515	9,502	0%	9,439	1%	37,101	22,616	64%
Stock-based compensation	1,349	1,291	4%	1,988	(32%)	6,333	5,312	19%
Restructuring costs	7,003	427	N/M <sup>(2)</sup>	-	N/M <sup>(2)</sup>	10,026	-	N/M <sup>(2)</sup>
	<b>7,567</b>	<b>15,765</b>	<b>(52%)</b>	<b>3,430</b>	<b>121%</b>	<b>44,777</b>	<b>48,642</b>	<b>(8%)</b>
Interest and financing costs, net	6,587	34,874	(81%)	3,861	71%	51,022	9,388	443%
Impairment of investments and long-lived assets	611	201	204%	8,177	(93%)	3,098	8,200	(62%)
Goodwill impairment	9,929	-	N/M <sup>(2)</sup>	-	N/M <sup>(2)</sup>	9,929	-	N/M <sup>(2)</sup>
Other expenses	460	535	(14%)	568	(19%)	3,401	990	244%
Income taxes	1,514	(5,733)	N/M <sup>(2)</sup>	(81)	N/M <sup>(2)</sup>	(4,030)	14,394	N/M <sup>(2)</sup>
<b>Net income (loss)</b>	<b>\$ (11,534)</b>	<b>\$ (14,112)</b>	<b>(18%)</b>	<b>\$ (9,095)</b>	<b>27%</b>	<b>\$ (18,643)</b>	<b>\$ 15,670</b>	<b>N/M <sup>(2)</sup></b>
Earnings (loss) per common share:								
Basic	\$ (0.13)	\$ (0.16)		\$ (0.11)		\$ (0.22)	\$ 0.20	
Diluted	\$ (0.13)	\$ (0.16)		\$ (0.11)		\$ (0.22)	\$ 0.20	
Weighted average number of common shares:								
Basic	86,133,261	86,087,373		79,406,692		84,471,204	76,626,504	
Diluted	86,133,261	86,087,373		79,406,692		84,471,204	78,402,986	

<sup>(1)</sup> "EBITDA" is a non-GAAP measure and is defined in the Introduction - Non-GAAP Measures section of this MD&A.

<sup>(2)</sup> Not meaningful

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

#### ***Gaming Revenues***

On our financial statements, revenues are presented after deduction for the portion of gaming win and other revenues that are retained by BCLC and NSGC, gaming taxes paid to WSGC, accruals for payouts on progressive games, payments to horse racing purse pools and promotional allowances. The "Supplemental Financial Information" in this MD&A also presents gross revenues before these deductions.

Gaming revenues for the year ended December 31, 2006 increased by \$57,940 or 26% over 2005, resulting primarily from acquisitions and expansions in 2005. The 2005 acquisitions of Fraser Downs, Casinos Nova Scotia, Georgian Downs and Flamboro Downs contributed incremental gaming revenues before deducting promotional allowances of \$38,572, and the 2005 expansions at River Rock and Boulevard Casino contributed incremental gaming revenues before deducting promotional allowances of \$18,479.

In the fourth quarter of 2006, we realized an overall increase in gaming revenues of \$6,225 or 10% compared to the fourth quarter of 2005. With the exception of small declines at Nanaimo and Georgian Downs our properties showed increases in gaming revenues in the fourth quarter of 2006 relative to the fourth quarter in the prior year. The greatest increase was at Boulevard Casino, which in the fourth quarter of 2006 had a full quarter of revenue contribution from the expansion that was completed mid-way through the fourth quarter of 2005, as well as incremental revenue contribution from the completion of the show theatre in September 2006.

Boulevard Casino, Casino on Broadway, Fraser Downs, and Great American Casinos recorded an increase in gaming revenues before deducting promotional allowances of \$2,042 in the fourth quarter of 2006 as compared to the third quarter of 2006. River Rock, View Royal, Nanaimo, Chances Gaming Entertainment, Casinos Nova Scotia, Georgian Downs and Flamboro Downs recorded a decrease in gaming revenue of \$4,295 in the fourth quarter of 2006 as compared to the third quarter of 2006.

The following discussion on gaming revenues uses the casino gaming terms "table drop", "table hold", "table hold percentage" and "slot win". These are non-GAAP measures which are defined in the Introduction – Non-GAAP Measures section of this MD&A, and have common definition in the gaming industry. The table drop, table hold and slot win figures shown below are derived from management gaming reports and are shown before the revenue split with BCLC and NSGC and gaming taxes paid to WSGC. Our portion of the revenue split is reported as gaming revenues and represents the commission we earn on table hold, slot win, and commission earned on craps and poker games and the FDC. Commission earned from the siteholder's agreements in Ontario are recorded as part of gaming revenues.

The following table summarizes the table drop and table hold percentage and slot win for the British Columbia and Nova Scotia casinos for the three month periods ended December 31, 2006, September 30, 2006, December 31, 2005, and for the years ended December 31, 2006 and 2005:

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

	Three Months Ended					Year Ended		
	December 31, 2006	September 30, 2006	% Change	December 31, 2005	% Change	December 31, 2006	December 31, 2005	% Change
<b>River Rock Casino Resort</b>								
Table Drop	\$ 121,968	\$ 122,680	(1%)	\$ 106,983	14%	\$ 476,960	\$ 451,621	6%
Table Hold %	24.1%	26.5%		26.7%		24.9%	25.9%	
Slot Win	\$ 27,124	\$ 28,785	(6%)	\$ 26,444	3%	\$ 109,673	\$ 99,169	11%
<b>Boulevard Casino</b>								
Table Drop	\$ 51,400	\$ 51,909	(1%)	\$ 43,861	17%	\$ 214,057	\$ 169,317	26%
Table Hold %	25.2%	22.2%		22.6%		22.2%	22.1%	
Slot Win	\$ 28,855	\$ 28,759	0%	\$ 23,315	24%	\$ 114,954	\$ 79,531	45%
<b>Other BC Casinos</b>								
Table Drop	\$ 46,452	\$ 46,124	1%	\$ 45,425	2%	\$ 183,921	\$ 176,348	4%
Table Hold %	22.2%	20.3%		21.6%		21.6%	22.4%	
Slot Win	\$ 29,180	\$ 30,120	(3%)	\$ 27,377	7%	\$ 117,531	\$ 106,315	11%
<b>Casino Nova Scotia</b>								
Table Drop	\$ 16,924	\$ 19,401	(13%)	\$ 17,331	(2%)	\$ 68,315	\$ 37,910	80%
Table Hold %	19.4%	19.1%		19.7%		19.1%	18.0%	
Slot Win	\$ 18,925	\$ 21,910	(14%)	\$ 17,199	10%	\$ 76,333	\$ 37,734	102%
<b>Great American Casinos (US dollars)</b>								
Table Drop	\$ 24,306	\$ 21,914	11%	\$ 22,743	7%	\$ 90,216	\$ 88,543	2%
Table Hold %	24.9%	24.1%		23.9%		24.7%	24.4%	

#### British Columbia

For the year ended December 31, 2006, River Rock and Boulevard Casinos greatly benefited from increased table drop and slot win as a result of the 2005 expansion at both casinos and the 2006 opening of the show theatre at the Boulevard Casino. River Rock experienced a 6% increase in table drop for the year-ended December 31, 2006, as compared to 2005 and the Boulevard Casino experienced a 26% increase. Table hold percentage at River Rock decreased to 24.9% in 2006 compared to 25.9% in 2005, while the Boulevard Casino's table hold percentage remained relatively consistent over the same period. A casino's table hold percentage fluctuates with the statistical variations or volatility inherent in its table games. The variations in a casino's table hold percentages may be more pronounced over short periods of time and when a casino, such as River Rock, offers a higher proportion of higher-bet-limit tables since these table games generally have a lower number of players and therefore have fewer hands played. River Rock experienced an 11% increase in slot win in 2006 compared to 2005, and the Boulevard Casino experienced a 45% increase. Our other BC casinos experienced measured growth in 2006 over 2005 in both table drop and slot win.

Fourth quarter gaming revenues at our BC casinos have historically been higher than in the third quarter. We believe our fourth quarter 2006 gaming revenues were affected by severe weather conditions that hindered our customers' ability to visit our properties. In November and December, we were affected by both record winds and unusually heavy rains and snowfalls. This inclement weather disrupted infrastructure and caused power failures throughout the Greater Vancouver and Vancouver Island areas.

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

River Rock experienced a table drop decrease of 1% and slot win decrease of 6% in the fourth quarter of 2006 compared to the third quarter of 2006, while Boulevard Casino recorded a decrease of 1% in table drop but remained steady in slot win for the same period. We believe Boulevard Casino was able to mitigate the fourth quarter impact of the weather because of the added draw of customers to the property resulting from the Phase 2 expansion completed in September 2006 that included the new Red Robinson Show Theatre.

Table game volatility affected River Rock and the Boulevard Casino in opposite ways during the fourth quarter of 2006. While both casinos recorded a 1% decrease in table drop during the fourth quarter of 2006, River Rock's table hold percentage decreased to 24.1% in the fourth quarter of 2006 from a high 26.5% in the third quarter of 2006. We believe that the decrease in River Rock's table hold percentage in the fourth quarter of 2006 was exacerbated by the fact that River Rock offers a higher proportion of higher-bet-limit games that experienced more volatile table holds due to the lower number of players and hands played. The Boulevard Casino's table hold percentage increased to 25.2% in the fourth quarter of 2006 from 22.2% in the third quarter of 2006.

River Rock experienced a table drop increase of 14% and a 3% increase in slot win in the fourth quarter of 2006 compared to the fourth quarter of 2005, despite the negative impact of the severe weather conditions mentioned above. The Boulevard Casino experienced an increase of 17% in table drop and an increase of 24% in slot win in the fourth quarter of 2006 compared to the fourth quarter of 2005, benefiting from the Phase 1 expansion in 2005 and the recently completed Phase 2 expansion.

For the year-ended December 31, 2006, our other BC casinos experienced a 4% increase in table drop and an 11% increase in slot win compared to the prior year. Our other BC casinos also recorded increases of 2% in table drop and 7% in slot win in the fourth quarter of 2006 compared to the fourth quarter of 2005. We believe this increase arose from the continued realization of unmet demand in our chosen markets.

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

#### *Nova Scotia*

For the year ended December 31, 2006, the Casino Nova Scotia recorded increases of 80% in table drop and 102% in slot win, resulting from a full year impact of our acquisition in 2006 compared to seven months in 2005.

The Nova Scotia casinos saw a decrease in the table drop of 2% and an increase in the slot win of 10% in the fourth quarter of 2006, compared to the fourth quarter of 2005. Seasonality of business does affect the two casinos in Nova Scotia. The end of the tourist season resulted in table drop and slot win decreasing by 13% and 14%, respectively, in the fourth quarter compared to the third quarter of 2006.

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

#### *Great American Casinos*

For the year ended December 31, 2006, our Great American Casinos in Washington State experienced table drop growth of 2% compared to 2005. For the first three quarters of 2006, Great American Casinos may have been negatively affected by a state-wide smoking ban that was implemented in December of 2005. However, in the fourth quarter of 2006, Great American Casinos experienced a 7% increase in table drop relative to the fourth quarter of 2005 and an 11% increase relative to the third quarter of 2006. We expect that the improved table drop in the fourth quarter of 2006 may be an indication that the business has begun to adjust to the negative impact of the smoking ban.

#### **Racetrack Revenues**

Racetrack revenues for the year ended December 31, 2006 increased by \$7,785 or 34% compared to 2005. The increase resulted from the 2005 acquisitions of Fraser Downs, Georgian Downs and Flamboro Downs which contributed incremental revenues, before deducting promotional allowances, of \$6,819, a \$2,483 increase at TBC Teletheatres, offset by a \$1,517 decrease for Hastings Racecourse. The increase in racetrack revenues at TBC arose primarily from new teletheatres at River Rock and the Boulevard Casinos. The decrease in racetrack revenues at Hastings Racecourse primarily arose from four fewer live racing days in 2006 compared to 2005 and a migration of some of its simulcast customers to the new TBC teletheatres at River Rock and the Boulevard Casinos.

Racetrack revenues in the fourth quarter of 2006 increased by \$355 or 5% from the fourth quarter of 2005, resulting from 162 live race days in the fourth quarter of 2006 compared to 153 race days in the fourth quarter of 2005, and the additions of TBC teletheatres at River Rock in March 2006 and the Boulevard Casino in September 2006.

Racetrack revenues in the fourth quarter of 2006 decreased by \$771 or 9% from the third quarter of 2006, due primarily to the end of the live racing season at Hastings Racecourse in November 2006, resulting in a sequential decrease in racetrack revenues, before deducting promotional allowances, of \$1,299. Hastings Racecourse ended its live racing season on November 26, 2006 with 18 racing days in the fourth quarter of 2006 compared to 37 racing days in the third quarter of 2006. Hastings Racecourse is scheduled to resume live racing on April 28, 2007. The racetrack revenue reduction was offset by a \$410 increase in racetrack revenues at Fraser Downs in the fourth quarter of 2006 compared to the third quarter of 2006. Fraser Downs resumed live racing on September 15, 2006 and had 39 racing days in the fourth quarter compared to 8 racing days in the third quarter of 2006.

#### **Facility Development Commission**

FDC revenues for the year-ended December 31, 2006 increased to \$19,054 (+17%) compared to \$16,340 in the prior year. The increase is as a result of the higher gaming revenues in British Columbia described above.

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

For the year ended December 31, 2006, food and beverage, hotel and other non-gaming revenues experienced an increase of \$25,245 or 59% over the prior year. Food and beverage,

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

hotel and other non-gaming revenues in the fourth quarter of 2006 increased 9% compared to the fourth quarter of 2005. This increase was primarily due to higher River Rock hotel revenues, which benefited from an increase in both occupancy and average daily room rates and to more Christmas rentals of our show theatres in the fourth quarter of 2006 as compared to more holding more show events in the fourth quarter of 2005. During the fourth quarter of 2005, we offered reduced room rates at our River Rock hotel (opened August 2005) as a marketing initiative to attract new customers.

Food and beverage, hotel, and other non-gaming revenues in the fourth quarter of 2006 increased 7% compared to the third quarter of 2006. Historically, food and beverage revenues in the fourth quarter have been stronger than the third quarter due to seasonality, as the fourth quarter benefits from increased business during the Christmas season. This was especially true of the Boulevard Casino, which we believe benefited from the opening of the show theatre in September 2006.

The increase in food, beverage, hotel and other non-gaming revenues in 2006 compared to 2005 was generated primarily by the 2005 opening of the River Rock Casino Resort's hotel and additional food and beverage outlets, the 2005 acquisitions of Fraser Downs, Casinos Nova Scotia, Georgian Downs and Flamboro Downs, and the 2005 and 2006 expansion of the Boulevard Casino, show theatre and food and beverage outlets. These expansions and acquisitions contributed incremental food, beverage, hotel and non-gaming revenues of \$26,302.

For the year-ended December 31, 2006, the River Rock Casino Resort's hotel operations experienced a 330% revenue increase compared to the prior year. This increase was a result of being in operation for the full year of 2006 as opposed to approximately 3.5 months in 2005. The hotel also saw a 38% revenue increase in the fourth quarter of 2006 as compared to the fourth quarter of 2005, primarily due to a 24% increase in the hotel's average daily room rate to \$157, and an increase in the hotel's average occupancy rate from 69% to 72%. Revenue per available room is a ratio commonly used to measure financial performance in the hospitality industry. This metric is a function of room rates and occupancy and is calculated as average daily room rate multiplied by the average occupancy rate. Revenue per available room for the year-ended December 31, 2006 was \$113 compared to \$88 in 2005.

#### ***Promotional Allowances***

Promotional allowances are complimentary amenities, such as food, non-alcoholic beverages and hotel rooms provided to gaming customers. Promotional allowances have increased in 2006 compared to 2005 primarily due to the acquisition of our Nova Scotia casinos which have a player loyalty program, and that certain of our British Columbia casinos began providing complimentary non-alcoholic drinks to customers.

#### ***Expenses***

While our revenues increased \$90.8 million or 31% in 2006 compared to 2005, our operating expenses for 2006 have increased \$69.1 million or 32% during the same period, resulting in an EBITDA increase of \$21.7 million or 28%. We continue to focus on improving the efficiency of our operations.

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

#### ***Human Resources***

Human resources costs for the year ended December 31, 2006 increased \$36,072 or 25% from 2005, less than the 31% increase in revenues during the same period. Human resources costs for the fourth quarter of 2006 decreased by \$368 or 1% compared to the fourth quarter of 2005, while revenues increased by 10%, evidencing a positive impact from our labour efficiency initiatives. Human resources costs decreased 1% in the fourth quarter of 2006 compared to the third quarter of 2006 while revenues decreased 2%. The human resources costs decreased less than the revenues, as there is a level of staffing that must be maintained for table gaming activities, while revenues are impacted by table hold percentages. For example, the table drop at River Rock decreased by 1% in the fourth quarter of 2006 compared to the third quarter of 2006, but gaming revenues decreased by a greater percentage because of a decrease in River Rock's table hold percentage.

Human resource costs in absolute dollars did increase significantly as a result of the acquisitions and expansions completed during 2005, and from increased head office staff hired to manage our growth. Overall staff levels have continued to decrease from a peak in October 2005, when we reached 5,481 employees, to 5,115 employees at December 31, 2006. Our employee count has increased subsequent to year end to 5,629 as at February 28, 2007, as a result of the consolidation of the Mayfield staff.

Human resources costs were 45% of revenues before deducting promotional allowances in the fourth quarter and the full year of 2006, less than the 49% ratio in the fourth quarter of 2005 and the 47% ratio in the full year of 2005 and a bit higher than the 44% in the third quarter of 2006. We will continue to focus on reducing overall costs and improving the labour efficiency of our operations.

#### ***General and Administration, Operating Supplies, and Occupancy Costs***

For the year ended December 31, 2006, general and administration, operating supplies, and occupancy cost expenses (our other operating costs) increased by \$31,890 or 52% over 2005 as a result of the acquisitions and expansions undertaken in 2005. In the fourth quarter of 2006, other operating costs increased \$349 or 1% compared to the fourth quarter of 2005, and increased \$749 or 3% compared to the third quarter of 2006. The increase in other operating costs in the fourth quarter of 2006 compared to the third quarter of 2006 was primarily due to new costs associated with the Boulevard Casino's Red Robinson Show Theatre. The increase in other operating costs in the fourth quarter of 2006 compared to the fourth quarter of 2005 was primarily due to costs associated with live racing at Fraser Downs which re-commenced in September and with the Boulevard Casino's show theatre. In addition, there have been increases in costs such as property taxes and insurance which have increased with the size and scope of our operations from the recent expansions.

#### ***Marketing and Promotion***

Marketing and promotion expense for the year ended December 31, 2006 increased 9% from 2005. For 2006, we incurred marketing and promotion expenses related to the opening of the show theatre at the Boulevard Casino, the opening of Chances Gaming Entertainment, and the re-launch of the Nova Scotia casinos in Halifax and Sydney. Marketing and promotion expense

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

for the fourth quarter of 2006 decreased 36% compared to the fourth quarter of 2005 since in the prior year we had increased expenses for promoting the opening of the River Rock Casino Resort and the Boulevard Casino expansions. Marketing and promotion expense decreased 18% compared to the third quarter of 2006. This was primarily due to increased theatre rentals for Christmas related functions that replaced booked live entertainment and cost containment initiatives.

Marketing and promotion expense as a percentage of revenues before promotional allowances was 4% for the year ended December 31, 2006 and 2005, and for the fourth and third quarter of 2006. This ratio was 6% in the fourth quarter of 2005, a result of the pre-opening marketing and advertising costs at River Rock and the Boulevard Casino in the fourth quarter of 2005.

We continue to concentrate our marketing efforts on our two show theatres and targeted promotions rather than general broad-based initiatives. The show theatres have been an effective medium to draw a pre-determined target market patron to visit our properties, which with a superior show performance, have resulted in extended stays on our properties, increased spending and most importantly, increased gaming revenues. Our marketing and entertainment group continues to work with BCLC to increase revenues by focusing on special concerts, events and community initiatives, as well as on a reward program to reinforce property branding, and increase customer retention, visits and satisfaction.

Included in marketing promotion expense is the expenditures made by BCLC out of the BCLC Marketing Fund. During 2006, we made \$5,785 in contributions into the Marketing Fund, from which BCLC made \$4,934 in expenditures for promotional activities that included promotions for our theatres, casino events and poker tournaments held at our casinos, and a gala for the opening of our Red Robinson Show Theatre at the Boulevard Casino. At December 31, 2006, there was \$2.8 million in the pre-paid BCLC Marketing Fund.

At both Ontario racetrack locations, marketing plans are undertaken internally to strategically develop our live and simulcast racing and food and beverage business lines. Marketing for the track's gaming floors is primarily undertaken by the OLG and their respective marketing initiatives.

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

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

EBITDA was \$98,237 for the year ended December 31, 2006, an increase of \$21,667 or 28% over 2005, while revenues increased by 31% over the same period. The acquisitions of Fraser Downs, the Nova Scotia casinos, Georgian Downs and Flamboro Downs in 2005 provided incremental EBITDA of \$16,383 in 2006 compared to 2005. The expansions of River Rock and the Boulevard Casino provided incremental EBITDA of \$5,457 in 2006 compared to 2005.

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

EBITDA in the fourth quarter of 2006 increased \$10,577 or 71% while revenues increased \$8,547 or 10% compared to the fourth quarter of 2005. The large improvement over the fourth quarter of 2005 was primarily caused by the fact that EBITDA was unusually low in the fourth quarter of 2005, as it was negatively affected by \$4,964 of pre-opening labour and marketing costs related to the River Rock and the Boulevard Casino and start-up inefficiencies associated with our expansions and rapid growth. In addition, all our properties had EBITDA that was improved or relatively flat compared to the prior year, with the exception of River Rock. River Rock's EBITDA was affected by lower revenues in the fourth quarter, caused by a return to a more normal table hold percentage in the fourth quarter of 2006 compared to the strong table hold percentage experienced in the fourth quarter of 2005 and by the severe weather described above.

Relative to the third quarter of 2006, EBITDA in the fourth quarter of 2006 decreased \$1,551 or 6%. The sequential decline was caused primarily by reduced EBITDA at River Rock of \$1,299, Casino Nova Scotia of \$2,187, and \$713 at Hastings Racecourse. River Rock's EBITDA was negatively affected by reduced revenues related to severe weather and a return to more normal table hold percentages, Casino Nova Scotia's EBITDA decreased as a result of seasonal declines in the fourth quarter, and Hastings Racecourse's decline was a result of the end of the live racing season on November 26, 2006. This was offset primarily by an increase in EBITDA at the Boulevard Casino of \$1,030 and Great American Casinos of \$828, as well as a \$678 reduction of our corporate head office costs. We believe that these improvements evidence the benefit of the expansions at the Boulevard Casino, a recovery from the Washington State smoking ban, and improvements from our cost savings initiatives, respectively.

During 2006, we demonstrated an improving trend in EBITDA as a percentage of revenues. EBITDA as a percentage of revenues were 16.6% in the fourth quarter of 2005, and improved to 23.7%, 25.2%, and 26.9% in the first, second and third quarters of 2006. EBITDA as a percentage of revenues was 25.9% in the fourth quarter of 2006. The process improvements, restructuring programs, and cost savings initiatives initiated this year have supported EBITDA as a percentage of revenues in the fourth quarter of 2006, despite the seasonal downturns at Nova Scotia and Hastings Racecourse and reduced revenues at River Rock.

#### ***Amortization***

Amortization increased by 64% in the year ended December 31, 2006 compared to 2005 due largely to the increase in property, plant, and equipment and intangible assets acquired and from capital expansion projects. Amortization expense increased 1% in the fourth quarter of 2006 compared to the fourth quarter of 2005, and remained flat compared to the third quarter of 2006. A significant amount of acquisition and expansion occurred in the first three quarters of 2005, and thus these acquired assets were amortized for a shorter period than the full year they were amortized in 2006.

#### ***Stock-Based Compensation***

Stock-based compensation for the year ended December 31, 2006 increased by 19% over 2005 due to the fair value expense associated with the granting of options in 2006, offset by the reduced expense associated with the current year forfeiture of options granted in prior years.

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

Stock-based compensation decreased by 32% in the fourth quarter of 2006 as compared to the same period in 2005. The decrease in the fourth quarter of 2006 stock-based compensation is due to the forfeitures of options granted in prior years during 2006, which vested and were expensed in the fourth quarter of 2005. Stock-based compensation increased sequentially from the third to the fourth quarter of 2006 by 4% due to the grant of options in the fourth quarter of 2006.

During the year ended December 31, 2006, 1.65 million options were granted at a weighted-average exercise price of \$11.89, 1.64 million options with a weighted-average exercise price of \$17.59 were cancelled, expired, or forfeited, and 0.5 million options were exercised at a weighted-average exercise price of \$2.09.

#### ***Restructuring Costs***

As part of our continuing focus on improving efficiency and controlling costs, we incurred \$10,026 in restructuring costs during the year ended December 31, 2006, compared to none in 2005. Restructuring costs in the fourth quarter of 2006 related primarily to \$4,129 in severances and \$5,600 for the voluntary buyout of our food and beverage and hospitality services with Mayfield.

Effective October 31, 2006 we 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 our facilities in British Columbia. Pursuant to this agreement we 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 Coquitlam Casino which we assumed control of in January, 2007. The impact on the year and quarter ended December 31, 2006 was \$5,600 on a pre-tax basis, approximately \$3,689 on an after-tax basis, and \$0.04 on a basic and diluted per common share on basis. The fee to take over the food and beverage and hospitality services from Mayfield was paid in two equal installments of \$2,800. The first installment was paid in the fourth quarter of 2006, while the second was paid in January 2007.

#### ***Interest and Financing Costs, net***

Interest and financing costs, net increased \$41,634 for the year ended December 31, 2006 compared 2005 and decreased \$28,287 in the fourth quarter of 2006 compared to the third quarter of 2006, primarily due to one-time payments associated with the early redemption of the Company's Former Notes and the write-off of previously deferred associated financing costs, as well as higher interest expense on the Bridge Credit Facility in the third quarter of 2006. The redemption of the Former Notes impacted the results for the third quarter of 2006 by \$30,904 on a pre-tax basis, \$20,360 on an after-tax basis and \$0.24 on a diluted per common share basis. Interest and financing costs, net increased in the fourth quarter of 2006 by 71% due to higher interest and financing expense on the Bridge Credit Facility than the Notes in the prior year.

#### ***Impairment of Investments and Long-lived Assets***

Impairment of investments and long-lived assets decreased by \$5,102 for the year ended December 31, 2006 compared to 2005, and decreased \$7,566 in the fourth quarter of 2006 compared to the fourth quarter of 2005. The 2005 loss on investments and long-lived assets

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

included a non-cash write downs of our investment in Creation Casinos Inc. of \$7,490 and a loss on disposal of investments in Queen of Diamonds of \$1,000. The 2006 loss on investments and properties is comprised write downs on Queen of Diamonds of \$880, Wells Hotel of \$841, and other impairments in property, plant and equipment of \$809.

#### ***Impairment of Goodwill***

As a result of conducting our normal course reviews of operations and annual impairment tests associated therewith, for the three-month period ended December 31, 2006, we recorded a non-cash write-down of \$9,929 reflecting an impairment of the goodwill associated with our investment in Hastings Entertainment Inc., our subsidiary that operates Hastings Racecourse. The impairment of goodwill has no current or future tax impact so the pre-tax and after-tax impact of the write-down is \$9,929, or \$0.12 on a basic and diluted common share basis for the year ended December 31, 2006.

#### ***Other Expenses***

Other expenses increased by \$2,411 in 2006 compared to 2005 substantially due to a non-cash foreign exchange loss incurred in the second quarter of 2006 of \$1,851, combined with an increase in the non-controlling interest charge of \$876.

#### ***Income Taxes***

The Company's income tax provision (recovery) is impacted by a rate change, non-deductible stock-based compensation and non-deductible capital losses. As a result of the effect of a statutorily enacted reduction in the corporate income tax rate on future income tax liabilities, the Company included an increase of \$5,000 in income tax recovery. A further tax benefit of \$10,544 was related to the Notes early redemption fees and write off of previously deferred financing costs.

#### ***Net income/loss***

We incurred a net loss of \$18,643 in 2006 compared to net income of \$15,670 in 2005 and a net loss of \$11,534 in the fourth quarter of 2006 compared to a net loss of \$9,095 in the fourth quarter of 2005. The net loss in 2006 resulted primarily from restructuring costs of \$10,026, Series A and B Notes redemption costs of \$30,904, and the Hastings goodwill impairment of \$9,929 on a pre-tax basis.

The basic and diluted loss per common share for 2006 was \$0.22, compared to diluted earnings per common share of \$0.20 for 2005. The basic and diluted loss per common share was \$0.13 for the fourth quarter of 2006, compared to a basic and diluted loss per share of \$0.11 in the fourth quarter of 2005.

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

#### CONSOLIDATED QUARTERLY RESULTS TREND

	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Revenues	\$ 98,071	\$ 100,220	\$ 95,682	\$ 91,280	\$ 89,524	\$ 77,250	\$ 71,816	\$ 55,854
EBITDA <sup>(1)</sup>	\$ 25,434	\$ 26,985	\$ 24,148	\$ 21,670	\$ 14,857	\$ 20,297	\$ 23,638	\$ 17,778
EBITDA as a percentage of Revenues	25.9%	26.9%	25.2%	23.7%	16.6%	26.3%	32.9%	31.8%
Net income (loss)	\$ (11,534)	\$ (14,112)	\$ 6,088	\$ 915	\$ (9,095)	\$ 6,404	\$ 10,560	\$ 7,801
Earnings (loss) per common share:								
Basic	\$ (0.13)	\$ (0.16)	\$ 0.07	\$ 0.01	\$ (0.11)	\$ 0.08	\$ 0.14	\$ 0.11
Diluted	\$ (0.13)	\$ (0.16)	\$ 0.07	\$ 0.01	\$ (0.11)	\$ 0.08	\$ 0.14	\$ 0.10

<sup>(1)</sup> "EBITDA" is a non-GAAP measure and is defined in the Introduction - Non-GAAP Measures section of this MD&A.

For the past eight quarters, revenues show a continued positive trend. The decline in revenues for the fourth quarter of 2006 is primarily due to lower fourth quarter gaming revenues at River Rock resulting from lower hold percentages than in the previous quarter and the severe weather described previously, and seasonal declines at Casino Nova Scotia and Hastings Racecourse.

EBITDA improved through the first two quarters of 2005. In the fourth quarter of 2005 there were \$4,964 in unusual costs including one-time expansion and pre-opening related costs for River Rock and the Boulevard Casino. EBITDA subsequently improved through the first three quarters of 2006. The fourth quarter of 2006 was affected by the lower table hold percentages experienced at the River Rock relative to the previous quarter and the severe weather and seasonal declines mentioned above.

EBITDA as a percentage of revenues declined in the second half of 2005 due to significant costs associated with expansions, growth, and non-gaming activities, but have steadily improved through the first three quarters of 2006. EBITDA as a percentage of revenues for the fourth quarter of 2006 has declined only 1% from the prior quarter despite a 2% decline in revenues for the same period. We believe this evidences the Company's cost savings from business process improvement and efficiency initiatives.

We incurred a net loss in the fourth quarter of 2005, mainly due to lower EBITDA from the above-mentioned unusual costs incurred at River Rock and the Boulevard Casino during that period. The net loss in the third quarter of 2006 was mainly due to the one-time costs of redeeming the Series A and Series B Senior Secured Notes of \$20,360 on an after-tax basis. The net loss in the fourth quarter of 2006 was a result of the non-recurring \$5,600 restructuring costs related to the voluntary buyout of future services from Mayfield, and the \$9,929 impairment of goodwill for Hastings Entertainment Inc.

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

## LIQUIDITY AND CAPITAL RESOURCES

### Financial Position

As at December 31,	2006	2005	Chg
Cash and cash equivalents	\$ 56,773	\$ 69,812	(19%)
Other current assets	57,042	50,494	13%
Property, plant and equipment	565,824	518,807	9%
Due from Nova Scotia Gaming Corporation	17,733	28,607	(38%)
Other assets	243,312	255,929	(5%)
	<b>\$ 940,684</b>	<b>\$ 923,649</b>	<b>2%</b>
Long-term debt, current	\$ 1,216	\$ 3,252	(63%)
Other current liabilities	72,031	70,578	2%
Long-term debt	390,324	438,279	(11%)
Other long-term liabilities	82,288	87,992	(6%)
Shareholders' equity	394,825	323,548	22%
	<b>\$ 940,684</b>	<b>\$ 923,649</b>	<b>2%</b>

Cash and cash equivalents decreased by \$13,039 to \$56,773 at December 31, 2006 from December 31, 2005 primarily due to positive cash flows from operations, net positive cash flows from financing activities (share issuances less debt reductions), offset by cash outflows from investing activities for capital spending on development projects and the costs of redeeming the Series A and Series B Senior Secured Notes.

Property, plant and equipment, net of amortization, increased primarily due to additional capital spending on development projects at the Boulevard Casino, Casino Nova Scotia Halifax and Sydney and Chances Gaming Entertainment, and land at Georgian Downs.

The amount due from the Nova Scotia Gaming Commission has decreased due to payments received.

Other assets decreased primarily due to the goodwill impairment of \$9,929 of goodwill related to Hastings Racecourse and the amortization of intangible assets.

Long-term debt decreased primarily due the repayment of amounts outstanding under a former credit facility from proceeds of an equity offering completed on March 28, 2006. Shareholders' equity increased primarily due to \$79,705 in net proceeds received from the earlier referred equity offering.

The Bridge Credit Facility was repaid and retired subsequent to the year-end. The Bridge Credit Facility is shown as long-term debt on the balance sheet since it was replaced with long-term debt subsequent to the year-end (See Debt Refinancing Section below). In addition, the Flamboro Downs promissory note is due on June 30, 2007, but will be repaid from the proceeds of the new long-term debt issued subsequent to year-end, and is therefore presented as long-term debt as at December 31, 2006.

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

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, are amortized over the period from September 29, 2006 when the Bridge Credit Facility was obtained, to February 14, 2007 when the debt was refinanced and the Bridge Credit Facility was repaid.

### Changes in Cash Flows

Cash flows:	Three Months Ended December 31,		Years Ended December 31,	
	2006	2005	2006	2005
Cash inflow from operating activities	\$ 19,064	\$ 18,039	\$ 31,124	\$ 54,548
Cash outflow from investing activities	(29,506)	(34,278)	(71,147)	(400,917)
Cash inflow (outflow) from financing activities	(20,235)	39,218	26,505	377,325
Effect of foreign exchange on cash and cash equivalents	574	106	479	(90)
Increase (decrease) in cash	\$ (30,103)	\$ 23,085	\$ (13,039)	\$ 30,866

Cash inflows from operating activities decreased by \$23,424 in 2006 compared to 2005, primarily due to the one-time payments associated with the early redemption of our Series A and B Notes and the payment to terminate the Mayfield food and beverage and hospitality management agreements, offset by increased EBITDA from operations. Cash outflow from investing activities decreased by \$329,770, as we had spent \$182,104 on acquisitions in 2005 but had no significant acquisitions in 2006, and we had spent \$194,329 in 2005 on property, plant and equipment from major expansions at River Rock and Boulevard Casino Phase 1 compared to only \$82,696 in 2006 on Boulevard Casino Phase 2 and smaller renovations at Chances Gaming Entertainment and the Nova Scotia Casinos. Cash inflows from financing activities in 2006 resulted from cash inflows from share issuances of \$80,569 offset by net repayments of long-term debt of \$49,991. In 2005, the cash inflows from financing related to approximately \$242 million in net borrowing from the issuance of the Series B Senior Secured Notes and funds borrowed on the Company's former credit facility, and \$138,137 proceeds from share issuances.

For the quarter ended December 31, 2006, cash inflows showed a slight increase compared to the fourth quarter of 2005 resulting from increased EBITDA offset by a fourth quarter \$2,800 payment related to termination of the Mayfield food and beverage and hospitality services. For the fourth quarter of 2006, we had a cash outflow related primarily to the repayment of \$20,184 on the Bridge Credit Facility, while in 2005 we borrowed \$40,009 on the Company's former credit facility. Investing activities for the fourth quarter of 2006 were slightly less than in the fourth quarter of 2005, primarily due to decreased capital spending, as we spent \$38,597 in the fourth quarter of 2006 as compared to \$47,759 in 2005.

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

#### Capital Resources

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

	December 31, 2006	December 31, 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

On March 27, 2006, the holders of our Series A and Series B Senior Secured Notes and the lenders of our former credit facility agreed to amend certain terms, including the financial covenants, related to the Series A and B Notes and the former credit facility. The noteholders and lenders agreed to increase our permitted Net Debt to Adjusted EBITDA ratio (defined terms in the debt agreements) to be: 3.50 or less at March 31, 2006, 3.25 or less at June 30, 2006, 3.00 or less at September 30, 2006, 2.75 or less at December 31, 2006 and for all of 2007, and 2.50 or less for any measurement period after January 1, 2008. In consideration for these changes, we agreed to:

- pay amendment fees totalling \$1,350;
- increase the coupon rate on the Series A and B Notes by 0.375% per annum for a period ending on the later of December 31, 2006 or the second consecutive quarter we maintain a Net Debt to Adjusted EBITDA ratio of 2.50 or less;
- increase the coupon rate on the Series A and B Notes by an additional 0.75% over the 0.375% mentioned above, if the Dominion Bond Rating Service downgraded our credit rating at any time over the next two years from BBB (low), such increased coupon rate of interest period to end when we maintain a Net Debt to Adjusted EBITDA ratio of 2.50 or less for two consecutive quarters;
- not make any third party acquisitions unless subsequent to the acquisition, we would have been in compliance with the original Net Debt to Adjusted EBITDA ratio; and
- by May 31, 2006, issue sufficient equity to notionally reduce the Net Debt to Adjusted EBITDA ratio to 2.75 or less at March 31, 2006.

On September 29, 2006, we closed on the \$450,000 Bridge Credit Facility consisting of a \$250,000 non-amortizing credit facility (the "Non-Revolving Bridge") and a \$200,000 revolving facility (the "Bridge Revolver"). On September 29, 2006, we drew down the entire amount of the Non-Revolving Bridge and \$115,000 of the Bridge Revolver to redeem and cancel the Series A and B Notes and to repay the amounts outstanding under the former credit facility. In

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

redeeming the Series A and B Notes, we paid \$300,000 in principal, \$25,214 in prepayment fees, and \$6,309 in accrued interest.

The Bridge Credit Facility expires on October 1, 2007 and, among other covenants, required us 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 included restrictions on our ability to make investments, incur additional indebtedness or sell assets. The Bridge Credit Facility was guaranteed by us and our principal subsidiaries, and was secured by our principal assets.

The interest rate for both tranches of the Bridge Credit Facility was based on our Net Debt to Adjusted EBITDA ratio and was adjusted quarterly. The initial advances under the Bridge Credit Facility bore 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 occurred at a Net Debt to Adjusted EBITDA ratio of 4.25 and would have been 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 increased by 0.25% after 90, 180 and 270 days from September 29, 2006.

Amounts accrued or paid that are associated with establishment of new debt or credit facilities are deferred, included in promissory notes receivable and other assets on the balance sheet, or included in prepaids, deposits and other assets, depending on the maturity of the related debt, 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 were deferred and amortized over the period from September 29, 2006 to February 14, 2007, which is the date the Company's debt was refinanced and the Bridge Credit Facility was retired (See Debt Refinancing Section below).

Amounts accrued or paid to lenders in connection with a settlement of debt instruments are expensed to interest and financing costs, net on the statement of income (loss). Deferred financing costs existing at the time of a settlement of debt are expensed to interest and financing costs, net on the statement of income (loss). The prepayment fees, accrued interest, previously deferred financing costs and interest rate hedge gain of \$1,543 associated with the redeemed Series A and B Notes are included in interest and financing costs, net on the statement of income (loss). These significant fees and costs contributed to the loss in 2006.

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

#### *Debt Refinancing*

On February 14, 2007, the Company closed on its debt refinancing to retire the Bridge Credit Facility. This debt refinancing was the final step of a restructuring process that began last year with the establishment of a Bridge Credit Facility, which was used to redeem the former Series A and Series B Senior Secured Notes. The new debt facilities provide the Company with a more flexible debt structure, a leverage more typical of the industry, capacity to fund future

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

---

growth and expansion opportunities, and the opportunity to lower our overall cost of capital.

The debt refinancing consisted of three components: (i) an undrawn \$200.0 million Senior Secured Revolving Credit Facility ("Revolving Credit Facility"); (ii) a US\$170.0 million Senior Secured Term Loan B ("Term Loan B"); and (iii) US\$170.0 million Senior Subordinated Notes ("Subordinated Notes"). The gross proceeds of the Term Loan B and the Subordinated Notes were \$401.9 million. The proceeds were used to repay the Bridge Credit Facility of \$340.8 million, provide cash security to settle the Flamboro Promissory Note of \$41.7 million, pay costs and fees of the refinancing and provide for working capital.

The Company's new debt facilities have been rated as follows:

<u>Rating</u>	<u>Moody's</u>	<u>Standard &amp; Poor's</u>
Corporate	Ba3 Stable	BB Stable
Senior Credit & TLB Secured	Ba2	BB
Senior Subordinated	B2	B+

The Revolving Credit Facility and 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 2.0 or greater for the first three years and 2.25 or greater thereafter.

Subject to compliance with all operational and financial covenants, the Company has the option to increase the Revolving Credit Facility or issue additional term loans by up to \$150.0 million 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 interest rate margin in the case of the Term Loan B.

The undrawn 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 will be based on the Company's Total Debt to Adjusted EBITDA ratio (defined in the underlying credit agreement) 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 will bear interest at either the Toronto-Dominion Bank's Canadian prime rate plus 0.375% or the Canadian bankers' acceptance rate plus 1.625%.

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

---

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

<b>Total Debt / Adjusted EBITDA</b>	<b>Margin on Bankers' Acceptances or Eurodollar Rate Advances &amp; Letters of Credit</b>	<b>Margin on Canadian Prime Rate or U.S. Base Rate Advances</b>	<b>Commitment Fee</b>
>= 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%

For the three-month period ended June 30, 2007, we expect the commitment fee on the undrawn balance of the Revolving Credit Facility to be 0.300%.

The Term Loan B is denominated in US dollars (US\$170.0 million) 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 result in a principal of \$200.8 million in Canadian dollars and a fixed interest rate of approximately 6.1% per annum. 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 0.25% are required quarterly, with the balance due on maturity, which is February 13, 2014.

The Subordinated Notes are guaranteed by the Company and its substantially all of its subsidiaries, and are unsecured. The 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 U.S. fixed interest rate to result in a principal of \$201.1 million in Canadian dollars and a fixed interest rate of approximately 6.6% per annum. 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, at our option, 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).

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

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

---

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 in 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 assuming retirement of the Bridge Credit Facilities, the Company's principal repayments for 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
	\$	<b>401,900</b>

---

#### *Cross Currency Interest Rate and Currency Swap Agreements & Hedge Accounting*

The Company's primary functional currency is Canadian dollars. The Company's risk management strategy is to minimize exposure to currencies other than Canadian dollars and, with the exception of revolving lines of credit, to fix substantially all of its floating interest rate debt.

In conjunction with the closing of the Company's debt refinancing, the Company entered into cross currency interest rate swap agreements that effectively converted the long-term \$170 million U.S. dollar floating interest rate Term Loan B into Canadian dollar long-term fixed interest rate debt and the long-term \$170 million U.S. dollar fixed interest rate Subordinated Notes into Canadian dollar long-term fixed interest rate debt.

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

---

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 <sup>(1)</sup>	\$200,800 CAD <sup>(1)</sup>	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 are designated as an effective hedge of the cash flows associated with the anticipated U.S. dollar long-term floating and fixed interest rate borrowings. The Company has applied hedge accounting as it believes hedge accounting to be representative of the economic substance of the underlying transactions.

To qualify for hedge accounting, the hedging relationship must be effective in offsetting changes in the fair value of cash flows of the hedged items with changes in the fair values or cash flows of the hedging items. The Company will assess the anticipated effectiveness of the designated hedging relationships at inception and for each reporting period thereafter and will record in income any ineffectiveness in these hedging relationships.

There may be credit risks associated with the cross currency interest rate swap agreements insofar as the counterparties to the agreements are unable to meet the terms of the contracts. In the event of non-performance by the counterparties, the Company's accounting loss would be limited to the net amount that it would be entitled to receive under the agreements. These risks are mitigated by dealing with high creditworthy financial institutions such as the Company's current syndicate of Canadian chartered banks.

#### *Private Placement of Units*

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

#### *Outstanding Share Data*

As at December 31, 2006, there were 86,146,631 common shares outstanding as compared to 79,449,720 as at December 31, 2005. As at March 16, 2007, there were 86,518,631 common shares outstanding.

As at December 31, 2006, there were 5,145,562 stock options outstanding at a weighted average exercise price of \$12.30 of which 2,999,562 were exercisable at a weighted average exercise

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

price of \$11.49. As at December 31, 2006, there were 6,206,361 warrants outstanding and exercisable at a weighted average exercise price of \$12.89.

### Commitments

Contractual Obligations	Expected Payments by Period as at December 31, 2006				
	Within 1 year	2 - 3 years	4 - 5 years	More than 5 years	Total
Long-term debt	\$ 507	\$ 1,092	\$ 1,230	\$ 387,277	\$ 390,106
Capital lease obligations	709	643	82	-	1,434
Operating leases and contracts	4,129	6,530	5,614	20,617	36,890
Total	\$ 5,345	\$ 8,265	\$ 6,926	\$ 407,894	\$ 428,430

The long-term debt contractual obligation includes the repayment of debt assumed on the acquisition of Hastings Racecourse. In addition, the long-term debt includes the Bridge Credit Facility and the debt assumed on the acquisition of Flamboro Downs, both of which are due in 2007 but are presented as due after more than 5 years since they have been repaid or will be repaid using proceeds from the debt refinancing that was completed in February 2007.

Obligations for operating leases and contracts relate primarily 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."

We have a commitment to pay a consultant a finder's fee in respect of the acquisition of Georgian Downs. This finder's fee is contingent on the future cash flows of Georgian Downs.

### Contingencies

#### *Racing operations at Georgian Downs*

Effective December 31, 2006, our 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.

#### *Other contingencies*

We have issued letters of credit to guarantee performance under contracts and gaming cash floats in the aggregate amount of \$25,426 at December 31, 2006.

As part of certain acquisition agreements, including those entered into on the acquisition of Fraser Downs and Georgian Downs, we have agreed to make future contingent payments dependent on operations at these locations.

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

#### *Guarantees and Indemnifications*

The Company may provide 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:

- 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;
- certain vendors of acquired companies or property for obligations that may or may not have been known at the date of the transaction;
- certain financial institutions for costs that they may incur as a result of representations made in our debt offering documents;
- lessors of leased properties for personal injury claims that may arise at the facilities we operate; and
- Mayfield Canada Inc. for certain claims that may arise related to their former employees.

#### **Litigation**

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 British Columbia Court of Appeal. We believe that the appeal is without merit and is unlikely to overturn the Supreme Court's original ruling.

If the appellate court 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.

In addition, the Company is involved in claims and litigation arising in the ordinary course of business. We believe that the amount of ultimate liability with respect to these actions will not materially affect the financial position of the Company.

#### **Future Cash Requirements**

We believe that our current approved capital plans and operational requirements can be funded from existing cash, cash generated from operations, our existing credit and debt facilities, and proceeds from the exercise of stock options or warrants. If we have increased cash requirements and do not want to delay, limit, or eliminate some of our plans, we may raise additional funds through the refinancing of existing debt or the issuance of non-debt securities or additional equity securities. If we raise additional funds through the issuance of equity securities or the exercise of stock options or warrants, the current shareholders' ownership

**GREAT CANADIAN GAMING CORPORATION**

**Management's Discussion & Analysis**

For the Year Ended December 31, 2006

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

---

percentages will be reduced and such equity securities may have rights, preferences, or privileges senior to our common shares.

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

---

## OTHER FINANCIAL INFORMATION

### Related Party Transactions

The following table summarizes related party transactions and balances are in addition to those noted elsewhere in the MD&A for the years ended December 31, 2006 and 2005.

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

<sup>(1)</sup> Subsequent to year end, the ATM service contract with the related party was sold to an unrelated service provider.

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

### Critical Accounting Estimates

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

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

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

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

#### *Business Combinations*

The cost of an acquired company ("purchase price") is assigned to the identifiable tangible and intangible assets purchased and liabilities assumed on the basis of their fair values at the date of acquisition. The identification of assets purchased and liabilities assumed and the valuation thereof is specialized and judgmental. Where appropriate, the Company engages business valuers to assist in the valuation of tangible and intangible assets acquired. Any excess of purchase price over the fair value of the identifiable tangible and intangible assets purchased and liabilities assumed is allocated to goodwill.

When a business combination involves contingent consideration, an amount equal to management's estimate of the contingent consideration that will become due beyond a reasonable doubt is recognized as a liability at the time of acquisition. When the contingency is resolved and the consideration is issued or becomes issuable, any difference in the fair value of the contingent consideration issued or issuable over the amount initially recognized will be recognized as an adjustment to the cost of the purchase.

Intangible assets are amortized in the statement of income (loss) over the estimated useful life of the intangible asset. Judgment is used to estimate an intangible asset's useful life and is based on an analysis of all pertinent factors including, amongst others, our 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.

#### *Long-Lived Assets and Goodwill Impairment Tests*

Long-lived assets, including intangible assets, are tested for impairment whenever management believes events or circumstances indicate that the carrying values of those assets may not be fully recoverable (a "triggering event"). A long-lived asset impairment loss is recognized when the carrying value of that asset exceeds our estimate of 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 estimated fair value.

Goodwill is tested for impairment at least annually, normally at year-end, and whenever a triggering event indicates that the carrying values of goodwill 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

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

amount over the fair value of goodwill, if any, is charged to operations in the period the impairment occurred.

#### *Stock-Based Compensation*

Companies that issue equity based compensation, such as options, are required to record the fair value of the options granted as an operating expense in the statement of income (loss) over the expected life of the option. At the date of the option grant, the Company estimates the fair value of the option using the Black-Scholes pricing model. That model takes into account the exercise price of the option, an estimate of the expected life of the option, the current price of the underlying stock, an estimate of the stock's volatility, an estimate of future dividends on the underlying stock and the risk-free rate of return expected for an instrument with a term equal to the expected life of the option. Once the fair value is determined and the period of expensing established, the charge is not adjusted for subsequent changes in the original assumptions.

#### *Income Taxes*

We currently have deferred tax assets resulting primarily from net operating loss carry-forwards and deductible timing differences, which will reduce taxable income in future periods. A valuation allowance is required when we believe it is more likely than not that all or a portion of a deferred tax asset will not be realized. We consider future taxable income projections, historical results and ongoing tax planning strategies in assessing the recoverability of deferred tax assets. The tax basis of assets and liabilities as well as the amount of undeducted tax losses are based upon the applicable income tax legislation, regulations and interpretations, all of which in turn are subject to interpretation

#### **Recent Accounting Policy Developments**

The following is a summary of forthcoming generally accepted accounting principle developments that will, or may, affect the Company

##### *(a) Convergence with International Financial Reporting Standards*

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards ("IFRS") over a transitional period currently expected to be approximately five years. The precise timing of convergence will depend on an Accounting Standards Board progress review to be undertaken by early 2008. Canadian GAAP will converge with IFRS through a combination of two methods. As current joint-convergence projects of the United States' Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by Canada's Accounting Standards Board and may be introduced in Canada before the complete changeover to IFRS. Standards not subject to a joint-convergence project will be adopted in an omnibus manner. Since this convergence initiative is in its infancy as of the date of this MD&A, we have not yet completed our assessment of the impact, if any, the initiative will have on the Company.

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

#### *(b) Financial instruments and comprehensive income*

Commencing January 1, 2007, the Canadian Institute of Chartered Accountants' ("CICA") new recommendations for accounting for comprehensive income (CICA Handbook Section 1530), for the recognition and measurement of financial instruments (CICA Handbook Section 3855) and for accounting for hedges (CICA Handbook Section 3865) apply to the Company. In the Company's specific instance, the transitional rules for these sections require prospective implementation from January 1, 2007 (the exception being in respect of the cumulative foreign currency translation adjustment, which is retroactively adjusted for at the beginning of 2007).

We expect that the concept of comprehensive income will affect the Company in two significant areas. One will be to present the cumulative foreign currency translation balance on the balance sheet as a component of accumulated other comprehensive income (a separate component of shareholders' equity, similar to the cumulative foreign currency translation balance), and changes in the cumulative foreign currency translation will be presented as a component of other comprehensive income. We also expect that the Company will be affected in our application of hedge accounting and financial statement presentation of the cross-currency interest rate swaps that we entered into in conjunction with our debt refinancing completed on February 14, 2007. The fair value of the swaps will be presented on the consolidated balance sheets, with the effective portion of the changes in the fair value of those swaps being recorded as other comprehensive income, and any ineffective portion of those swaps being recorded in income.

Commencing January 1, 2008, the CICA's new recommendations for financial instrument disclosures and presentation (CICA Handbook Section 3862) will apply to the Company. The new recommendations will result in incremental disclosures, relative to those currently, with an emphasis on risks associated with both recognized and unrecognized financial instruments to which an entity is exposed during the period and at the balance sheet date, and how an entity manages those risks. We are assessing how we will be affected by these new recommendations.

#### *(c) Accounting changes*

Commencing January 1, 2007, the CICA's new recommendations for accounting changes (CICA Handbook Section 1506) will apply to the Company. Most significantly, the new recommendations stipulate that voluntary changes in accounting policy be made only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. Early adoption was permitted, and the Company elected to adopt this provision during its 2006 fiscal year with respect to the change in accounting policy for the FDC. We do not anticipate any further voluntary accounting policy changes, and thus we do not expect to be materially affected by the new recommendations.

#### *(d) Capital structure and financial policies*

Commencing January 1, 2008, the CICA's new recommendations for capital disclosures (CICA Handbook Section 1535) will apply to the Company. The new recommendations will require us

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

to make disclosures about our objectives, policies, and processes for managing capital. We are assessing how we will be affected by these new recommendations.

#### *(e) Business combinations*

The CICA has proposed amended recommendations for accounting for business combinations that may apply to future business combinations that Company may undertake, if any, subsequent to the amended recommendations coming into force. Whether the Company would be materially affected by the proposed amended recommendations would depend upon the specific facts of the business combinations, if any, occurring subsequent to the amended recommendations coming into force. Generally, the proposed recommendations will result in measuring business acquisitions at the fair value of the acquired entities and a prospectively applied shift from a parent company conceptual view of consolidation theory (which results in the parent company recording the book values attributable to non-controlling interests) to an entity conceptual view (which results in the parent company recording the fair values attributable to non-controlling interests). The Company does not expect to be materially affected by the amended recommendations.

#### **Disclosure Controls and Procedures and Internal Controls over Financial Reporting**

The Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures and internal controls over financial reporting to provide reasonable assurance a) that material information about the Company and its subsidiaries would have been made known to them and b) regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

The Board of Directors has established an Audit & Risk Committee to support the Board in fulfilling its oversight responsibilities regarding establishing and maintaining the Company's disclosure controls and procedures and internal controls over financial reporting.

The Company has implemented numerous disclosure controls and procedures, which include, but are not limited to, establishing disclosure policies and forming a Disclosure Committee, a management committee comprised of senior executives that assist the Chief Executive Officer and Chief Financial Officer in ensuring the Company's disclosure controls and procedures objectives are met. The Disclosure Committee's responsibilities have been outlined in a Disclosure Committee charter and using a cascading quarterly sub-certification process, senior executives attest that the Company's objectives of disclosure controls and procedures are being met.

A management steering committee, comprised of senior executives, was formed to assist the Chief Executive Officer and Chief Financial Officer in ensuring the Company's internal controls over financial reporting are established and maintained. The Audit & Risk Committee and management steering committee oversee the Internal Audit department's audit plan and reviews of the design of internal controls over financial reporting; for which Internal Audit uses the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO Framework) and the Control Objectives for Information

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

and related Technology (COBIT) framework issued by Information Systems Audit and Control Association.

The Chief Executive Officer and Chief Financial Officer have evaluated and conclude that the Company's disclosure controls and procedures are adequately designed and effective for providing reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would have been made known to them as of the end of the fiscal year ended December 31, 2006.

As well, as of the end of the fiscal year ended December 31, 2006, the Chief Executive Officer and Chief Financial Officer have evaluated and conclude that the Company's internal controls over financial reporting have been adequately designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. However, control systems, no matter how well designed and operated, have inherent limitations, therefore, those systems, although determined adequately designed, can provide only reasonable assurance that the objectives of the system are met.

During 2006 there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### **Definitions of Other Terms Used in the MD&A**

Revenues – means the sum of the following:

- Casino gaming in BC – gaming revenue is net of commissions paid to BCLC (which are 60% of the win on most table games, 75% of the slot machine win at the casino facilities, and 80% of the slot win at racetrack facilities) and is net of accruals for anticipated payouts of progressive slot machine jackpots and progressive table game payouts.
- Bingo and slots at a community gaming centre in BC – gaming revenue is net of commissions paid to BCLC (which are 75% of the win on slots, and 40% to 75% of the weekly bingo win) and is net of prizes.
- Horseracing in BC and Ontario – racetrack revenues represent total wagering less amounts returned as winning wagers, provincial and federal taxes, and includes the host track share of wagering on the Company's races simulcast to other associations.
- 
- Casino gaming in Washington - gaming revenue is net of county gaming taxes at various rates ranging from 10% to 14% for card and progressive jackpot games, 5% on pull-tabs and 2% on amusement games.
- Casino gaming in Nova Scotia – from May 31, 2005 to June 30, 2005, gaming revenue is net of 20% win tax paid to the province of Nova Scotia and 1.5% for the capital replacement reserve to NSGC. From July 1, 2005, gaming revenue is equal to 52.725% of the gaming win.

## **GREAT CANADIAN GAMING CORPORATION**

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

For the Year Ended December 31, 2006

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

---

- Slot commissions in Ontario – slot machine commissions represent 10% of the win from slot machines operated by the OLG
- Food and beverage revenues – revenues are recorded at the retail price at the time of service. Food and beverage revenues in Nova Scotia are recorded at retail price less 47.275% to NSGC.
- Hotel revenues – revenues are recognized as services are performed.
- Other income – Consist of ATM commissions, theatre revenues, advertising revenues, and other income from ancillary services.
- Promotional allowances – the retail value of promotional allowances furnished to guests without charge, which have been included in food and beverage revenues, are deducted.

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

#### **Additional Information**

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

# GREAT CANADIAN GAMING CORPORATION

## Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

### SUPPLEMENTAL FINANCIAL INFORMATION

#### Consolidated Quarterly Results Trend

##### Gaming revenues (includes FDC revenues)

	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
River Rock Casino Resort	\$ 21,066	\$ 22,682	\$ 20,810	\$ 20,067	\$ 20,788	\$ 19,724	\$ 20,713	\$ 20,914
Boulevard Casino	14,068	13,326	12,747	14,125	10,699	8,441	9,453	9,680
Casino on Broadway (Holiday Inn)	2,970	2,578	2,743	2,756	2,626	2,572	2,812	2,722
View Royal Casino	5,979	6,001	6,071	5,902	5,516	5,495	5,453	5,030
Nanaimo Casino	3,514	3,860	3,742	3,489	3,677	3,783	3,696	3,317
Hastings Racecourse	5	13	12	7	14	5	8	8
Fraser Downs Racetrack & Sandown	3,217	3,165	3,213	3,033	2,911	2,776	3,070	530
Chances Gaming Entertainment	939	1,018	551	572	280	736	339	305
Casinos Nova Scotia	11,690	13,506	11,589	10,474	10,817	12,586	5,227	-
Georgian Downs	2,329	2,384	2,551	2,531	2,507	-	-	-
Flamboro Downs	2,695	3,056	3,107	2,671	2,215	-	-	-
Great American Casinos	6,253	5,397	5,853	5,468	5,853	5,836	6,267	5,804
Other & Corporate <sup>(1)</sup>	-	299	1	1	(1)	238	-	-
	\$ 74,725	\$ 77,285	\$ 72,990	\$ 71,096	\$ 67,902	\$ 62,192	\$ 57,038	\$ 48,310

##### Racetrack revenues

	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Hastings Racecourse	\$ 2,149	\$ 3,448	\$ 3,129	\$ 1,855	\$ 2,566	\$ 3,396	\$ 4,221	\$ 1,915
Fraser Downs Racetrack & Sandown	1,259	849	902	1,353	1,269	986	810	177
Georgian Downs	652	651	718	597	670	-	-	-
Flamboro Downs	1,202	1,213	1,275	1,190	1,130	-	-	-
TBC Teletheatres	2,274	2,146	2,111	1,413	1,546	1,763	2,026	126
	\$ 7,536	\$ 8,307	\$ 8,135	\$ 6,408	\$ 7,181	\$ 6,145	\$ 7,057	\$ 2,218

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

	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
River Rock Casino Resort	\$ 7,974	\$ 7,043	\$ 7,245	\$ 6,687	\$ 6,606	\$ 3,424	\$ 2,472	\$ 2,603
Boulevard Casino	1,984	1,314	1,535	1,706	1,236	743	848	830
Casino on Broadway (Holiday Inn)	240	218	241	245	231	194	193	222
View Royal Casino	663	607	605	590	618	628	666	543
Nanaimo Casino	299	292	283	271	258	244	230	184
Hastings Racecourse	632	1,551	1,133	287	738	1,563	1,250	362
Fraser Downs Racetrack & Sandown	1,182	736	808	1,073	1,038	596	594	104
Chances Gaming Entertainment	182	192	46	48	46	48	42	43
Casinos Nova Scotia	1,379	1,730	1,296	1,486	1,949	1,916	931	-
Georgian Downs	1,212	1,089	1,209	1,042	1,353	-	-	-
Flamboro Downs	1,225	1,254	1,074	1,387	1,125	-	-	-
TBC Teletheatres	(11)	33	12	(64)	6	7	22	-
Great American Casinos	1,369	1,112	1,119	1,255	1,552	1,341	1,454	1,456
Other & Corporate <sup>(1)</sup>	42	67	64	(4)	33	391	52	59
	\$ 18,372	\$ 17,238	\$ 16,670	\$ 16,009	\$ 16,789	\$ 11,095	\$ 8,754	\$ 6,406

	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Promotional allowances	\$ (2,562)	\$ (2,610)	\$ (2,113)	\$ (2,233)	\$ (2,348)	\$ (2,182)	\$ (1,033)	\$ (1,080)
<b>Revenues</b>	<b>\$ 98,071</b>	<b>\$ 100,220</b>	<b>\$ 95,682</b>	<b>\$ 91,280</b>	<b>\$ 89,524</b>	<b>\$ 77,250</b>	<b>\$ 71,816</b>	<b>\$ 55,854</b>

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

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

#### EBITDA <sup>(2)</sup>

	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
River Rock Casino Resort	\$ 9,752	\$ 11,051	\$ 10,402	\$ 9,784	\$ 9,979	\$ 9,451	\$ 10,965	\$ 8,944
Boulevard Casino	6,569	5,539	5,281	6,668	3,974	4,204	5,935	6,137
Casino on Broadway (Holiday Inn)	480	151	457	498	312	395	449	571
View Royal Casino	3,802	3,570	3,766	3,618	3,030	2,916	3,076	2,810
Nanaimo Casino	1,915	2,208	2,154	1,830	1,963	2,044	1,963	1,722
Hastings Racecourse	(385)	328	113	(238)	(180)	412	885	370
Fraser Downs Racetrack	1,654	1,584	1,326	1,422	1,342	1,099	1,851	441
Chances Gaming Entertainment	503	467	262	335	(13)	499	49	43
Casino Nova Scotia	2,173	4,360	2,265	1,192	1,511	2,764	1,823	-
Georgian Downs	1,442	1,510	1,896	1,477	711	-	-	-
Flamboro Downs	1,656	1,891	2,005	1,507	1,435	-	-	-
TBC Teletheatres	805	764	704	140	359	523	720	27
Great American Casinos	1,910	1,082	1,345	1,222	1,282	1,270	1,474	1,280
Other & Corporate	(6,842)	(7,520)	(7,828)	(7,785)	(10,848)	(5,280)	(5,552)	(4,567)
<b>EBITDA</b>	<b>\$ 25,434</b>	<b>\$ 26,985</b>	<b>\$ 24,148</b>	<b>\$ 21,670</b>	<b>\$ 14,857</b>	<b>\$ 20,297</b>	<b>\$ 23,638</b>	<b>\$ 17,778</b>

<sup>(2)</sup> "EBITDA" is a Non-GAAP measure and is defined in the Introduction - Non-GAAP measures section of this MD&A.

#### Presentation of Supplemental Information

The above financial information is provided on a supplemental basis to the MD&A. Prior quarter financial information in this table has been adjusted to conform to the current presentation, which includes adjustments to reflect re-evaluations of estimates, allocations and adjustments made among Corporate and the properties.

We believe that the current presentation more accurately reflects the operating results of the properties as well as Corporate overhead.

The total revenues and EBITDA have not changed from those reported in prior MD&As. Commentary in this MD&A is based on the above presentation.

## GREAT CANADIAN GAMING CORPORATION

### Management's Discussion & Analysis

For the Year Ended December 31, 2006

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

#### Presentation of Gross Revenues

Gross revenues, a non-GAAP measure, is revenues on the statement of income (loss) plus the portion of gaming win and other revenues retained by BCLC and NSGC, gaming taxes paid to Washington State, accruals for payouts of progressive games, payments to horse racing purse pools and promotional allowances. A reconciliation of net to gross revenues is presented below.

	Three Months Ended					Years Ended		
	December 31,	September 30,	%Chg	December 31,	%Chg	December 31,		%Chg
	2006	2006		2005		2006	2005	
Gross table win	\$ 63,384	\$ 63,409	(0%)	\$ 58,208	9%	\$ 245,907	\$ 229,485	7%
Gross slot win	124,759	131,454	(5%)	111,857	12%	500,520	373,091	34%
Gross racetrack	31,362	32,098	(2%)	27,428	14%	119,839	87,743	37%
Revenue from FDC	4,811	4,913	(2%)	4,213	14%	19,054	16,340	17%
Food and beverage	15,044	14,265	5%	14,594	3%	56,199	37,917	48%
Hotel revenues	2,430	2,763	(12%)	1,766	38%	9,320	2,165	330%
Other gaming revenues	737	741	(1%)	735	0%	2,393	1,696	41%
Other non-gaming revenues	1,639	1,017	61%	1,344	22%	5,832	4,903	19%
	<b>244,166</b>	<b>250,660</b>	<b>(3%)</b>	<b>220,145</b>	<b>11%</b>	<b>959,064</b>	<b>753,340</b>	<b>27%</b>
Less:								
Gaming, taxes and other commissions	(119,707)	(124,039)	(3%)	(108,026)	11%	(474,840)	(387,111)	23%
Racetrack purses	(23,826)	(23,791)	0%	(20,247)	18%	(89,453)	(65,142)	37%
Promotional allowances	(2,562)	(2,610)	(2%)	(2,348)	9%	(9,518)	(6,643)	43%
Revenues	\$ 98,071	\$ 100,220	(2%)	\$ 89,524	10%	\$ 385,253	\$ 294,444	31%