



GREAT CANADIAN GAMING CORPORATION

AUDITORS' REPORT  
AND  
CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2007

*As at March 10, 2008*

*(Expressed in millions, except for share information)*

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## **Auditors' Report**

To the Shareholders of  
Great Canadian Gaming Corporation

We have audited the consolidated statements of financial position of Great Canadian Gaming Corporation as at December 31, 2007 and 2006 and the consolidated statements of earnings (loss), retained earnings, comprehensive income (loss) and accumulated other comprehensive income (loss) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

***(Signed) Deloitte & Touche LLP***

Chartered Accountants  
Vancouver, British Columbia  
March 4, 2008

**GREAT CANADIAN GAMING CORPORATION**  
**Consolidated Statements of Financial Position**

(Expressed in millions, except for share information)

As at December 31,

		<b>2007</b>	2006
<b>ASSETS</b>			
CURRENT			
Cash and cash equivalents	Note 4	\$ 107.1	\$ 56.8
Restricted cash	Note 4	3.6	2.6
Accounts receivable		13.3	13.3
Income taxes receivable		-	9.9
Due from Nova Scotia Gaming Corporation, current	Note 5	15.3	17.1
Prepays, deposits and other assets		12.0	12.9
		<b>151.3</b>	112.6
Property, plant and equipment	Note 6	567.3	565.8
Intangible assets	Note 7	191.5	202.0
Goodwill	Note 8	37.0	30.6
Due from Nova Scotia Gaming Corporation	Note 5	1.9	17.7
Future income taxes	Note 14	3.4	10.7
Other assets		5.0	1.3
		<b>\$ 957.4</b>	<b>\$ 940.7</b>
<b>LIABILITIES</b>			
CURRENT			
Accounts payable and accrued liabilities		\$ 69.5	\$ 62.0
Income taxes payable		3.6	-
Long-term debt, deferred credit and other liabilities, current	Note 9	8.8	3.7
		<b>81.9</b>	65.7
Long-term debt	Note 9	329.4	390.3
Derivative liabilities	Note 10	62.8	-
Deferred credit, other liabilities and non-controlling interests		2.0	3.3
Future income taxes	Note 14	71.1	86.5
		<b>547.2</b>	545.8
<b>SHAREHOLDERS' EQUITY</b>			
Share capital and contributed surplus	Note 11	341.3	335.9
Accumulated other comprehensive loss		(9.1)	(5.3)
Retained earnings		78.0	64.3
		<b>410.2</b>	394.9
		<b>\$ 957.4</b>	<b>\$ 940.7</b>

See accompanying notes to the Consolidated Financial Statements

**GREAT CANADIAN GAMING CORPORATION****Consolidated Statements of Earnings (Loss)**

(Expressed in millions, except for share information)

For the years ended December 31,

		<u>2007</u>	<u>2006</u>
REVENUES	Note 12	\$ 397.2	\$ 385.2
EXPENSES			
Human resources		179.6	178.6
Property, marketing and administration		106.6	108.4
Amortization		40.1	40.2
Stock-based compensation	Note 11	7.0	6.3
Restructuring costs	Note 13	1.0	10.0
		<u>334.3</u>	<u>343.5</u>
		62.9	41.7
Interest and financing costs, net	Note 9(d)	24.8	51.0
Goodwill impairment	Note 2/8	-	9.9
Foreign exchange loss		0.3	1.3
		<u>25.1</u>	<u>62.2</u>
EARNINGS (LOSS) BEFORE INCOME TAXES		37.8	(20.5)
Income taxes (recovery)	Note 14	0.6	(4.0)
EARNINGS (LOSS) BEFORE NON-CONTROLLING INTERESTS		37.2	(16.5)
Non-controlling interests		1.4	2.1
NET EARNINGS (LOSS)		\$ 35.8	\$ (18.6)
EARNINGS (LOSS) PER COMMON SHARE	Note 15		
Basic		\$ 0.42	\$ (0.22)
Diluted		\$ 0.41	\$ (0.22)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES	Note 15		
Basic		86,226,888	84,471,204
Diluted		86,785,571	84,471,204

See accompanying notes to the Consolidated Financial Statements

## GREAT CANADIAN GAMING CORPORATION

(Expressed in millions, except for share information)

For the years ended December 31,

### Consolidated Statements of Retained Earnings

	<u>2007</u>	<u>2006</u>
Retained earnings, beginning of year	\$ 64.3	\$ 82.9
Net earnings (loss)	35.8	(18.6)
Repurchase of common shares	Note 11 (22.1)	-
Retained earnings, end of year	\$ 78.0	\$ 64.3

### Consolidated Statements of Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss)

	<u>2007</u>	<u>2006</u>
<b>Net earnings (loss)</b>	<b>\$ 35.8</b>	<b>\$ (18.6)</b>
<b>Other comprehensive income (loss), net of tax</b>		
Changes in fair values of derivatives designated as cash flow hedges, net of tax of \$21.4	(41.4)	-
Loss on derivatives designated as cash flow hedges transferred to net earnings in the current period, net of tax of \$22.1	42.7	-
Unrealized effect of foreign currency translation of foreign operations	(5.1)	1.9
<b>Other comprehensive (loss) income</b>	<b>(3.8)</b>	<b>1.9</b>
<b>Comprehensive income (loss)</b>	<b>\$ 32.0</b>	<b>\$ (16.7)</b>
<hr/>		
Accumulated other comprehensive loss, beginning of year	\$ (5.3)	\$ (7.2)
Other comprehensive (loss) income	(3.8)	1.9
<b>Accumulated other comprehensive loss, end of year</b>	<b>\$ (9.1)</b>	<b>\$ (5.3)</b>

See accompanying notes to the Consolidated Financial Statements

# GREAT CANADIAN GAMING CORPORATION

## Consolidated Statements of Cash Flows

(Expressed in millions, except for share information)

For the years ended December 31,

	2007	2006
<b>Cash Flows from Operating Activities</b>		
Net earnings (loss)	\$ 35.8	\$ (18.6)
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Amortization	40.1	40.2
Goodwill impairment	-	9.9
Stock-based compensation and non-cash restructuring costs	7.0	7.4
Non-cash interest and financing costs	2.7	8.9
Future income taxes	(8.8)	(4.0)
Other	(0.4)	1.1
Changes in non-cash operating working capital	20.2	(13.8)
Net cash provided by operating activities	96.6	31.1
<b>Cash Flows from Investing Activities</b>		
Purchase of property, plant and equipment, net of related accounts payable	(32.8)	(82.7)
Funds received from Nova Scotia Gaming Corporation	21.1	23.6
Funds due from Nova Scotia Gaming Corporation for purchases of plant and equipment	(4.0)	(15.1)
Restricted cash	0.2	4.0
Acquisitions related contingent payments	(5.9)	(1.1)
Promissory notes	0.2	0.2
Net cash used in investing activities	(21.2)	(71.1)
<b>Cash Flows from Financing Activities</b>		
Proceeds from long-term debt	402.0	396.8
Repayment of long-term debt	(388.9)	(446.8)
Transaction costs	(13.0)	(4.1)
Common shares issued for cash, net of issuance costs	7.6	80.6
Purchase of common shares	(31.3)	-
Net cash (used in) provided by financing activities	(23.6)	26.5
Effect of foreign exchange on cash and cash equivalents	(1.5)	0.5
<b>Net Cash Inflow (Outflow)</b>	<b>50.3</b>	<b>(13.0)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>56.8</b>	<b>69.8</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 107.1</b>	<b>\$ 56.8</b>
<b>Supplemental Disclosure</b>		
Interest received	\$ 5.2	\$ 4.7
Interest paid	\$ 21.2	\$ 57.6
Income taxes (received) paid	\$ (4.9)	\$ 9.2

See accompanying notes to the Consolidated Financial Statements

**GREAT CANADIAN GAMING CORPORATION**  
**Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006  
(Expressed in millions, except for share information)

**1. NATURE OF BUSINESS**

Great Canadian Gaming Corporation is a multi-jurisdictional gaming and entertainment operator with operations in British Columbia, Ontario and Nova Scotia, Canada, and Washington State, United States of America. The Company operates ten casinos, a thoroughbred racetrack that offers slot machines, four standardbred racetracks (two offer slot machines and one offers both slot machines and table games), a community gaming centre, a hotel & conference centre, two show theatres and various associated food and beverage and entertainment facilities.

**2. SIGNIFICANT ACCOUNTING POLICIES**

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

*a) Principles of consolidation*

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

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

*b) Principal operating entities*

Entity	Abbreviation	Ownership interest % as at December 31, 2007 and 2006
Flamboro Downs Limited	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%
Mayfield Consulting Canada Inc.	Mayfield	0% <sup>(1)</sup>
Metropolitan Entertainment Group	MEG	100%
Orangeville Raceway Limited	Orangeville	100%
TBC Teletheatre B.C.	TBC	50% <sup>(2)</sup>

<sup>(1)</sup> In 2006 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 was the primary beneficiary of Mayfield, even though the Company had no share ownership in Mayfield, as the Company bore the principal risks and rewards of Mayfield's operations. Mayfield was consolidated from the inception date of each applicable management services contract as a variable interest entity up until December 31, 2006. The Mayfield companies that were consolidated provided services only to the Company. See also Note 13.

<sup>(2)</sup> On March 18, 2005, the Company increased its ownership interest in TBC to 50% and effectively controlled and consolidated its operating results from that date.

## GREAT CANADIAN GAMING CORPORATION

### Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2007 and 2006  
(Expressed in millions, except for share information)

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) *Uncertainty in management estimates*

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

d) *Cash and cash equivalents*

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

e) *Facility Development Commission*

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

FDC is recorded as part of revenues on the consolidated statements of earnings (loss) when earned, limited to the extent that sufficient Approved Amounts have previously been made by the Company. Currently, these FDC percentages range from 3% to 5% of the gross win from gaming activities.

In 2006, BCLC announced it would provide for an additional accelerated FDC amount equal to 2% of the gross win from a redeveloped casino property on projects approved by the BCLC after July 1, 2006. The accelerated FDC is payable weekly beginning on the later of April 1, 2007 or the opening of a redeveloped property. The accelerated FDC is a one-time initiative that is limited to the initial redevelopment of a property and continues to be received until the approved eligible costs of the redevelopment are recovered.

f) *Marketing fees to BCLC*

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

**GREAT CANADIAN GAMING CORPORATION**  
**Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006  
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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*g) Capital Reserve Account*

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

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

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

*h) Property, plant and equipment*

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

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

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

**GREAT CANADIAN GAMING CORPORATION**  
**Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006  
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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*i) Intangible assets*

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

Intangible assets are tested for impairment consistent with the method described for long-lived assets below (Note 2(k)). The intangible assets impairment test had no impact on the Company's results for the years ended December 31, 2007 and 2006.

*j) Goodwill*

Goodwill represents the excess of the purchase price of acquired companies over the estimated fair value of the tangible and intangible net assets acquired. Goodwill is tested for impairment at least annually and whenever events or circumstances indicate that its carrying value may not be fully recoverable. The impairment test requires comparing the carrying values 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 in the circumstances. The excess of the carrying value amount over the fair value of goodwill, if any, is charged to operations in the period the impairment occurred. The goodwill impairment test resulted in an impairment charge for the prior year ended December 31, 2006 (Note 8).

*k) Impairment of long-lived assets*

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

*l) Debt refinancing transaction costs*

Debt refinancing transaction costs relate to the costs associated with securing long-term financing and credit facilities. These costs are expensed to interest and financing costs, net on the consolidated statements of earnings over the term of the related debt using the effective interest method. When a debt facility is retired by the Company, any remaining balance of related debt refinancing transaction costs is expensed to interest and financing costs, net on the consolidated statements of earnings in the period that the debt facility is retired. During the year ended December 31, 2006, the Company redeemed the Series A and Series B Senior Secured Notes, and in the same period, wrote off the balance of associated debt refinancing transaction costs (Note 9(a)).

**GREAT CANADIAN GAMING CORPORATION**  
**Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006  
(Expressed in millions, except for share information)

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

m) *Hedges*

The Company changed its hedging accounting policy as required by CICA Handbook Section 3865. The hedging accounting policy is described in Note 3.

n) *Translation of foreign operations and foreign currency transactions*

The Company's financial statements are presented in Canadian dollars. The Company's non-Canadian operations are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated into Canadian dollars using the exchange rates in effect on the dates of the Consolidated Statements of Financial Position. Revenue and expenses are translated at average exchange rates prevailing during the year. The resulting translation gains and losses are included as a separate component of comprehensive income (loss).

Transactions completed in foreign currencies are translated into Canadian dollars at the rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are reflected in the consolidated financial statements at the exchange rates prevailing at the dates of the consolidated statements of financial position with the resulting gain or loss included in the consolidated statements of earnings (loss) in the period in which it occurs.

o) *Stock-based compensation*

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

p) *Revenue recognition*

The Company records revenues in the following manner:

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

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

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

**GREAT CANADIAN GAMING CORPORATION**  
**Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006  
(Expressed in millions, except for share information)

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*q) Income taxes*

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

*r) Earnings per common share*

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

*s) Comparative figures*

Certain of the prior period's comparative figures have been reclassified to conform to the current period's presentation.

**3. CHANGE IN ACCOUNTING POLICIES**

On January 1, 2007, the Company adopted new accounting policies for financial instruments by adopting the following new standards of the Canadian Institute of Chartered Accountants ("CICA"): Handbook Section 1530 – Comprehensive Income; Handbook Section 3251 – Equity; Handbook Section 3855 – Financial Instruments – Recognition and Measurement; Handbook Section 3861 – Financial Instruments – Disclosure and Presentation; and Handbook Section 3865 – Hedges. These new standards have been applied retrospectively without prior period restatement, except for the presentation of the cumulative unrealized effect of foreign currency translation of foreign operations on the consolidated statements of financial position as a component of accumulated other comprehensive income or loss. The change in accounting policies had no other material impact on the Company's consolidated financial statements at January 1, 2007.

**GREAT CANADIAN GAMING CORPORATION**  
**Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006  
(Expressed in millions, except for share information)

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**3. CHANGE IN ACCOUNTING POLICIES (Continued)**

a) *Comprehensive Income*

CICA Handbook Section 1530 introduces comprehensive income, which consists of net earnings on the consolidated statements of earnings (loss) and other comprehensive income (loss) ("OCI"). OCI represents changes in shareholders' equity in a period arising from the portion of the change in the fair values of the Company's derivatives designated as cash flow hedges that are determined to be effective, gains and losses on derivatives designated as cash flow hedges transferred to net earnings in the current period, and the unrealized effect of foreign currency translation of foreign operations.

b) *Financial Instruments*

CICA Handbook Sections 3855 and 3861 establish standards for the recognition, measurement, presentation and disclosure of financial instruments. Financial instruments are initially recognized at fair value. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values of financial instruments are based on independent prices quoted in active markets. In the absence of an active market, fair values are determined based on valuation models such as discounted cash flows, which require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. Subsequent measurement depends on management's classification of the financial assets as held-for-trading, available-for-sale, held-to-maturity or as loans and receivables, and financial liabilities as held-for-trading or as other liabilities. The classification of financial instruments depends on the nature of and the purpose of the financial instruments, management's choice and in some circumstances, management's intentions.

Held-for-Trading

Financial instruments classified as held-for-trading are measured at fair value with the realized and unrealized changes in fair value recognized each reporting period through interest and financing costs, net on the consolidated statement of earnings. The Company had no transition adjustments at January 1, 2007 for held-for-trading financial instruments, as the Company's held-for-trading financial instruments were already carried at fair value.

Available-for-Sale

Financial assets classified as available-for-sale are measured at fair value with the unrealized changes in fair value recorded each reporting period in OCI. Investments in equity instruments classified as available-for-sale that do not have a quoted price in an active market are recorded at cost. Each reporting period, available-for-sale assets are written down to fair value through interest and financing costs, net on the consolidated statement of earnings to reflect impairments that are considered to be other than temporary. The Company had no transition adjustments at January 1, 2007, as its available-for-sale financial instruments were carried at their fair value of \$nil to reflect an impairment.

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

*b) Financial Instruments (Continued)*

Held-to-Maturity, Loans and Receivables and Other Liabilities

Financial instruments classified as held-to-maturity, loans and receivables and other liabilities are measured at amortized cost using the effective interest method. The Company had no material transition adjustments at January 1, 2007 for held-to-maturity financial instruments, loans and receivables, or other liabilities since their carrying value as at January 1, 2007 approximated their amortized cost.

The following table summarizes the Company's selected financial instrument classifications based on its intentions:

<b>Financial instrument</b>	<b>Classification</b>
Cash	Held for trading
Cash equivalents	Held to maturity
Restricted cash	Held for trading
Accounts receivable	Held for trading
Due from Nova Scotia Gaming Corporation	Held to maturity
Accounts payable and accrued liabilities	Held for trading
Long-term debt	Held to maturity
Derivative liability	Held to maturity

*c) Embedded derivatives*

The Company assessed the existence of embedded derivatives in its financial instruments. Other than the embedded derivative related to the early redemption option on the Senior Subordinated Notes (Note 10), the Company does not have any material embedded derivatives that require separate accounting. Changes in the fair value of the Company's embedded derivatives are recorded in interest and financing costs, net on the consolidated statements of earnings.

*d) Hedges*

CICA Handbook Section 3865 specifies the criteria that must be satisfied in order for a financial instrument to be considered an effective hedge and for hedge accounting to be applied. It also defines the accounting treatment for each of the permitted hedging strategies: fair value hedges, cash flow hedges, and hedges of foreign currency exposures of net investments in self-sustaining foreign operations. The Company assesses the effectiveness of its hedging instruments at each reporting period. Hedge accounting is discontinued prospectively when the hedging relationship no longer qualifies as an effective hedge, or it is terminated upon the early termination of the hedged item. When hedge accounting is discontinued, changes in fair value of these financial instruments are recorded as interest and financing costs, net on the consolidated statements of earnings (loss).

The Company had no transition adjustments for hedges, as it had no hedging relationships at January 1, 2007.

**GREAT CANADIAN GAMING CORPORATION**  
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For the Years Ended December 31, 2007 and 2006  
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**3. CHANGE IN ACCOUNTING POLICIES (Continued)**

*d) Hedges (Continued)*

In anticipation of refinancing the Company's debt on February 14, 2007, the Company entered into cross-currency interest rate swaps (Note 10) to hedge the U.S. dollar exchange rate and interest rate risks associated with the issued debt. The Company designated these cross-currency interest rate swaps as cash flow hedges. These hedging instruments are presented on the consolidated statements of financial position at December 31, 2007 at fair value. The portion of the changes in fair values of the cross-currency interest rate swaps that is determined to be effective is recorded in OCI as changes in fair value of derivatives designated as cash flow hedges, and any ineffective portion is recorded as interest and financing costs, net in the consolidated statements of earnings. The hedged debt is translated to Canadian dollars at the exchange rate in effect on the last day of the reporting period, and through the application of hedge accounting, the resulting foreign exchange gains or losses included in the foreign exchange loss line of the consolidated statements of earnings are effectively offset by the gains or losses on derivatives designated as cash flow hedges.

*e) Translation of foreign operations*

As specified in CICA Handbook Section 1530, since transition on January 1, 2007, the Company presented the unrealized effect of foreign currency translation of foreign operations as a component of accumulated OCI for the current and prior periods.

*f) Debt refinancing transaction costs*

In accordance with CICA Handbook Section 3855, the Company recorded debt refinancing transaction costs for the Term Loan B and the Senior Subordinated Notes (Note 9) as a reduction of the carrying value of the related debt, and amortizes these costs using the effective interest method over the term of the related debt. Transaction costs related to the Revolving Credit Facility are included in other assets on the consolidated statements of financial position and are amortized on a straight-line basis over the term of the Revolving Credit Facility through the interest and financing costs, net line of the consolidated statements of earnings.

**Recent Accounting Pronouncements**

In December, 2006, the CICA issued Handbook Section 1535, Capital Disclosures. The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital. These recommendations are effective for the Company's interim and annual reporting periods beginning January 1, 2008. This new standard will require incremental disclosures, however, it is not expected to have a material effect on the Company's consolidated financial statements.

## GREAT CANADIAN GAMING CORPORATION

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#### 3. CHANGE IN ACCOUNTING POLICIES (Continued)

##### *Recent Accounting Pronouncements (Continued)*

In December 2006, the CICA issued Handbook Sections 3862, Financial Instruments – Disclosures, and 3863, Financial Instruments – Presentation, which will replace Section 3861, Financial Instruments – Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements and are effective for the Company's interim and annual reporting periods beginning January 1, 2008. These new standards will require revised disclosures, however, they are not expected to have a material effect on the Company's consolidated financial statements.

In March 2007, the CICA issued Handbook Section 3031, Inventories, which has replaced Section 3030 with the same title. The new Section establishes that inventories should be measured at the lower of cost and net realizable value, with guidance on the determination of cost. These recommendations are effective for the Company's interim and annual reporting periods beginning January 1, 2009. This new standard is not expected to have a material effect on the Company's consolidated financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS") no later than the end of 2011. The impact of the transition to IFRS on the Company's consolidated financial statements has not yet been determined. The Company will monitor the requirements of the IFRS transition and adopt the new standards as required.

#### 4. CASH AND CASH EQUIVALENTS

	December 31, 2007	December 31, 2006
Cash in bank	\$ 32.5	\$ 30.0
Cash floats	11.1	9.2
Cash equivalents	63.5	17.6
	<b>\$ 107.1</b>	<b>\$ 56.8</b>

Cash equivalents includes investments in term deposits, commercial paper, bankers' acceptances, money market investments and guaranteed investment certificates with original maturities within three months of December 31, 2007. At December 31, 2007 the Company did not hold any cash equivalents in asset-backed commercial paper.

Cash and cash equivalents excludes cash floats of \$15.6 (2006 - \$16.5) provided by BCLC for use in BC casino operations. Since these cash floats are owned by BCLC, they are not reflected in the Company's cash and cash equivalents balances. The Company has issued letters of credit in favour of BCLC as security for these amounts (Note 21).

Restricted cash is composed primarily of \$0.1 (2006 - \$0.3) related to payments for construction projects, \$1.2 (2006 - \$0.5) held for capital expenditures that require approval from OLG, and \$2.2 (2006 - \$1.5) for horsemen's purse pools.

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**5. DUE FROM NOVA SCOTIA GAMING CORPORATION**

Due from NSGC includes the Operator's Capital Investment, Mandatory Deferrals, and Capital Reserve Account receivables from NSGC.

	<b>December 31,</b>	December 31,
	<b>2007</b>	2006
Mandatory Deferral	<b>\$ 10.8</b>	\$ 21.9
Capital Reserve Account	<b>6.4</b>	7.3
Operator's Capital Investment	<b>-</b>	5.6
	<b>17.2</b>	34.8
Less: current portion	<b>15.3</b>	17.1
	<b>\$ 1.9</b>	\$ 17.7

On July 1, 2005, the Company entered into an agreement with NSGC to operate the two Nova Scotia casinos. As provided for in the agreement, the Company is entitled to the repayment of the initial capital investment in building the Nova Scotia casinos through the Operator's Capital Investment and Mandatory Deferrals receivables which accrue interest on the outstanding balances at 12% and prime plus 1% per annum, respectively. The Operator's Capital Investment receivable was repaid in April 2007. The Mandatory Deferral receivable will be repaid in monthly instalments of \$0.9.

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

**6. PROPERTY, PLANT AND EQUIPMENT**

<b>As at December 31, 2007</b>			
	<b>Historical</b>	<b>Accumulated</b>	<b>Net Book</b>
	<b>Cost</b>	<b>Amortization</b>	<b>Value</b>
<b>Land</b>	<b>\$ 61.8</b>	<b>\$ -</b>	<b>\$ 61.8</b>
<b>Buildings</b>	<b>473.7</b>	<b>42.2</b>	<b>431.5</b>
<b>Properties under development</b>	<b>22.7</b>	<b>-</b>	<b>22.7</b>
<b>Equipment</b>	<b>85.1</b>	<b>54.3</b>	<b>30.8</b>
<b>Leasehold improvements and interests</b>	<b>26.7</b>	<b>6.2</b>	<b>20.5</b>
	<b>\$ 670.0</b>	<b>\$ 102.7</b>	<b>\$ 567.3</b>
<b>As at December 31, 2006</b>			
	<b>Historical</b>	<b>Accumulated</b>	<b>Net Book</b>
	<b>Cost</b>	<b>Amortization</b>	<b>Value</b>
Land	\$ 62.5	\$ -	\$ 62.5
Buildings	459.7	26.9	432.8
Properties under development	6.6	-	6.6
Equipment	78.9	43.1	35.8
Leasehold improvements and interests	34.4	6.3	28.1
	<b>\$ 642.1</b>	<b>\$ 76.3</b>	<b>\$ 565.8</b>

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**7. INTANGIBLE ASSETS**

	<b>December 31,</b>		December 31,
	<b>2007</b>		2006
Cost	\$ 215.5	\$	216.4
Accumulated amortization	<b>(24.0)</b>		(14.4)
	<b>\$ 191.5</b>	\$	202.0

Intangible assets relate primarily to gaming licenses. Intangible assets are amortized over their estimated useful lives, primarily 20 years, resulting in amortization expense of \$9.6 (2006 - \$9.5) for the year ended December 31, 2007.

**8. GOODWILL**

	<b>December 31,</b>		December 31,
	<b>2007</b>		2006
Balance, beginning of year	\$ 30.6	\$	37.5
Additions for contingent consideration	<b>7.6</b>		3.0
Impairment charge	-		(9.9)
Foreign exchange translation	<b>(1.2)</b>		-
Balance, end of year	<b>\$ 37.0</b>	\$	30.6

The additions to goodwill in 2007 relate to further contingent consideration based on financial performance relating to previous years' acquisitions.

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

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**9. LONG-TERM DEBT**

	December 31, 2007	December 31, 2006
Term Loan B, net of unamortized transaction costs of \$3.0	\$ 164.1	\$ -
Senior Subordinated Notes and \$1.9 unamortized premium net of unamortized transaction costs of \$6.2	164.2	-
Hastings Promissory Note	2.9	3.4
Obligations under capital leases and other debt	1.3	1.4
Bridge Credit Facility - Revolving Credit Facility (Note 9)	-	95.0
Bridge Credit Facility - Non-Revolver Credit Facility (Note 9)	-	250.0
Flamboro Promissory Note (Note 9)	-	41.7
	<b>332.5</b>	<b>391.5</b>
Less: current portion	<b>3.1</b>	<b>1.2</b>
	<b>\$ 329.4</b>	<b>\$ 390.3</b>

The expected repayments of long-term debt for the five following years ended December 31 are as follows:

2008	\$	3.1
2009		3.1
2010		2.7
2011		2.7
2012		2.6
Thereafter		325.6
Total repayments		339.8
Less: unamortized premium and transaction costs		7.3
Total long-term debt (including current portion)	\$	332.5

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**9. LONG-TERM DEBT (Continued)**

*a) Debt refinancing*

On February 14, 2007, the Company completed its debt refinancing. The refinancing consisted of three components: (i) an undrawn \$200.0 Senior Secured Revolving Credit Facility; (ii) a US\$170.0 Senior Secured Term Loan B; and (iii) US\$170.0 of Senior Subordinated Notes. The gross proceeds of the debt refinancing were \$401.9. The net proceeds were \$388.7 after transaction costs of \$13.2, and were used to repay and retire the Bridge Credit Facility, provide cash that was used to repay the Flamboro Promissory Note on July 3, 2007 (Note 9(c)) and provide cash for future capital expenditures and working capital purposes.

The Senior Secured Revolving Credit Facility (the "Revolving Credit Facility") and the Senior Secured Term Loan B (the "Term Loan B") are guaranteed and secured by substantially all of the assets of the Company and its subsidiaries. Both the Revolving Credit Facility and the Term Loan B require the Company to comply with certain operational covenants and the following financial covenants (which are defined in the underlying debt agreements): Total Debt to Adjusted EBITDA ratio of 5.0 or less; Senior Debt to Adjusted EBITDA ratio of 3.5 or less, and Interest Coverage ratio of greater than 2.0 for the first three years following February 14, 2007 and greater than 2.25 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 on the same terms and conditions except with limitations on the market interest rate margin applicable at that time in the case of the term loans.

The Revolving Credit Facility has a five-year term. The interest rate on advanced amounts and the commitment fee on the unused facility are based on the Company's Total Debt to Adjusted EBITDA ratio, which is calculated quarterly.

The Term Loan B is denominated in U.S. dollars (US\$168.7 as at December 31, 2007) and bears interest at a floating rate (LIBOR plus 1.50%), payable quarterly. The Company has hedged both the currency risk and the floating interest rate risk to effectively result in a principal of \$199.3 as at December 31, 2007 in Canadian dollars and a fixed interest rate of 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 \$0.5 in Canadian dollars are required quarterly, with the balance due at maturity on February 13, 2014.

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**9. LONG-TERM DEBT (Continued)**

*a) Debt refinancing (Continued)*

The Senior Subordinated Notes (the "Subordinated Notes") are unsecured and guaranteed by the Company and substantially all of its subsidiaries. The Subordinated Notes are denominated in U.S. dollars (US\$170.0) and bear interest at a rate of 7.25%, payable semi-annually. The Company has hedged the currency risk to effectively result in a principal of \$201.1 in Canadian dollars at a fixed interest rate of 6.6% per annum. The Subordinated Notes have a term of 8 years with the principal amount of the notes repayable at maturity on February 15, 2015. There are provisions for early redemptions of the Subordinated Notes during defined periods prior to maturity with payment of defined premiums. These provisions for early redemption were recorded at their fair value on February 14, 2007 as a derivative asset and as a premium on the Subordinated Notes (Note 10(b)).

The 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, as defined in the underlying note agreement, of greater than 2.0 until March 31, 2010 and 2.25 thereafter, and is tested on the occurrence of specified events.

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

The transaction costs of establishing the Term Loan B and the Subordinated Notes were \$10.5 and were recorded as a reduction of the balance of the related debt, and are expensed to interest and financing costs, net on the consolidated statements of earnings over the term of the related debt using the effective interest method. The transaction costs of establishing the Revolving Credit Facility were \$2.7 and are recorded as a component of other assets on the consolidated statements of financial position, and are expensed to interest and financing costs, net on the consolidated statements of earnings over the term of the Revolving Credit Facility.

*b) Bridge Credit Facility*

Using the proceeds from the issuance of the Term Loan B and Subordinated Notes, the Bridge Credit Facility was retired on February 14, 2007. Debt refinancing transaction costs of \$1.6 associated with the Bridge Credit Facility were expensed to interest and financing costs, net on the consolidated statement of earnings during the year ended December 31, 2007.

*c) Flamboro Promissory Note*

On July 3, 2007, the Flamboro promissory note of \$41.7 was repaid using proceeds from the issuance of the Term Loan B and Subordinated Notes.

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**9. LONG-TERM DEBT (Continued)**

*d) Interest and financing costs, net*

Interest and financing costs, net consists of:

	<b>December 31, 2007</b>	December 31, 2006
Interest expense on long-term debt	<b>\$ (31.2)</b>	\$ (24.8)
Interest income	<b>6.4</b>	4.7
Interest expense, net	<b>(24.8)</b>	(20.1)
Series A and B Notes prepayment fees	-	(25.2)
Series A and B Notes deferred financing costs	-	(7.2)
Series B Note interest rate hedge gain	-	1.5
Series A and B Notes redemption costs	-	(30.9)
	<b>\$ (24.8)</b>	\$ (51.0)

Interest and financing costs capitalized to property, plant and equipment for the year ended December 31, 2007 were \$nil (2006 - \$1.6).

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**10. DERIVATIVES**

a) *Cross-currency interest rate swaps*

The Company's risk management strategy is to minimize exposure to currencies other than the Canadian dollar and, with the exception of revolving lines of credit, to fix substantially all of its floating interest rate debt. The Company's interest rate risk is limited to the floating interest rate risk associated with the Revolving Credit Facility.

In anticipation of issuance of the Company's debt refinancing, the Company entered into a series of cross-currency interest rate swaps that effectively converted both the U.S. dollar floating interest rate Term Loan B and the U.S. dollar fixed interest rate Subordinated Notes into Canadian dollar fixed interest rate debt. The cross-currency interest rate swap agreements are:

Debt	Notional Principal		Interest Rate		Maturity Date
	Receive (USD)	Pay (CAD)	Receive (USD)	Pay (CAD)	
Term Loan B	\$168.7 <sup>(1)</sup>	\$199.3 <sup>(1)</sup>	US LIBOR+1.50%	6.1%	February 13, 2014
Subordinated Notes	\$170.0	\$201.1	7.25%	6.6%	February 15, 2015

<sup>(1)</sup> The Term Loan B cross currency interest rate swap's notional principal reduces by 0.25% of the original principal of \$170.0 USD quarterly to match the scheduled principal reductions on the Term Loan B.

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

As at December 31, 2007, the cross-currency interest rate swaps have been recorded as a long-term liability at their fair value of \$62.8. The cross-currency interest rate swaps were determined to be fully effective hedges of the cash flows associated with the Term Loan B and the Subordinated Notes and, accordingly the changes in fair values have been recorded in other comprehensive income.

The fair values of the Company's cross-currency interest rate swaps at December 31, 2007 were determined based on a discounted cash flow model. This model makes assumptions regarding the U.S. dollar exchange rate and discount rates, which are based on the prevailing U.S. dollar exchange rates and prevailing interest rates in Canada and the U.S. at December 31, 2007.

b) *Embedded derivative*

The Company's Subordinated Notes agreement has provisions for early redemption during defined periods prior to maturity with the payment of defined premiums. On issuance of the Subordinated Notes on February 14, 2007, the \$2.1 fair value of this embedded derivative was recorded as a derivative asset in other assets and as a premium on the long-term debt on the consolidated statements of financial position. The fair value of this embedded derivative included in other assets as at December 31, 2007 is \$1.5 and the change in the fair value was recorded in interest and financing, net on the consolidated statements of earnings. The premium is amortized over the term of the Subordinated Notes using the effective interest method.

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**11. SHARE CAPITAL AND CONTRIBUTED SURPLUS**

a) *Share capital and contributed surplus*

	Common Shares		Contributed	Share Capital And Contributed
	Number <sup>(1)</sup>	Amount	Surplus	Surplus
At December 31, 2005	79,450	\$ 239.9	\$ 7.9	\$ 247.8
Treasury offering, net of tax effected issuance costs of \$0.3	6,206	79.7	-	79.7
Stock based compensation and restructuring costs	-	-	7.4	7.4
Exercise of incentive stock options	491	1.4	(0.4)	1.0
At December 31, 2006	86,147	\$ 321.0	\$ 14.9	\$ 335.9
Stock based compensation	-	-	7.0	7.0
Exercise of incentive stock options	942	10.0	(2.4)	7.6
Common shares purchased (Note 11(c))	(2,273)	(8.7)	(0.5)	(9.2)
At December 31, 2007	84,816	\$ 322.3	\$ 19.0	\$ 341.3

<sup>(1)</sup> Share information is presented in thousands of common shares.

The Company is authorized to issue an unlimited number of common shares with no par value.

b) *Private placement of units*

On March 28, 2006, the Company completed a private placement of 6,206,361 units at a price of \$12.89 per unit for net proceeds of \$79.7 after share issuance costs of \$0.3. The Company's Chairman and Chief Executive Officer participated in the private placement for \$50.0 of the total offering. Each unit comprised one common share and one share purchase warrant, which is exercisable into one common share at an exercise price of \$12.89 until March 28, 2008. The net proceeds of the unit have been allocated between the common share and share purchase warrant based on the residual value method. The fair value of the common share component was determined to be \$12.89 based on its trading price prior to closing. A residual value of \$nil was assigned to the share purchase warrant component.

These share purchase warrants were the only warrants outstanding at December 31, 2007.

c) *Normal course issuer bid*

On July 19, 2007, the Company announced its intention to commence a normal course issuer bid for up to 6.4 million of its common shares, representing approximately 10% of the public float of the common shares of the Company. Purchases will be by way of open market purchases through the facilities of the TSX, and conducted at the market price at the time of acquisition. All shares purchased by the Company will be subsequently cancelled.

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**11. SHARE CAPITAL (Continued)**

*c) Normal course issuer bid (Continued)*

The Company received approval from the TSX to commence this bid on July 23, 2007. The bid will end on July 22, 2008 or earlier if the number of common shares sought in the issuer bid have been obtained. The Company has reserved the right to terminate the bid earlier if it feels it is appropriate to do so. Pursuant to TSX policies, daily purchases made by the Company will not exceed 70,103 common shares, subject to certain prescribed exceptions.

During 2007 the Company purchased 2,273,200 of its common shares for an aggregate consideration of \$31.3. Subsequent to December 31, 2007, the Company purchased an additional 629,600 common shares at a cost of \$9.2.

*d) Stock Option Plan*

Under the Company's stock option plan, the maximum number of stock options reserved for issuance is limited to 10% of the common shares issued and outstanding at any given time. As at December 31, 2007, 2,475,995 common shares remain available for granting.

Also under the plan, no one individual may receive stock options in excess of 5% of the issued and outstanding common shares of the Company. Stock options granted vest over three years and expire five years from the date of grant.

Outstanding stock options under the plan are as follows:

	2007		2006	
	Options <sup>(1)</sup>	Weighted-Average Exercise Price	Options <sup>(1)</sup>	Weighted-Average Exercise Price
Outstanding at beginning of year	5,146	\$ 12.30	5,624	\$ 13.07
Granted	1,948	11.89	1,650	11.89
Forfeited	(129)	16.08	(1,637)	17.59
Exercised	(942)	8.10	(491)	2.09
Outstanding at end of year	6,023	\$ 12.74	5,146	\$ 12.30

<sup>(1)</sup> Option information is presented as options for thousands of common shares.

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**11. SHARE CAPITAL (Continued)**

*d) Stock option plan (Continued)*

Options outstanding and exercisable at December 31, 2007 are as follows:

<b>Exercise Price</b>	<b>Number Outstanding<sup>(1)</sup></b>	<b>Weighted-Average Remaining Contractual Life</b>	<b>Weighted-Average Exercise Price</b>	<b>Number Exercisable<sup>(1)</sup></b>	<b>Weighted-Average Exercise Price</b>
\$6.74-\$9.04	503	1.1 years	\$ 8.49	503	\$ 8.49
\$11.60-\$13.94	4,474	3.3 years	11.91	2,023	11.91
\$17.37-\$17.99	571	2.2 years	17.96	482	17.96
\$18.47-\$20.47	475	2.4 years	18.86	393	18.84
	6,023	3.0 years	\$ 12.74	3,401	\$ 13.06

<sup>(1)</sup> Option information is presented as options for thousands of common shares.

The fair values of stock options granted during 2007 were determined using the Black-Scholes option pricing model with the following assumptions: no dividends are to be paid; expected volatility of 45% (2006 – 44% to 45%); risk-free interest rate of 4.0% (2006 – 4.0% to 4.4%); and expected lives of three years (2006 – three years).

During the year ended December 31, 2007, the total compensation expense related to the fair value of stock options was \$7.0 (2006 - \$6.3), of which \$6.5 (2006 - \$6.1) was to employees and directors and \$0.5 (2006 - \$0.2) was to consultants.

Subsequent to December 31, 2007, 1,997,500 stock options were granted at an exercise price of \$14.13.

*e) Employee share purchase plan*

Eligible employees of the Company may elect to participate in the Employee Share Purchase Plan (the "Share Purchase Plan") by contributing up to 5% of their gross pay with the Company matching 25% of the contributions. As at December 31, 2007, 369,677 (2006 – 289,979) common shares were held under the Share Purchase Plan and 40% of employees participated in the Plan (2006 – 38%).

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**12. REVENUES**

	Year Ended December 31,	
	2007	2006
Gross table win	\$ 243.3	\$ 245.9
Gross slot win	539.5	500.5
Gross racetrack	136.5	119.9
Facility Development Commission	22.9	19.1
Food and beverage	55.8	56.2
Hotel revenues	10.5	9.3
Other revenues	10.4	8.2
	<b>1,018.9</b>	959.1
Less:		
Gaming, taxes and other commissions	(505.6)	(474.8)
Racetrack purses	(105.8)	(89.5)
Less: Promotional allowances	(10.3)	(9.6)
Revenues	\$ 397.2	\$ 385.2

**13. RESTRUCTURING COSTS**

Restructuring costs in 2007 related to severance and lease termination costs associated with the November 2007 closure of Casino on Broadway in Vancouver, B.C. In 2006, restructuring costs included \$4.1 in severances, \$5.6 for the voluntary buyout of hospitality services from a third party service provider and other obligations associated with departed employees.

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**14. INCOME TAXES (RECOVERY)**

The Company's income tax expense (recovery) is as follows:

	Year Ended December 31,	
	2007	2006
Current income tax expense (recovery)	\$ 8.7	\$ (0.1)
Future income tax expense (recovery)	(8.1)	(3.9)
	<b>\$ 0.6</b>	<b>\$ (4.0)</b>
Basic blended federal and provincial statutory income tax rate	<b>33.82%</b>	35.12%
Expected income tax provision (recovery) for the period	\$ 12.8	\$ (7.2)
Effect of:		
Changes in tax rates for future income taxes	(11.5)	(4.4)
Non-deductible stock-based compensation	2.3	2.5
Tax rate differential on and adjustments related to prior years' income tax provisions	(3.0)	-
Non-deductible goodwill impairment	-	3.5
Benefit of capital losses not previously recognised	-	1.6
	<b>\$ 0.6</b>	<b>\$ (4.0)</b>

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

	2007	2006
Future income tax asset (liability) arising from:		
Intangible assets	\$ (56.6)	\$ (67.8)
Property, plant and equipment	(20.2)	(6.5)
Deferred partnership income	(3.4)	(8.1)
Due from Nova Scotia Gaming Corporation	(1.4)	(10.4)
Share issue costs	1.0	1.7
Debt refinancing transaction costs	1.3	2.1
Tax loss carry-forwards	5.8	4.3
Series A and B Notes redemption costs	6.2	8.3
Other	(0.4)	0.6
	<b>\$ (67.7)</b>	<b>\$ (75.8)</b>
Presented on the Consolidated Balance Sheet as:		
Future income tax assets	\$ 3.4	\$ 10.7
Future income tax liabilities	(71.1)	(86.5)
Future income tax liabilities, net	<b>\$ (67.7)</b>	<b>\$ (75.8)</b>

The Company has non-capital loss carry-forwards for tax purposes of approximately \$17.4 (2006 - \$17.8) available to reduce future years' income for tax purposes. The loss carry-forwards expire in varying amounts and in varying years to 2027.

**GREAT CANADIAN GAMING CORPORATION**  
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**15. EARNINGS (LOSS) PER COMMON SHARE**

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

	<b>Year Ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
Net earnings (loss), as reported (A)	<b>\$ 35.8</b>	<b>\$ (18.6)</b>
Weighted average number of common shares outstanding (B) <sup>(1)</sup>	<b>86,227</b>	84,471
Dilutive adjustment for stock options <sup>(1)</sup>	<b>415</b>	-
Dilutive adjustment for warrants <sup>(1)</sup>	<b>144</b>	-
Diluted weighted-average number of common shares (C) <sup>(1)</sup>	<b>86,786</b>	84,471
Earnings (loss) per common share		
Basic (A/B)	<b>\$ 0.42</b>	<b>\$ (0.22)</b>
Diluted (A/C)	<b>\$ 0.41</b>	<b>\$ (0.22)</b>

<sup>(1)</sup> Share information is presented in thousands of common shares.

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

**16. CHANGES IN NON-CASH OPERATING WORKING CAPITAL**

	<b>December 31,</b>	<b>December 31,</b>
	<b>2007</b>	<b>2006</b>
Accounts receivable	<b>\$ -</b>	<b>\$ (0.1)</b>
Income taxes receivable or payable	<b>13.5</b>	(9.1)
Prepays, deposits and other assets	<b>(0.5)</b>	(4.0)
Accounts payable and accrued liabilities	<b>7.2</b>	(0.6)
	<b>\$ 20.2</b>	<b>\$ (13.8)</b>

**GREAT CANADIAN GAMING CORPORATION**  
**Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006  
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**17. SEGMENTED INFORMATION**

The Company and its subsidiaries operate primarily in one industry segment, the gaming industry. The Company conducts business in two geographic segments: Canada and the United States (“US”). Revenues and assets attributable to each geographic segment as at or for the year ended December 31, are as follows:

	2007			2006		
	Canada	US	Total	Canada	US	Total
Revenues	\$ 370.6	\$ 26.6	\$397.2	\$ 358.7	\$ 26.5	\$ 385.2
Property, plant and equipment	553.3	14.0	567.3	547.9	17.9	565.8
Goodwill	30.4	6.6	37.0	22.8	7.8	30.6
Total assets	924.2	33.2	957.4	905.1	35.6	940.7

**18. RELATED PARTY TRANSACTIONS**

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

The Company had the following transactions with related parties:

<b>Consolidated Statements of Earnings (Loss)</b>	<b>Year ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Other Income</b>		
ATM revenues from a company that had a director who was a member of senior management of the Company <sup>(1)</sup>	\$ 0.2	\$ 1.5
<b>Human Resources</b>		
Amounts for dealer training services provided by a company controlled by a director of the Company	0.9	0.8

<sup>(1)</sup>During 2007, the member of senior management resigned as a director and the related party sold the ATM service contract 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.

## **GREAT CANADIAN GAMING CORPORATION**

### **Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006  
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#### **19. FACILITY DEVELOPMENT COMMISSION APPROVED AMOUNTS**

As at December 31, 2007, the Company had \$342.3 (December 31, 2006 – \$350.4) in Approved Amounts (a term defined in the Company's COSAs with the BCLC) to be recovered by future FDC receipts. Approved Amounts have not been recorded in the consolidated statements of financial position. Since FDC is earned as a fixed percentage of gaming win, subject to the Company incurring sufficient Approved Amounts, recovery of Approved Amounts requires that our operating agreements with BCLC remain in good standing.

#### **20. EMPLOYEE FUTURE BENEFITS**

The Company maintains a defined contribution pension plan for its Canadian employees. Under this plan, eligible employees contribute a minimum of 2% to a maximum of 15% of their base salary. The Company makes contributions representing 2% of eligible employees' base pay. Contributions made by the Company during the year ended December 31, 2007 totalled \$1.6 (2006 - \$1.6).

#### **21. CONTINGENCIES AND LITIGATION**

##### *a) Letters of credit*

As at December 31, 2007, letters of credit in the amount of \$32.3 (2006 - \$25.4) were outstanding as security in connection with gaming cash floats and construction projects.

##### *b) Litigation*

In 2005, as part of the acquisition of Georgian Downs, the Company entered into an agreement that provided a consultant a deemed contribution for a notional equity interest in Georgian Downs as consideration for certain consulting services for its operations in the Province of Ontario. The notional equity interest entitled the consultant to future remuneration depending on the operating results of Georgian Downs provided that certain services were performed. The consultant had an option to sell his notional equity interest in Georgian Downs to the Company for consideration calculated using a predefined formula based on Georgian Down's operating results for the twelve month period preceding the option's exercise. The Company had a call option to purchase the consultant's notional equity interest from June 2012 for consideration calculated using the same predefined formula. On July 30, 2007, the Company terminated the agreement and tendered the sum of \$1.6 being the full amount that the Company determined to be validly due and payable to the consultant. The consultant and the Company have significantly different views as to the consultant's monetary entitlement under the agreement. The consultant refused payment of the Company's assessment of the consultant's monetary entitlement and filed an application in the Ontario Superior Court of Justice that disputes the validity of the termination of the agreement. The Company has also filed a suit in the Ontario Superior Court of Justice seeking a declaration that the agreement has been properly terminated by the Company. The Company is of the belief that it has acted appropriately with respect to both the termination and the tendering of payment to the consultant and intends to vigorously defend its position. At this stage, liability or quantum with respect to this litigation cannot be reasonably determined.

The Company is involved in various other disputes, claims and litigation. Management believes the amount of the ultimate liability for these will not materially affect the financial position of the Company.

**GREAT CANADIAN GAMING CORPORATION**  
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**21. CONTINGENCIES AND LITIGATION (Continued)**

*c) Slot machine expansion at Hastings Racecourse*

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 600 slot machines at Hastings Racecourse. This challenge was unsuccessful, as the Supreme Court upheld the City of Vancouver by-law amendment. The community group subsequently filed an appeal with the British Columbia Court of Appeal that was heard in January 2008. The Court of Appeal has reserved judgement on the matter. If the Hastings Park Conservancy is successful in the appeal, this could impact the Company's planned redevelopment of Hastings Racecourse. If the Company is unable to install 600 slot machines at Hastings Racecourse, the investment in that operation would be adversely affected.

*d) Guarantees and indemnifications*

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

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

**GREAT CANADIAN GAMING CORPORATION**  
**Notes to the Consolidated Financial Statements**

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**22. COMMITMENTS**

a) *Commitments*

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

2008	\$	5.6
2009		5.1
2010		4.9
2011		4.5
2012		4.5
Thereafter		23.8
	\$	48.4

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

b) *Contingent payments on acquisition*

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

- i) *Orangeville* - Payments to the former owners for a period of up to four years from March 18, 2005 based on defined levels of net gaming and racing revenues of the acquired operations.
- ii) *Vetter Management Services Ltd.* - Payments to the former owners of Bear Mountain Bingo (now operated as Chances Gaming Entertainment in Dawson Creek) based on a percentage of the gross slot revenues over a specified minimum level for the first three years following the relocation to the new facility in July 2006.

The payments were treated as additional costs of the respective acquisitions and recorded as goodwill (Note 8).

**23. FINANCIAL INSTRUMENTS**

The fair values of cash and cash equivalents, restricted cash, accounts receivable, due from Nova Scotia Gaming Corporation, accounts payable and accrued liabilities, derivative liabilities and long-term debt approximate their carrying values.

**GREAT CANADIAN GAMING CORPORATION**  
**Notes to the Consolidated Financial Statements**

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**24. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

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

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

**GREAT CANADIAN GAMING CORPORATION**  
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**24. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*(expressed in millions of Canadian dollars)*

**As at December 31, 2007**

	Notes					Under U.S. GAAP \$
	Under CDN GAAP \$	a \$	b \$	c \$	d \$	
<b>ASSETS</b>						
<b>CURRENT</b>						
Cash and cash equivalents	107.1	-	-	-	-	107.1
Restricted cash	3.6	-	-	-	-	3.6
Accounts receivable	13.3	-	-	-	(0.1)	13.2
Income taxes receivable	-	-	-	-	-	-
Due from Nova Scotia Gaming Corporation, current	15.3	-	-	-	-	15.3
Prepays, deposits, and other assets	12.0	-	-	-	-	12.0
	151.3	-	-	-	(0.1)	151.2
Property, plant and equipment	567.3	-	-	(0.1)	-	567.2
Intangible assets	191.5	-	-	-	-	191.5
Goodwill	37.0	-	-	0.1	-	37.1
Due from Nova Scotia Gaming Corporation	1.9	-	-	-	-	1.9
Future income taxes	3.4	-	-	-	-	3.4
Other assets	5.0	-	-	-	-	5.0
	957.4	-	-	-	(0.1)	957.3
<b>LIABILITIES</b>						
<b>CURRENT</b>						
Accounts payable and accrued liabilities	69.5	-	-	-	-	69.5
Income taxes payable	3.6	-	-	-	-	3.6
Long-term debt, deferred credit and other liabilities, current	8.8	-	-	-	-	8.8
	81.9	-	-	-	-	81.9
Long-term debt	329.4	-	-	-	-	329.4
Derivative liabilities	62.8	-	-	-	-	62.8
Deferred credit, other liabilities and non-controlling interests	2.0	-	-	-	-	2.0
Future income taxes	71.1	-	-	-	-	71.1
	547.2	-	-	-	-	547.2
<b>SHAREHOLDERS' EQUITY</b>						
Share capital and contributed surplus	341.3	(12.5)	-	-	-	328.8
Accumulated other comprehensive loss	(9.1)	-	(2.0)	0.1	-	(11.0)
Retained earnings	78.0	12.5	2.0	(0.1)	(0.1)	92.3
	410.2	-	-	-	(0.1)	410.1
	957.4	-	-	-	(0.1)	957.3

See accompanying notes.

**GREAT CANADIAN GAMING CORPORATION**  
**Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006  
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**24. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)**

**CONSOLIDATED STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME**  
*(expressed in millions of Canadian dollars, except share and per share information)*  
For the year ended December 31, 2007

	Notes					Under U.S. GAAP
	Under CDN GAAP	a	b	c	d	
	\$	\$	\$	\$	\$	\$
REVENUES	397.2	-	-	-	-	397.2
EXPENSES						
Human resources	179.6	-	-	-	-	179.6
Property, marketing and administration	106.6	-	-	-	-	106.6
Amortization	40.1	-	-	(0.2)	-	39.9
Stock-based compensation	7.0	-	-	-	-	7.0
Restructuring costs	1.0	-	-	-	-	1.0
	334.3	-	-	(0.2)	-	334.1
EARNINGS FROM OPERATIONS	62.9	-	-	0.2	-	63.1
Interest and financing costs, net	24.8	-	-	-	-	24.8
Goodwill impairment	-	-	-	-	-	-
Foreign exchange loss	0.3	-	-	-	-	0.3
	25.1	-	-	-	-	25.1
EARNINGS BEFORE INCOME TAXES	37.8	-	-	0.2	-	38.0
Income tax expense	0.6	-	-	0.1	-	0.7
EARNINGS BEFORE NON-CONTROLLING INTERESTS	37.2	-	-	0.1	-	37.3
Non-controlling interests	1.4	-	-	-	-	1.4
NET EARNINGS	35.8	-	-	0.1	-	35.9
EARNINGS PER COMMON SHARE						
Basic	0.42					0.42
Diluted	0.41					0.41
WEIGHTED AVERAGE NUMBER OF COMMON SHARES						
Basic	86,226,888					86,226,888
Diluted	86,785,571					86,785,571
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX						
Changes in fair values of derivatives	(41.4)	-	-	-	-	(41.4)
Loss on derivatives	42.7	-	-	-	-	42.7
Unrealized effect of foreign currency translation	(5.1)	-	-	-	-	(5.1)
OTHER COMPREHENSIVE LOSS	(3.8)	-	-	-	-	(3.8)
COMPREHENSIVE INCOME	32.0	-	-	0.1	-	32.1

See accompanying notes.

**GREAT CANADIAN GAMING CORPORATION**  
**Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006  
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**24. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
*(expressed in millions of Canadian dollars)*  
**For the year ended December 31, 2007**

	Notes					Under U.S. GAAP \$
	Under CDN GAAP \$	a \$	b \$	c \$	d \$	
<b>Cash Flows from Operating Activities</b>						
Net earnings	35.8	-	-	0.2	-	36.0
Adjustments to reconcile net earnings to net cash provided by operating activities:		-	-	-	-	
Amortization	40.1	-	-	(0.2)	-	39.9
Goodwill impairment	-	-	-	-	-	-
Stock-based compensation and non-cash restructuring costs	7.0	-	-	-	-	7.0
Non-cash interest and financing costs	2.7	-	-	-	-	2.7
Future income taxes	(8.8)	-	-	-	-	(8.8)
Other	(0.4)	-	-	-	-	(0.4)
Changes in non-cash operating working capital	20.2	-	-	-	-	20.2
<b>Net cash provided by operating activities</b>	<b>96.6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>96.6</b>
<b>Cash Flows from Investing Activities</b>		-	-	-	-	
Purchase of property, plant and equipment, net of related accounts payable	(32.8)	-	-	-	-	(32.8)
Funds received from Nova Scotia Gaming Corporation	21.1	-	-	-	-	21.1
Funds due from Nova Scotia Gaming Corporation to purchase plant and equipment	(4.0)	-	-	-	-	(4.0)
Restricted cash	0.2	-	-	-	-	0.2
Acquisitions related contingent payments	(5.9)	-	-	-	-	(5.9)
Promissory notes	0.2	-	-	-	-	0.2
<b>Net cash used in investing activities</b>	<b>(21.2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(21.2)</b>
<b>Cash Flows from Financing Activities</b>		-	-	-	-	
Proceeds from long-term debt	402.0	-	-	-	-	402.0
Repayment of long-term debt	(388.9)	-	-	-	-	(388.9)
Transaction costs	(13.0)	-	-	-	-	(13.0)
Common shares issued for cash, net of issuance costs	7.6	-	-	-	-	7.6
Purchase of common shares	(31.3)	-	-	-	-	(31.3)
<b>Net cash used in financing activities</b>	<b>(23.6)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(23.6)</b>
Effect of foreign exchange on cash and cash equivalents	(1.5)	-	-	-	-	(1.5)
<b>Net Cash Inflow</b>	<b>50.3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50.3</b>
<b>Cash and cash equivalents, Beginning of year</b>	<b>56.8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>56.8</b>
<b>Cash and cash equivalents, End of year</b>	<b>107.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>107.1</b>
<b>Supplemental Disclosure</b>		-	-	-	-	
Interest received	5.2	-	-	-	-	5.2
Interest paid	21.2	-	-	-	-	21.2
Income taxes received	4.9	-	-	-	-	4.9

See accompanying notes.

**GREAT CANADIAN GAMING CORPORATION**  
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**24. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
*(expressed in millions of Canadian dollars)*  
As at December 31, 2006

	Notes					Under U.S. GAAP
	Under CDN GAAP	a	b	c	d	
	\$	\$	\$	\$	\$	\$
<b>ASSETS</b>						
<b>CURRENT</b>						
Cash and cash equivalents	56.8	-	-	-	-	56.8
Restricted cash	2.6	-	-	-	-	2.6
Accounts receivable	13.3	-	-	-	(0.1)	13.2
Income taxes receivable	9.9	-	-	-	-	9.9
Due from Nova Scotia Gaming Corporation, current	17.1	-	-	-	-	17.1
Prepays, deposits, and other assets	12.9	-	-	-	-	12.9
	112.6	-	-	-	(0.1)	112.5
Property, plant and equipment	565.8	-	-	(0.3)	-	565.5
Intangible assets	202.0	-	-	-	-	202.0
Goodwill	30.6	-	-	0.1	-	30.7
Due from Nova Scotia Gaming Corporation	17.7	-	-	-	-	17.7
Future income taxes	10.7	-	-	-	-	10.7
Other assets	1.3	-	-	-	-	1.3
	940.7	-	-	(0.2)	(0.1)	940.4
<b>LIABILITIES</b>						
<b>CURRENT</b>						
Accounts payable and accrued liabilities	62.0	-	-	-	-	62.0
Income taxes payable	-	-	-	-	-	-
Long-term debt, deferred credit and other liabilities, current	3.7	-	-	-	-	3.7
	65.7	-	-	-	-	65.7
Long-term debt	390.3	-	-	-	-	390.3
Derivative liabilities	-	-	-	-	-	-
Deferred credit, other liabilities and non-controlling interests	3.3	-	-	-	-	3.3
Future income taxes	86.5	-	-	(0.1)	-	86.4
	545.8	-	-	(0.1)	-	545.7
<b>SHAREHOLDERS' EQUITY</b>						
Share capital and contributed surplus	335.9	(12.5)	-	-	-	323.4
Accumulated other comprehensive loss	(5.3)	-	(2.0)	0.1	-	(7.2)
Retained earnings	64.3	12.5	2.0	(0.2)	(0.1)	78.5
	394.9	-	-	(0.1)	(0.1)	394.7
	940.7	-	-	(0.2)	(0.1)	940.4

See accompanying notes.

**GREAT CANADIAN GAMING CORPORATION**  
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**24. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)**

**CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS**  
*(expressed in millions of Canadian dollars, except share and per share information)*  
For the year ended December 31, 2006

	Notes					Under U.S. GAAP
	Under CDN GAAP	a	b	c	d	
	\$	\$	\$	\$	\$	\$
REVENUES	385.2	-	-	-	-	385.2
EXPENSES						
Human resources	178.6	-	-	-	-	178.6
Property marketing and administration	108.4	-	-	-	-	108.4
Amortization	40.2	-	-	(0.2)	-	40.0
Stock-based compensation	6.3	-	-	-	-	6.3
Restructuring costs	10.0	-	-	-	-	10.0
	<u>343.5</u>	<u>-</u>	<u>-</u>	<u>(0.2)</u>	<u>-</u>	<u>343.3</u>
EARNINGS FROM OPERATIONS	41.7	-	-	0.2	-	41.9
Interest and financing costs, net	51.0	-	-	-	-	51.0
Goodwill impairment	9.9	-	-	-	-	9.9
Foreign exchange loss	1.3	-	2.0	-	-	3.3
	<u>62.2</u>	<u>-</u>	<u>2.0</u>	<u>-</u>	<u>-</u>	<u>64.2</u>
LOSS BEFORE INCOME TAXES	(20.5)	-	2.0	0.2	-	(22.3)
Income tax recovery	(4.0)	-	-	0.1	-	(3.9)
LOSS BEFORE NON-CONTROLLING INTERESTS	(16.5)	-	2.0	0.1	-	(18.4)
Non-controlling interests	2.1	-	-	-	-	2.1
NET LOSS	(18.6)	-	2.0	0.1	-	(20.5)
LOSS PER COMMON SHARE						
Basic	(0.22)					(0.19)
Diluted	(0.22)					(0.19)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES						
Basic	84,471,204					84,471,204
Diluted	84,471,204					84,471,204
OTHER COMPREHENSIVE INCOME, NET OF TAX						
Unrealized effect of foreign currency translation	1.9	-	-	-	-	1.9
OTHER COMPREHENSIVE INCOME	1.9	-	-	-	-	1.9
COMPREHENSIVE LOSS	(16.7)	-	2.0	0.1	-	(18.6)

See accompanying notes.

**GREAT CANADIAN GAMING CORPORATION**  
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For the Years Ended December 31, 2007 and 2006  
(Expressed in millions, except for share information)

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**

*(expressed in millions of Canadian dollars)*

For the year ended December 31, 2006

	Notes					Under U.S. GAAP
	Under CDN GAAP	a	b	c	d	
	\$	\$	\$	\$	\$	\$
<b>Cash Flows from Operating Activities</b>						
Net loss	(18.6)	-	2.0	0.1	-	(16.5)
Adjustments to reconcile net income to net cash provided by operating activities						
Amortization	40.2	-	-	(0.1)	-	40.1
Goodwill impairment	9.9	-	-	-	-	9.9
Stock-based compensation and non-cash restructuring costs	7.4	-	-	-	-	7.4
Non-cash interest and financing costs	8.9	-	-	-	-	8.9
Future income taxes	(4.0)	-	-	-	-	(4.0)
Other	1.1	-	(2.0)	-	-	(0.9)
Changes in non-cash operating working capital	(13.8)	-	-	-	-	(13.8)
Net cash provided by operating activities	31.1	-	-	-	-	31.1
<b>Cash Flows from Investing Activities</b>						
Purchase of property, plant and equipment, net of related accounts payable	(82.7)	-	-	-	-	(82.7)
Funds received from Nova Scotia Gaming Corporation	23.6	-	-	-	-	23.6
Funds due from Nova Scotia Gaming Corporation to purchase plant and equipment	(15.1)	-	-	-	-	(15.1)
Restricted cash	4.0	-	-	-	-	4.0
Acquisitions related contingent payments	(1.1)	-	-	-	-	(1.1)
Promissory notes	0.2	-	-	-	-	0.2
Net cash used in investing activities	(71.1)	-	-	-	-	(71.1)
<b>Cash Flows from Financing Activities</b>						
Proceeds from long-term debt	396.8	-	-	-	-	396.8
Repayment of long-term debt	(446.8)	-	-	-	-	(446.8)
Transaction costs	(4.1)	-	-	-	-	(4.1)
Common shares issued for cash, net of issuance costs	80.6	-	-	-	-	80.6
Purchase of common shares	-	-	-	-	-	-
Net cash provided by financing activities	26.5	-	-	-	-	26.5
Effect of foreign exchange on cash and cash equivalents	0.5	-	-	-	-	0.5
<b>Net Cash Inflow</b>	<b>(13.0)</b>	-	-	-	-	<b>(13.0)</b>
<b>Cash and cash equivalents, Beginning of year</b>	<b>69.8</b>	-	-	-	-	<b>69.8</b>
<b>Cash and cash equivalents, End of year</b>	<b>56.8</b>	-	-	-	-	<b>56.8</b>
<b>Supplemental Disclosure</b>						
Interest received	4.7	-	-	-	-	4.7
Interest paid	57.6	-	-	-	-	57.6
Income taxes paid	9.2	-	-	-	-	9.2

See accompanying notes.

**GREAT CANADIAN GAMING CORPORATION**  
**Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006  
(Expressed in millions, except for share information)

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

**Notes to the Reconciliation Between Canadian and U.S. GAAP as at and for the Years Ended December 31, 2006 and 2007**

a) Stock-based compensation

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

b) Foreign exchange loss

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

c) Pre-Opening costs

Under Canadian GAAP, incremental costs incurred by the Company from the opening of a new gaming facility are capitalized and are amortized over a period not exceeding five years. Under U.S. GAAP, these costs are required to be expensed as incurred.

d) Accounting for variable interest entities

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

**GREAT CANADIAN GAMING CORPORATION**  
**Notes to the Consolidated Financial Statements**

For the Years Ended December 31, 2007 and 2006  
(Expressed in millions, except for share information)

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

**Notes to the Reconciliation Between Canadian and U.S. GAAP as at and for the Years Ended December 31, 2006 and 2007(Continued)**

e) Presentation of consolidated financial statements

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

***Recent accounting pronouncements***

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157). This Statement defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company expects that adoption of SFAS 157 will not have a material impact on its consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB 108). SAB 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 permits companies to record the cumulative effect of initially applying this approach in the first fiscal year ending after November 15, 2006 by recording necessary correcting adjustments to the carrying values of assets and liabilities as of the beginning of that year with the offsetting adjustment recorded to the opening balance of retained earnings. The adoption of SAB 108 did not have a material impact on the Company's consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115" (SFAS 159). This statement gives entities the option to measure certain financial assets and liabilities at fair value, with changes in fair value recorded in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company expects that adoption of SFAS 159 will not have a material impact on its consolidated financial statements.