

Court File No. 32-1494254
Estate File No. 32-1494254

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

IN THE MATTER OF THE NOTICE OF INTENTION
TO MAKE A PROPOSAL OF PARLAY ENTERTAINMENT INC.,
INSOLVENT PERSON

Applicant

APPLICANT'S MOTION RECORD
(returnable June 3, 2011)

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ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

IN THE MATTER OF THE NOTICE OF INTENTION
TO MAKE A PROPOSAL OF PARLAY ENTERTAINMENT INC.,
INSOLVENT PERSON

Applicant

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TAB 1

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

IN THE MATTER OF THE NOTICE OF INTENTION
TO MAKE A PROPOSAL OF PARLAY ENTERTAINMENT INC.,
INSOLVENT PERSON

Applicant

**NOTICE OF MOTION
(RETURNABLE JUNE 3, 2011)**

Parlay Entertainment Inc. ("**Parlay**") will make a motion to the Honourable Mr. Justice Morawetz who is presiding over the Ontario Superior Court of Justice (Commercial List) on **Friday, June 3, 2011 at 10:00 a.m.** or as soon after that time as the motion can be heard, at 330 University Avenue, Toronto, Ontario.

PROPOSED METHOD OF HEARING: The motion is to be heard orally.

THE MOTION IS FOR:

1. An order, substantially in the form attached as **Schedule "A"** which order shall, *inter alia*:
 - (a) abridge the time for, and validate the service of this motion record and dispense with further service of same;
 - (b) extend the time for the filing of the proposal by Parlay from June 3, 2011 to July 18, 2011;
 - (c) authorize and direct the Proposal Trustee to market for sale Parlay's business with the assistance of the company (the "**Sales Process**");

- (d) amend the May 9, 2011 order of the Honourable Mr. Justice Cumming (the “**May 2011 Order**”) to (a) give effect to the Break-Up and Expense Reimbursement Charge and D&O Charge (defined below); and (b) correct the name of the debtor-in-possession lender, which was incorrectly stated to be MPProjects Assets S.A. when it is M Projects Assets S.A. (“**M Projects**”);
- (e) authorize and direct Parlay to enter into the amended debtor-in-possession facility *nunc pro tunc* with M Projects (the “**Amended DIP Facility**”) in the form attached as Appendix “C” to the second report of the proposal trustee BDO Canada Limited (“**BDO**” or the “**Proposal Trustee**”) dated May 27, 2011 (the “**Second Report**”);
- (f) authorize and direct Parlay to enter into the asset purchase agreement (the “**Stalking Horse Asset Purchase Agreement**”) *nunc pro tunc* with M Projects in the form attached as Appendix “E” the Second Report and approve and accept the Stalking Horse Asset Purchase Agreement for the purpose of conducting the Sales Process;
- (g) approve the bidding procedures substantially in the form attached as Appendix “D” to the Second Report (the “**Bidding Procedures**”),
- (h) approve the payment to M Projects of a break-up fee in the amount of \$50,000 (the “**Break-Up Fee**”) and an expense reimbursement in the amount of \$50,000 (the “**Expense Reimbursement**”) in the event that the Purchased Assets are conveyed to a Successful Bidder other than the Stalking Horse Bidder (terms as defined in the Bidding Procedures);
- (i) approve a third ranking charge against the assets, undertakings and property of Parlay (the “**Property**”) in favour of M Projects in the amount of \$100,000 (the “**Break-Up and Expense Reimbursement Charge**”);
- (j) approve a fourth ranking charge against the Property in favour of the directors and officers of Parlay in the amount of \$150,000 (the “**D&O Charge**”);

- (k) approve the Second Report and the activities described therein; and
- (l) such further and other relief as counsel may seek and this Honourable court may deem just.

THE GROUNDS FOR THE MOTION ARE:

1. Parlay filed a notice of intention to make a proposal (the “**NOI**”) under the *Bankruptcy and Insolvency Act* (Canada) R.S.C. c. B-3 (the “**BIA**”) on May 4, 2011 and BDO was appointed as the Proposal Trustee.
2. Parlay has no secured creditors.
3. The May 2011 Order approved, *inter alia*, a (a) debtor-in-possession facility between MPProjects Assets S.A. and Parlay with a maximum borrowing amount of \$500,000 (the “**DIP Facility**”); and (b) granted MPProjects Assets S.A. a second ranking charge against the Property.
4. The correct name of the debtor-in-possession lender is M Projects Assets S.A. and accordingly, the May 2011 Order must be amended as well as the DIP Facility to reflect same.
5. On May 30, 2011, Parlay entered into the Stalking Horse Asset Purchase Agreement, which remains subject to court approval. The agreement contemplates that it will stand as the stalking horse bid in the Sales Process.
6. It is a condition of the Stalking Horse Asset Purchase Agreement that M Projects obtain the Break-Up and Expense Reimbursement Charge.
7. Parlay and the Proposal Trustee have determined that the maximum realization to Parlay’s creditors and equity holders will be obtained through the sale of the company’s assets and are seeking the approval of the Bidding Procedures in an effort to achieve same. The proposed length of the Sales Process is 45 days.

8. The Proposal Trustee is of the view that approval of the Stalking Horse Asset Purchase Agreement for the purpose of conducting the Sale Process is the most expedient and reasonable means of maximizing the realizable value of Parlay's undertakings, property and assets.
9. The Proposal Trustee is of the view that the Expense Reimbursement and Break-Up Fee are reasonable in the circumstances.
10. Parlay's D&O policy with Great American lapsed on April 30, 2011. By way of email dated April 28, 2011 Parlay's broker confirmed that the insurer would extend coverage for an additional 90 days and a premium of \$1,800. As of the date hereof, Parlay has not received the requisite documentation from its broker despite its requests. Accordingly, Parlay is seeking a fourth ranking D&O Charge in the amount of \$150,000. In the event that the insurance can be placed and the requisite documentation is received, Parlay will advise the Proposal Trustee and return to this Court to have the proposed D&O Charge vacated.
11. Parlay's directors and officers have indicated they intend to resign from their respective positions with the company if they are not granted the D&O Charge to protect them from the various statutory personal liabilities which they may be exposed to by virtue of their continued involvement in the company during the NOI proceedings.
12. In order to allow Parlay sufficient time to run the initial stages of the Sales Process, the company is seeking an extension of the time for filing a proposal from June 3, 2011 to July 18, 2011.
13. Amendments to the May 2011 Order are also required to give effect to the Break-Up and Expense Reimbursement Charge.
14. Parlay is acting in good faith and due diligence in order to present a proposal to its creditors.

15. Parlay is current with respect to its post-filing obligations and is capable of maintaining this position during the extension of time requested.
16. Parlay will likely be able to make a viable proposal if the extension is granted.
17. The ongoing initiatives are for the benefit of the creditors and there will be no material prejudice to same on the granting of the extension sought.
18. The grounds set out in the Second Report.
19. The inherent jurisdiction of this Court.
20. Sections 50.4(9) and 64.1 of the BIA.
21. Sections 97 and 137(2) of the *Courts of Justice Act*, R.S.O. 1990 c. C.43.
22. Rules 1.04, 2.03, 3.02 and 17 of the *Rules of Civil Procedure*, R.R.O. 1990 Reg. 194; and
23. Parlay will rely on such further and other grounds as counsel may advise and this Honourable Court may permit.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

- (a) the Second Report; and

- (b) such further and other material as counsel may advise and this Honourable Court may permit.

May 30, 2011

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To: Service List

TAB A

Court File No. 32-1494254
Estate File No. 32-1494254

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.)	FRIDAY, THE 3rd
)	
JUSTICE MORAWETZ)	DAY OF JUNE, 2011

**IN THE MATTER OF THE NOTICE OF INTENTION
TO MAKE A PROPOSAL OF PARLAY
ENTERTAINMENT INC., INSOLVENT PERSON**

ORDER

THIS MOTION, made by the debtor, Parlay Entertainment Inc. ("**Parlay**"), for an order substantially in the form as appended to the motion record of Parlay dated May 30, 2011 (the "**Motion Record**") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the second report of BDO Canada Limited in its capacity as the proposal trustee (the "**Proposal Trustee**") of Parlay dated May 27, 2011 (the "**Second Report**") and the memo of law dated May 27, 2011 (the "**Memo of Law**"), on hearing the submissions of the Proposal Trustee, counsel for Parlay and counsel for M Projects Assets S.A. ("**M Projects**" or the "**Stalking Horse Bidder**") and no one appearing for any other person on the service list, although properly served as appears from the affidavit of Pat Rogers sworn May 31, 2011, filed:

SERVICE

1. **THIS COURT ORDERS** that the time for service of the Motion Record, the Memo of Law and the Second Report is hereby abridged so that this motion is properly returnable today and hereby dispenses with further service thereof.

MARKETING AND STALKING HORSE PROCESS

2. **THIS COURT ORDERS** that the bidding procedures attached as Appendix "D" to the Second Report (the "**Bidding Procedures**") and the sale process and auction described therein (collectively, the "**Sales Process**") be and are hereby approved and the Proposal Trustee is hereby authorized and directed to conduct the Sales Process.

3. **THIS COURT ORDERS** that Parlay is hereby authorized and directed, *nunc pro tunc*, to enter into an agreement to sell, all or substantially all, of the Property, as that term is defined in the May 9, 2011 order of the Honourable Mr. Justice Cumming (the "**May 2011 Order**"), (the "**Purchased Assets**") to M Projects, substantially in the form as attached as Appendix "E" to the Second Report (the "**Stalking Horse Asset Purchase Agreement**") and such agreement, subject to the terms of this Order, is hereby approved and accepted for the purpose of conducting the Stalking Horse Sales Process (as defined below) in accordance with the Bidding Procedures, including without limitation, the payment of the Break-Up Fee and the Expense Reimbursement (as each term is defined in the Stalking Horse Asset Purchase Agreement).

4. **THIS COURT ORDERS** that the Proposal Trustee is hereby authorized and directed to take such additional steps and execute such additional documents on behalf of Parlay as may be necessary or desirable for the completion of the Stalking Horse Asset Purchase Agreement and for the conveyance of the Purchased Assets to the Stalking Horse Bidder. The Proposal Trustee is hereby authorized and empowered to take any steps and execute such additional documents which shall be deemed to be effectively done or executed as if done by Parlay.

5. **THIS COURT ORDERS** that M Projects shall be entitled to, and is hereby granted, a charge (the "**Stalking Horse Bidder Charge**") on the Property in the maximum amount of \$100,000, as security for the payment of the Break-Up Fee and the Expense Reimbursement in the circumstances provided for in sections 1.1, 8.2(a) and 8.3 of the Stalking Horse Asset Purchase Agreement, respectively and that the Stalking Horse Bidder Charge shall form a charge on the Property in priority to all Encumbrances (as such term is defined in the May 2011 Order). The Stalking Horse Bidder Charge shall have the priority set out in paragraph 12 of this Order.

6. **THIS COURT ORDERS** that, in the event that the Proposal Trustee concludes a sale (on behalf of Parlay) of all or any of the Purchased Assets to a Successful Bidder other than the Stalking Horse Bidder, the Proposal Trustee is hereby authorized and directed to pay the Break-Up Fee and the Expense Reimbursement (as defined in the Stalking Horse Asset Purchase Agreement) to the Stalking Horse Bidder within 3 business days following the closing of such a sale approved by the Court in accordance with the provisions of the Stalking Horse Asset Purchase Agreement.

7. **THIS COURT ORDERS** that in connection with the Stalking Horse Sales Process and pursuant to clause 7(3)(c) of the *Personal Information Protection of Documents Act (Canada)*, the Proposal Trustee may disclose personal information of identifiable individuals to prospective bidders for the Purchased Assets and to their advisors, but only to the extent desirable or required to negotiate and attempt to complete a sale of such assets. Each prospective bidder to whom any such personal information is disclosed shall maintain and protect the privacy of such information and limit the use of such information to its evaluation of the said assets and related business, and if it does not complete a purchase thereof, shall return all such information to the Proposal Trustee, or in the alternative, shall destroy all such information and certify such distribution to the Proposal Trustee.

DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE

8. **THIS COURT ORDERS** that Parlay shall indemnify its directors and officers against obligations and liabilities that they may incur as directors or officers of Parlay for any and all statutory liabilities, for which the directors and officers may be liable by reason of, or in relation to their capacity as directors and/or officers of Parlay.

9. **THIS COURT ORDERS** that the directors and officers of Parlay shall be entitled to the benefit of and are hereby granted a charge (the "**D&O Charge**") on the Property, which charge shall not exceed an aggregate amount of \$150,000 as security for the indemnity provided in paragraph 8 of this Order, and that the D&O Charge shall form a charge on the Property in priority to all Encumbrances, except for the statutory charges set out in section 81.4(4) and 81.6(2) of the *Bankruptcy and Insolvency Act* (the "**BIA**"). The D&O Charge shall have the priority set out in paragraph 12 of this Order.

10. **THIS COURT ORDERS** that, notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the D&O Charge, and (b) Parlay's directors and officers shall only be entitled to the benefit of the D&O Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 8 of this Order.

AMENDMENTS TO THE MAY 2011 ORDER

11. **THIS COURT ORDERS** that the definition of DIP Lender in the recitals to the May 2011 Order be, and is hereby, amended to refer to M Projects Assets S.A. and that paragraphs 6 to 16 of the May 2011 Order be and are hereby amended with the necessary changes *mutatis mutandis*.

12. **THIS COURT ORDERS** that paragraph 12 of the May 2011 Order be, and is hereby, amended as follows:

(a) **THIS COURT ORDERS** that the priorities of the Administration Charge, the DIP Charge, the Stalking Horse Bidder Charge and the D&O Charge, as among them shall be as follows:

- First – Administration Charge;
- Second – DIP Charge;
- Third – Stalking Horse Bidder Charge; and
- Fourth – D&O Charge.

13. **THIS COURT ORDERS** that paragraphs 13, 14, 15 and 16 of the May 2011 Order be and are hereby amended with the necessary changes *mutatis mutandis* to give effect to, and include, the granting of the Stalking Horse Bidder Charge and the D&O Charge.

EXTENSION OF TIME FOR MAKING A PROPOSAL

14. **THIS COURT ORDERS** that the time for filing a proposal and the stay of proceedings herein are hereby extended in accordance with section 50.4(9) of the BIA from June 3, 2011 to July 18, 2011.

GENERAL

15. **THIS COURT ORDERS** that the Second Report and the activities described therein be and are hereby approved.

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL
OF PARLAY ENTERTAINMENT INC., INSOLVENT PERSON

Court File No: 32-1494254
Estate File No. 32-1494254

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

ORDER

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TAB 2

Court File No. 32-1494254

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER
OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL
OF PARLAY ENTERTAINMENT INC.

SECOND REPORT OF BDO CANADA LIMITED,
AS PROPOSAL TRUSTEE
May 27, 2011

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- A Certificate of Filing of Notice of Intention to Make a Proposal
- B May 9 Order
- C DIP Amending Agreement
- D Bidding Procedures
- E Stalking Horse Agreement
- F Email of April 25, 2011
- G Thirteen Week Cash Flow Forecast with Actual Results from May 4
to May 20, 2011

1. Introduction and Background

1.1 Introduction

- 1.1.1 Parlay Entertainment Inc. (“Parlay” or the “Debtor”) is a public company listed under the Toronto Stock Exchange. Parlay is one of the pioneers and technology leaders in the online gaming industry. As the inventor and holder of Internet bingo patents, Parlay was the first company in the world to develop and deploy its award winning software along with value-added Parlay Game Services (“PGS”) managed solutions based in Alderney and North America. PGS includes hosting services, shared games and, in the case of PGS Europe, pooled liquidity across the European marketplace. Some of the world’s best known brands use Parlay solutions. Parlay’s head offices are located in Oakville, Canada. Parlay and its subsidiaries are licensed or certified to conduct business in Alderney, the United Kingdom and the Isle of Man.
- 1.1.2 Parlay’s revenues declined from \$8.5 million in 2008 to \$3.3 million in 2009 and to \$2.9 million for the year-ended December 31, 2010.
- 1.1.3 This substantial decrease in revenues was a product of increased regulation of the on-line gaming industry in the USA, the world-wide recession reducing discretionary spending and increased competition.
- 1.1.4 Despite management’s efforts to reduce costs, substantial losses were incurred in 2010 of \$2.5 million.
- 1.1.5 Management’s belief is that the present revenue levels do not represent a sustainable business model for a public company with the accompanying accounting, regulatory and legal costs.
- 1.1.6 As set out in the First Report of the Proposal Trustee dated May 2, 2011, there are no registrations against Parlay pursuant to the Ontario Personal Property Security Act.

- 1.1.7 On May 4, 2011 Parlay filed a Notice of Intention to Make Proposal (the "NOI") under the Bankruptcy and Insolvency Act Canada (the "BIA"). BDO Canada Limited was named as the Proposal Trustee (the "Proposal Trustee"). A copy of the Certificate of Filing of a Notice of Intention dated May 4, 2011 issued by the Office of the Superintendent of Bankruptcy (the "OSB") is attached hereto to as Appendix A.
- 1.1.8 Parlay's management initiated the NOI for the purpose of selling the business operations to a third party. On April 25, 2011, Parlay entered into a \$500,000 Debtor-In-Possession Credit Facility (the "DIP Facility") with M Projects Assets S. A. (the "DIP Lender" or "M Projects").
- 1.1.9 By order of this Honourable Court dated May 9, 2011 (the "May 9 Order"), a first ranking charge for the professional fees and disbursements of the Proposal Trustee and Parlay's legal counsel in the amount of \$200,000 against the assets of Parlay was approved. In addition, the May 9 Order also approved the DIP Facility and a second ranking charge of up to \$500,000 against the assets of Parlay, which was a condition of the DIP Facility. A copy of the May 9 Order is attached hereto as Appendix B.

1.2 Purpose

- 1.2.1 The purpose of this Report of the Proposal Trustee is to:
- (a) Obtain authorization for the Proposal Trustee to market for sale Parlay's business with the assistance of the company (the "Sales Process") and approve the proposed bidding procedures (the "Bidding Procedures");
 - (b) Obtain authorization to amend the May 9 Order to correct the name of the debtor-in-possession lender (the "DIP Lender"), which was incorrectly stated to be MPProjects Assets S.A. when it is M Projects Assets S.A.;

- (c) Obtain authorization and direct Parlay to enter into the asset purchase agreement (the “**Stalking Horse Asset Purchase Agreement**”) with M Projects and approve and accept the Stalking Horse Asset Purchase Agreement for the purpose of conducting the Sales Process;
- (d) Obtain this Court’s approval of a third ranking charge against the assets, undertakings and property of Parlay (the “**Property**”) in favour of M Projects to secure payment of the break-up fee and expense reimbursement (the “**Break-Up and Expense Reimbursement Charge**”);
- (e) Obtain this Court’s approval of a fourth ranking charge against the Property in favour of the directors and officers of Parlay (the “**D&O Charge**”);
- (f) advise the Court of the status of Parlay’s operations since the filing of its NOI including a reduction in the monthly rent payable pursuant to the company’s lease with 1373007 Ontario Ltd. (the “**Landlord**”); and
- (g) review and comment on Parlay’s request for a 45 day extension to file a proposal pursuant to the BIA (the “**Proposal**”).

2. Proposed Stalking Horse Sale Process, Bidding Procedures and Amendments to the May 9 Order

2.1.1 The increased regulation of the on-line gaming industry in the United States and the world-wide recession has resulted in reduced discretionary spending and a substantial decrease in revenues and substantial losses to Parlay during 2010. Parlay’s management believes, and the Proposal Trustee agrees, that Parlay requires a sale of the Parlay business to provide investment capital to enable Parlay to continue its operations and meet its ongoing costs.

- 2.1.2 In the recent past, Parlay's management have attempted to sell the business three times without success. The first proposed transaction was agreed to but not finalized due to the economic uncertainty triggered by the events of September 11, 2001. The second proposed transaction produced a binding letter of intent, but the transaction was not completed due to the enactment of legislation in the United States, which had a detrimental effect on the worldwide online gaming industry. The final proposals were received in the spring of 2008, however the parties were unable to reach a definitive agreement with Parlay. The DIP Facility will provide Parlay with sufficient liquidity to meet its obligations for the next three months during which time Parlay intends to complete a sale process.
- 2.1.3 The May 9 Order authorized Parlay to, among other things, enter into the DIP Facility. There was an error in the name of the DIP lender. It is M Projects and not MPProjects Assets S.A. The company and M Projects have amended the DIP Facility to reflect this correction. Certain corresponding amendments to the May 9 Order are also thus required. A copy of the May 27, 2011 DIP Amending Agreement is attached as Appendix "C".
- 2.1.4 M Projects has submitted an agreement to purchase the assets of Parlay by way of a stalking horse bid (the "Stalking Horse Agreement"). A stalking horse sales process, will allow Parlay to continue operations with some certainty to suppliers, customers and employees that Parlay will be sold and its operations will continue.
- 2.1.5 While the Proposal Trustee has not completed a valuation of the Property, the Stalking Horse Agreement will allow Parlay to undertake a sales process, which will expose the opportunity to the market in order to maximize the proceeds of sale for the benefit of its creditors.
- 2.1.6 The Proposal Trustee has reviewed the terms of the Asset Purchase Agreement between Parlay and M Projects and the Bidding Procedures,

which have been submitted for approval to this Honourable Court. The Stalking Horse Agreement includes a Break-Up Fee of \$50,000 and the Expense Reimbursement of up to \$50,000 and a Minimum Overbid of \$75,000. The Proposal Trustee believes that these amounts are reasonable in the circumstances and will not deter prospective purchasers. The Proposal Trustee also believes that the Break-Up and Expense Reimbursement Charge is reasonable and the May 9 Order be amended to incorporate same. Copies of the proposed Bidding Procedures and the Stalking Horse Agreement are attached as Appendices "D" and "E", respectively.

- 2.1.7 With the approval of this Honourable Court, the Proposal Trustee intends to commence the Sales Process forthwith, with the intent that such Sales Process produces an offer(s) by July 18, 2011, with an auction process to be conducted by July 25, 2011, if necessary.
- 2.1.8 The Sales Process to be undertaken by the Proposal Trustee will include the following steps:
- (a) contacting a list of interested parties who have been identified by the Proposal Trustee and by Parlay's management;
 - (b) publishing an advertisement(s) in publication(s) specific to the online gaming industry;
 - (c) preparing and distributing a Confidential Information Memorandum highlighting some of the pertinent features of Parlay to interested parties, following receipt of a signed confidentiality agreement;
 - (d) preparing an electronic "data room", which will allow interested parties to access confidential information related to Parlay and coordinating due diligence efforts;
 - (e) qualifying bidders based on their reputation and their demonstrated ability to complete a purchase;

- (f) receiving and reviewing bids, and negotiating offers to purchase; and
- (g) determining the value of a Qualified Bid, if any and whether there will be an auction pursuant to the terms of the Bidding Procedures.

2.1.9 The timelines for the Sales Process will be as follows:

- (a) July 18, 2011 - deadline for receipt of Qualified Bids
- (b) July 25, 2011 - auction sale
- (c) August 2, 2001 - sale approval hearing at Court
- (d) August 4, 2011- closing of approved sale

3. D&O Charge

- 3.1.1 Parlay's D&O policy with Great American (the "Insurer") lapsed on April 30, 2011.
- 3.1.2 By way of email dated April 25, 2011 Parlay's broker confirmed that the Insurer would extend coverage for an additional 90 days and a premium of \$1,800. A copy of the April 25, 2011 email is attached as Appendix "F".
- 3.1.3 As of the date hereof, Parlay's management has advised the Proposal Trustee that Parlay has not received the requisite documentation from its broker despite its requests.
- 3.1.4 Parlay's directors and officers have indicated that they intend to resign from their respective positions with the company if they are not granted the D&O Charge to protect them from the various statutory personal liabilities which they may be exposed to by virtue of their continued involvement in the company during the NOI proceedings.

- 3.1.5 In the circumstances, the Proposal Trustee believes it is reasonable to have a fourth ranking D&O Charge on the Property in the amount of \$150,000, which is an estimate of the potential statutory personal liabilities of Parlay's directors and officers.
- 3.1.6 In the event that the insurance can be placed and the requisite documentation is received, the proposed D&O Charge can be vacated upon a subsequent hearing to this Court.

4. Cash Forecast and Results to Date

- 4.1.1 Management of Parlay prepared a thirteen week cash flow forecast for the period from May 4, 2011 to August 5, 2011. A copy of the cash forecast, along with the reports of the Proposal Trustee and the Debtor on the cash forecast as prescribed by section 50.4(2) of the BIA were filed with the OSB on May 11, 2011.
- 4.1.2 The Proposal Trustee has monitored the Debtor's business operations and cash flow for the period from May 4, 2011 to May 20, 2011. During this period Parlay's cash receipts exceeded forecast by \$40,000 and disbursements have been less than forecast by \$102,000. In summary, the actual cash position as at May 20, 2011 exceeds forecast by \$129,000.
- 4.1.3 A copy of the cash flow forecast with actual results compared to forecast for the period May 4, 2011 to May 13, 2011 is attached hereto as **Appendix "G"**.
- 4.1.4 Parlay's management has advised the Proposal Trustee that Parlay has negotiated a monthly rent reduction with its Landlord. The monthly rent payable has been reduced from \$26,500 monthly to \$15,000 monthly plus HST, during the NOI proceedings.
- 4.1.5 Parlay's management has advised the Proposal Trustee that Parlay is continuing to operate its business in the ordinary course and wages and source deductions are being paid as due.

5. Extension of Time to File a Proposal

- 5.1.1 As described above, the timelines in the Sales Process mean that a purchaser will not be identified before the bid deadline of July 18, 2011, or later, if an auction sale is undertaken. As a result, Parlay will not be in a position to file a Proposal before June 3, 2011, the deadline to file a Proposal pursuant to section 50.4(8) of the BIA, and as such, Parlay is seeking an extension of 45 days to July 18, 2011 to file its Proposal.
- 5.1.2 During the NOI period, the Proposal Trustee has been monitoring the operations of Parlay and believes that Parlay has continued operations in the normal course and has complied with the requirements of the BIA as follows:
- (a) Parlay has acted, and continues to act, in good faith and with due diligence;
 - (b) Parlay will likely be able to make a viable Proposal should the extension were granted; and
 - (c) No creditor will be materially prejudiced if the extension is granted.

6. Conclusion and Recommendations

- 6.1.1 Parlay filed the NOI to allow Parlay to provide receive interim financing to continue operations while it undertakes a sales process to sell its business.
- 6.1.2 The Stalking Horse Agreement will provide certainty of a sale of Parlay's assets and allow the Proposal Trustee to undertake the Sales Process until July 18, 2011 to expose the assets of Parlay to the market in an effort to obtain a superior offer.
- 6.1.3 At this time, the Proposal Trustee is not in a position to comment on the purchase price in the Stalking Horse Agreement, however the Proposal Trustee believes that the terms of the Bidding Procedures, Break Up Fee, Expense Reimbursement and Overbid Amount are reasonable and will not

deter prospective purchasers. Therefore, the Proposal Trustee recommends that Parlay be authorized to enter into the Stalking Horse Agreement so that the Sales Process can be undertaken to determine if there are any other going-concern purchasers and if the value of the Stalking Horse offer represents the highest possible value, which will maximize the recovery for the creditors.

6.1.4 The Proposal Trustee believes that the Break Up Fee, the Expense Reimbursement, and the D&O Charge are reasonable in the circumstances. The Proposal Trustee, therefore, recommends the May 9 Order be amended to incorporate these charges as well as the DIP Amending Agreement and associated corrections regarding the DIP Lender's name.

6.1.5 Parlay has been able to maintain operations and meet its post filing obligations. Parlay's request for an extension to file a Proposal for 45 days is reasonable and will allow for the completion of the Sales Process, which will be for the benefit of Parlay's creditors.

6.1.6 The Proposal Trustee recommends and respectfully requests that the Court make an Order approving:

- (a) Parlay entering into the Stalking Horse Agreement;
- (b) the Proposal Trustee to commence the Sales Process in accordance with the Bidding Procedures;
- (c) the D&O Charge and the Break-Fee and Expense Reimbursement Charge;
- (d) the amendments to the May 9 Order to reflect the above charges and the correction to the DIP lender's name;
- (e) the DIP Amending Agreement; and
- (f) Parlay's request for a 45 day extension to file a Proposal.

All of which is respectfully submitted this 27th day of May, 2011.

BDO CANADA LIMITED
Proposal Trustee
Per:

A handwritten signature in black ink, appearing to read 'B. Davidson', written over a horizontal line.

Blair F. Davidson, CA•CIRP, CBV, CMC
President

TAB A

TAB B

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.) MONDAY, THE 9th
JUSTICE CUMMING) DAY OF MAY, 2011

IN THE MATTER OF THE NOTICE OF INTENTION
TO MAKE A PROPOSAL OF PARLAY
ENTERTAINMENT INC., INSOLVENT PERSON

Applicant

ORDER

THIS MOTION, made by the debtor, Parlay Entertainment Inc. (the "**Debtor**"), for an order substantially in the form as appended to the motion record of Parlay dated May 4, 2011 (the "**Motion Record**") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Motion Record, the first report of BDO Canada Limited in its capacity as the proposal trustee (the "**Proposal Trustee**") of Parlay dated May 4, 2011 (the "**First Report**") and the memo of law of Parlay dated May 2, 2011 (the "**Memo of Law**") and on hearing the submissions of the Proposal Trustee and of counsel for Parlay and upon being advised of the consent of MPProjects Assets S.A. (the "**DIP Lender**");

SERVICE

1. **THIS COURT ORDERS** that the time for service of the Motion Record, the Memo of Law and the First Report is hereby abridged so that this motion is properly returnable today and hereby dispenses with further service thereof.

INTERIM FINANCING

6. **THIS COURT ORDERS** that Parlay is hereby authorized and empowered to obtain and borrow under a credit facility entered into with the DIP Lender in order to finance the company's working capital requirements and other general corporate purposes provided that the borrowings under such credit facility shall not exceed the amount specified in the DIP Facility (defined below) unless permitted by further order of this Court.
7. **THIS COURT ORDERS** that the credit facility shall be on the terms and subject to the conditions as set forth in the term sheet entered into between Parlay and the DIP Lender dated April 25, 2011, and as contained in Appendix "C" to the First Report (the "**DIP Facility**").
8. **THIS COURT ORDERS** that Parlay is authorized and empowered to execute and deliver such credit agreements, mortgages, charges, and security documentation or other definitive documents (collectively, the "**Definitive Documents**") as are contemplated by the DIP Facility or as may be reasonably required by the DIP Lender pursuant to the terms thereof, and Parlay is hereby authorized and directed to pay and perform, following the effective date of the DIP Facility, all of the indebtedness, interest, fees, liabilities and obligations to the DIP Lender under and pursuant to the DIP Facility and the Definitive Documents as and when the same become due and are to be performed.
9. **THIS COURT ORDERS** that the DIP Lender shall be entitled to the benefit of and is granted a DIP Charge on all the Property, which charge shall not exceed the aggregate amount owed to the DIP Lender under the DIP Facility and the Definitive Documents. The DIP Charge shall have the priority set out in paragraphs 12 and 14 of this Order.
10. **THIS COURT ORDERS** that, notwithstanding any other provision of the BIA:
 - (a) the DIP Lender may take such steps from time to time as it may deem necessary or appropriate to file, register, record or perfect the DIP Charge or any of the Definitive Documents;
 - (b) upon the occurrence of an event of default under the Definitive Documents or the DIP Charge, the DIP Lender, upon 5 days notice to Parlay and the Proposal Trustee, may exercise any and all of its rights and remedies against Parlay or the Property under or

- 4 -

pursuant to the DIP Facility, Definitive Documents and the DIP Charge, including without limitation, to cease making advances to Parlay and set off and/or consolidate any amounts owing by the DIP Lender to Parlay against the obligations of Parlay to the DIP Lender under the DIP Facility, the Definitive Documents or the DIP Charge, to make demand, accelerate payment and give other notices, or to apply to this Court for the appointment of a receiver, receiver and manager or interim receiver, or for a bankruptcy order against Parlay and for the appointment of a trustee in bankruptcy of Parlay and upon the occurrence of an Event of Default under the terms of the DIP Facility or the Definitive Documents the DIP Lender shall be entitled to seize and retain proceeds from the sale of the Property and the assets of Parlay and the cash flow of Parlay to repay amounts owing to the DIP Lender in occurrence with the terms of the DIP Facility and the DIP Charge but subject to the Administration Charge and the priority set out in paragraphs 12 and 14 of this Order; and

- (c) the foregoing rights and remedies of the DIP Lender shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Applicant or the Property.

11. **THIS COURT ORDERS AND DECLARES** that the DIP Lender shall be treated as unaffected in any plan of arrangement or compromise filed by Parlay under any proposal filed by Parlay under the BIA, as the case may be, with respect to any advances made under the Definitive Documents or the DIP Facility, however the DIP Lender shall seek leave of this Court prior to taking any enforcement steps.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

12. **THIS COURT ORDERS** that the priorities of the Administration Charge and the DIP Charge, as among them, shall be as follows:

First – Administration Charge; and

Second – DIP Charge.

13. **THIS COURT ORDERS** that the filing, registration or perfection of the Administration Charge or the DIP Charge (collectively, the "**Charges**") shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or

interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

14. **THIS COURT ORDERS** that each of the Administration Charge and the DIP Charge (all as constituted and defined herein) shall constitute a charge on the Property and such Charges shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, "**Encumbrances**") in favour of any Person.

15. **THIS COURT ORDERS** that except as otherwise expressly provided for herein, or as may be approved by this Court, Parlay shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, any of the Administration Charge or the DIP Charge, unless Parlay also obtains the prior written consent of the Proposal Trustee, the DIP Lender and the beneficiaries of the Administration Charge, or further Order of this Court.

16. **THIS COURT ORDERS** that the Charges, the DIP Facility and the Definitive Documents shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the "**Chargees**") and/or the DIP Lender thereunder shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to the BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an "**Agreement**"), which binds Parlay, and notwithstanding any provision to the contrary in any such Agreement or otherwise:

- (a) neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of the Commitment Letter or the Definitive Documents shall create or be deemed to constitute a breach by Parlay of any Agreement to which it is a party;
- (b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by, or resulting from, Parlay entering into the

DIP Facility, the creation of the Charges, or the execution, delivery or performance of the Definitive Documents; and

- (c) the payments made by Parlay pursuant to this Order, the DIP Facility or the Definitive Documents, and the granting of the Charges, do not, and will not, constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

COMEBACK

17. **THIS COURT ORDERS** that any interested party (including Parlay and the Proposal Trustee) may apply to this Court to vary or amend this Order on not less than seven (7) days notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

GENERAL

18. **THIS COURT ORDERS** that nothing in this Order shall prevent the Proposal Trustee from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of Parlay, its business or the Property.

19. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada, the United States or any court or any judicial, regulatory or administrative body of any other nation or state to give effect to this Order and to assist the parties and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the parties, as may be necessary or desirable to give effect to this Order or to assist the parties and their agents in carrying out the terms of this Order.

20. **THIS COURT ORDERS** that Parlay and the Proposal Trustee be at liberty to serve this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or electronic transmission to Parlay's creditors or other interested parties at their respective addresses as last shown on the records of Parlay and that any such service or notice by courier,

personal delivery or electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

21. **THIS COURT ORDERS** that Parlay, the Proposal Trustee, and any party who has filed a Notice of Appearance may serve any court materials in these proceedings by e-mailing a PDF or other electronic copy of such materials to counsels' email addresses as recorded on the Service List from time to time, and the Proposal Trustee may post a copy of any or all such materials on its website at www.bdo.ca/extranets/parlayentertainment

22. **THIS COURT ORDERS** that the First Report and activities of the Proposal Trustee as described therein are hereby authorized and hereby approved.

May 9, 2011

Peter A. Cumming J.

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL
OF PARLAY ENTERTAINMENT INC., INSOLVENT PERSON

Court File No. 32-1494254
Estate File No. 32-1494254

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

ORDER

Heenan Blaikie LLP
Bay Adelaide Centre
333 Bay Street, Suite 2900
P.O. Box 2900
Toronto, ON M5H 2T4

Justin Fogarty LSUC# 26488G
Tel: 416.643.6995
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Renée Brosseau LSUC# 47074B
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Email: rbrosseau@heenan.ca

Lawyers for the Applicant

TAB C

**FIRST AMENDING AGREEMENT TO
SENIOR SECURED, SUPER-PRIORITY
DEBTOR-IN-POSSESSION CREDIT FACILITY**

**FIRST AMENDING AGREEMENT TO SENIOR SECURED, SUPER-PRIORITY
DEBTOR-IN-POSSESSION CREDIT FACILITY is made as of the 25th day of May, 2011**

BETWEEN:

PARLAY ENTERTAINMENT INC.

(hereinafter called the "**Borrower**")

OF THE FIRST PART;

- and -

M PROJECTS ASSETS S.A.

(hereinafter called the "**Lender**")

OF THE SECOND PART.

RECITALS:

- A. The Borrower and the Lender entered into a senior secured, super-priority debtor-in-possession credit facility dated April 25, 2011 (the "**DIP Facility**").
- B. The DIP Facility mistakenly referred to the Lender as "MPProjects Assets S.A."
- C. The correct legal name of the Lender is "M Projects Assets S.A." and the parties wish to amend the DIP Facility to correct the legal name of the Lender referenced therein.

NOW THEREFORE for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower and the Lender hereby agree as follows:

1. Terms Incorporated by Reference

- (a) Unless otherwise defined in this First Amending Agreement, terms defined and references contained in the DIP Facility shall have the same meaning and construction in this First Amending Agreement.

2. Amendments

The DIP Facility is hereby amended by replacing all references to "MPProjects Assets S.A." with "M Projects Assets S.A."

3. General Provisions

- (a) Except as amended by this First Amending Agreement, the DIP Facility and all documents executed and delivered by the Borrower pursuant thereto shall continue in full force and effect.
- (b) This First Amending Agreement shall be governed by the laws of the Province of Ontario.
- (c) The parties hereto agree that this First Amending Agreement and the DIP Facility shall be read and construed as one agreement.
- (d) This First Amending Agreement may be executed in two counterparts, each of which shall be deemed to be an original and both of which taken together shall be deemed to constitute one and the same instrument, and it shall not be necessary in making proof of this First Amending Agreement to produce or account for more than one such counterpart.

[SIGNATURES FOLLOW ON NEXT PAGE]

2

IN WITNESS WHEREOF the parties hereto have duly executed this First Amending Agreement on the day and year first above written.

PARLAY ENTERTAINMENT INC.

Per: _____
Name: Sara White
Title: Authorized Signatory
I have authority to bind the Corporation

M PROJECTS ASSETS S.A.

Per: _____
Name: _____
Title: _____

Per: _____
Name: _____
Title: _____
We have authority to bind the Corporation

IN WITNESS WHEREOF the parties hereto have duly executed this First Amending Agreement on the day and year first above written.

PARLAY ENTERTAINMENT INC.

Per: _____
Name:
Title: Authorized Signatory
I have authority to bind the Corporation

M PROJECTS ASSETS S.A.

Per: _____
Name: Hector Rojas
Title:

Per: _____
Name:
Title:
We have authority to bind the Corporation

TAB D

Parlay Entertainment Inc. - Bidding Procedures

Set forth below are the bidding procedures (the "**Bidding Procedures**") to be employed with respect to the sale (the "**Sale Process**") for the assets, property and undertakings (the "**Purchased Assets**") of Parlay Entertainment Inc. ("**Parlay**") by BDO Canada Limited in its capacity as proposal trustee ("**BDO**" or the "**Proposal Trustee**") of Parlay.

On May 4, 2011, Parlay filed a notice of intention to make a proposal pursuant to the *Bankruptcy and Insolvency Act* ("**BIA**") naming BDO as the Proposal Trustee.

By order dated May 9, 2011, the Honourable Mr. Justice Cumming approved, *inter alia*, (a) a debtor-in-possession credit facility entered into on April 25, 2011 (the "**DIP Facility**") by Parlay and M Projects Assets S.A. (the "**DIP Lender**" or the "**Stalking Horse Bidder**"); (b) a second ranking charge against the property of Parlay in the amount of \$500,000 to secure the DIP Facility; and (c) a first ranking charge against the property of Parlay in the amount of \$200,000 to secure payment of professional fees (the "**Administration Charge**").

By order dated June 3, 2011, the Honourable Mr. Justice Morawetz issued an order approving and accepting, *inter alia*, (a) these bidding procedures (the "**Bidding Procedures**") for the purpose of conducting the stalking horse sales process; (b) the asset purchase agreement dated May 30, 2011 (the "**Stalking Horse Asset Purchase Agreement**" or "**Stalking Horse Bid**") between Parlay, the Proposal Trustee, and the Stalking Horse Bidder; and (c) the payment of the Break-Up Fee and the Expense Reimbursement (as each such term is defined in the Stalking Horse Asset Purchase Agreement) by the Proposal Trustee to the Stalking Horse Bidder in accordance with the provisions of the Stalking Horse Asset Purchase Agreement.¹ All amounts specified herein are in Canadian dollars.

Within five (5) business days following the Auction (defined below), Parlay shall, with the assistance of the Proposal Trustee, bring a motion (the "**Sale Approval Motion**") seeking the granting of an order by the Court authorizing and approving the sale of the Purchased Assets to the Successful Bidder(s) (as defined below) (such order, as approved, the "**Approval and Vesting Order**").

Assets to be Sold

With the assistance of the Proposal Trustee, Parlay is offering for sale all of the company's right, title and interest in, and to, all the Purchased Assets and is encouraging bids for all the Purchased Assets, in whole but not in part.

¹ The Stalking Horse Asset Purchase Agreement is attached as Appendix "E" to the Proposal Trustee's Second Report dated May 27, 2011 (the "**Second Report**") in support of Parlay's motion returnable June 3, 2011 (the "**June 2011 Motion Record**"). All capitalized terms not otherwise defined herein, shall have the respective meanings ascribed to them in the Stalking Horse Asset Purchase Agreement. A copy of the Second Report and the June 2011 Motion Record is available on the Proposal Trustee's website at www.bdo.ca/extranets/parlayentertainment

The Bidding Process

The Proposal Trustee shall undertake the following with the assistance of Parlay:

- (i) identify and approach potential purchasers for the purpose of marketing the Purchased Assets with the assistance of Parlay;
- (ii) prepare a confidential information memorandum (“**CIM**”) with the assistance of Parlay to be distributed to those prospective purchasers;
- (iii) set up and manage an electronic data room;
- (iv) distribute the CIM to those prospective purchasers who execute a confidentiality agreement (in a form satisfactory to Parlay);
- (v) determine whether any person is a Qualified Bidder (as defined below);
- (vi) coordinate the efforts of Qualified Bidders in conducting their due diligence investigations;
- (vii) receive offers from Qualified Bidders; and
- (viii) negotiate any offers made to purchase the Purchased Assets on behalf of Parlay.

(collectively, the “**Bidding Process**”).

The Proposal Trustee shall have the right to adopt such other rules for the Bidding Process (including rules that may depart from those set forth herein) that will better promote the goals of the Bidding Process, *provided, however*, that such other rules are not inconsistent with any of (i) the provisions of the Stalking Horse Asset Purchase Agreement (including the deadlines therein), (ii) the Bid Deposit Requirement (as defined below), (iii) the Break-Up Fee and Expense Reimbursement requirement (each as defined below), and (iv) the bid protections granted to the Stalking Horse Bidder herein.

Participation Requirements

A “**Qualified Bidder**” is a potential bidder that the Proposal Trustee determines is likely (based on the experience of and considerations deemed relevant by the Proposal Trustee such as the reputation of the bidder, financial information submitted by the bidder, etc.) to be able to consummate a sale if selected as the Successful Bidder (as defined below). Notwithstanding the foregoing, the Stalking Horse Bidder shall be deemed a Qualified Bidder.

Due Diligence

Any Person that wishes to participate in the Bidding Process must (i) execute a confidentiality agreement (the “**Confidentiality Agreement**”) attached as **Appendix “1”**; and (ii) be a Qualified Bidder. Qualified Bidders who have executed the Confidential Agreement will be

able to conduct phase one due diligence.

The Proposal Trustee shall determine, in its sole discretion, which Qualified Bidders shall be afforded with access to additional confidential information to complete their due diligence.

The Proposal Trustee shall not be obligated to furnish information of any kind whatsoever to any Person that the Proposal Trustee determines not to be a Qualified Bidder. The Proposal Trustee will afford any Qualified Bidder the time and opportunity to conduct reasonable due diligence subject to the time frames contemplated by these Bidding Procedures. The Proposal Trustee will designate a representative to coordinate all reasonable requests for additional information and due diligence access from such Qualified Bidders.

Bid Deadline

A Qualified Bidder that desires to make a bid shall deliver written copies of its bid and the Required Bid Materials (defined below) to the Proposal Trustee c/o BDO Canada Limited 123 Front Street, Suite 1200, Toronto Ontario M5J 2M2, Attention: Blair Davidson not later than 5:00 p.m. (prevailing Eastern time) on **July 18, 2011** (the "**Bid Deadline**"). In the event that a bid is determined to be a Qualified Bid, the Proposal Trustee shall deliver a written copy of any such Qualified Bid and the Required Bid Materials to the Stalking Horse Bidder's counsel, Attention: David Cohen, Gowlings LLP, 1 First Canadian Place, 100 King Street West, Suite 1600, Toronto Ontario M5X 1G5.

Bid Requirements

All bids (other than the Stalking Horse Bid) must include (unless such requirement is waived by the Proposal Trustee) (the "**Required Bid Materials**"):

1. A purchase price equal to, or greater than, \$2,068,822 (the "**Minimum Bid Amount**")², if the bid is for substantially all of Parlay's assets;
2. A letter stating that the bidder's offer is irrevocable until the first business day after the Purchased Assets have been sold pursuant to the closing of the sale or sales thereof approved by the Court;
3. An executed copy of a proposed purchase agreement and a redline of the Qualified Bidder's proposed purchase agreement reflecting variations from the Stalking Horse Asset Purchase Agreement (the "**Marked Agreement**"). All Qualified Bids must provide: (a) a commitment to close within two (2) business days after satisfaction of all conditions and a covenant to use commercial best efforts to satisfy all conditions; and (b) the identity of and contact information for the bidder and full disclosure of any affiliates and any debt or equity financing sources involved in such bid;
4. A cash deposit in the amount of \$100,000 in the form of a wire transfer,

² Which is the sum of the Stalking Horse Bid, the Break-Up Fee, the maximum amount of the Expense Reimbursement and the Overbid Amount.

certified cheque or such other form acceptable to the Proposal Trustee (the “**Bid Deposit**”), which shall be placed in an escrow account (the “**Escrow Account**”). The Escrow Account shall not be subject to any Liens whatsoever of Parlay’s creditors or otherwise, and funds shall be disbursed from the Escrow Account only as follows: (i) if the Qualified Bidder is the Successful Bidder at the Auction, its Bid Deposit will be applied to the purchase price payable by it under its bid on the closing thereof, and (ii) if the Qualified Bidder is not the Successful Bidder at the Auction, then its Bid Deposit shall be returned to it (subject to the other provisions of these Bidding Procedures and the terms of its purchase agreement);

5. A representation of the bidder and written evidence that the bidder has a commitment for financing or other evidence of the proposed purchaser's ability to consummate the proposed transaction, including executed copies of any financing agreements, commitments, guarantees of the payment obligations of the proposed purchaser, and which the Proposal Trustee believes to be sufficient to satisfy the bidder's obligations under its proposed bid, including to consummate the transaction contemplated by the proposed purchase agreement submitted by it as provided above;
6. The bid shall identify with particularity those executory contracts and unexpired leases of Parlay with respect to which the bidder seeks to receive an assignment;
7. The bid shall not request or entitle the bidder to any transaction or break-up fee, expense reimbursement, termination or similar type of fee or payment and shall include an acknowledgement and representation of the bidder that it has had an opportunity to conduct any and all due diligence regarding the Purchased Assets prior to making its offer, that it has relied solely upon its own independent review, investigation and/or inspection of any documents and/or the Purchased Assets in making its bid, and that it did not rely upon any written or oral statements, representations, warranties, or guarantees, express, implied, statutory or otherwise, regarding the Purchased Assets, the financial performance of the Purchased Assets or the physical condition of the Purchased Assets, or the completeness of any information provided in connection therewith or the Auction, except as expressly stated in these Bidding Procedures or the Stalking Horse Asset Purchase Agreement;
8. The bid shall not contain any due diligence, financing or regulatory conditions of any kind other than those contained in the Stalking Horse Asset Purchase Agreement, though the bid may be subject to the satisfaction of other specific conditions in all material respects at Closing.
9. The bid shall fully disclose the identity of each entity that will be bidding for the Purchased Assets or otherwise participating in connection with such bid, and the complete terms of any such participation;

10. The bid shall state that the offering party consents to the jurisdiction of the Court;
11. The bid shall include evidence of authorization and approval from the bidder's board of directors (or comparable governing body) with respect to the submission, execution, delivery and closing of the proposed purchase agreement of the bidder;
12. The bid shall state that the offering party has not acted, and will not act, in collusion with any other Person in connection with its bid; and
13. The bid shall identify with particularity any liabilities being assumed.

A bid received from a Qualified Bidder that includes all of the Required Bid Materials and is received by the Bid Deadline is a **"Qualified Bid"**. The Proposal Trustee reserves the right to determine the value of any Qualified Bid, and which Qualified Bid constitutes the best offer (the **"Lead Bid"**). Forthwith after the Bid Deadline, the Proposal Trustee shall determine which Qualified Bid shall be the Lead Bid for the purposes of the Auction. A copy of the Lead Bid will be provided to all Qualified Bidders prior to the Auction Date.

Notwithstanding the bid requirements detailed above, the Stalking Horse Bid shall be deemed a Qualified Bid.

Credit Bidding

Notwithstanding anything herein to the contrary and as set out in the Stalking Horse Asset Purchase Agreement, the Stalking Horse Bidder who is also the DIP Lender shall be entitled to credit bid. The DIP Lender shall be entitled to apply a credit in the aggregate amount of \$500,000 against Parlay's indebtedness pursuant to the DIP Facility.

In the event that the DIP Facility is not fully extended to Parlay by the Bid Deadline, the DIP Lender shall be entitled to advance an amount of cash equal to \$500,000 less the amount advanced pursuant to the DIP Facility.

"As Is, Where Is, With All Faults"

The sale of the Purchased Assets shall be on an "as is", "where is" and "with all faults" basis and without representations, warranties, or guarantees, express, implied or statutory, written or oral, of any kind, nature, or description by the Proposal Trustee or Parlay or their respective agents, representatives or estates, or any of the other parties participating in the sales process pursuant to these Bid Procedures, except as may otherwise be provided in a definitive purchase agreement with the Proposal Trustee on behalf of Parlay. By submitting a bid, each Qualified Bidder shall be deemed to acknowledge and represent that it has had an opportunity to conduct any and all due diligence regarding the Purchased Assets prior to making its bid, that it has relied solely upon its own independent review, investigation and/or inspection of any documents and/or the Purchased Assets in making its bid, and that it did not rely upon any written or oral statements, representations, warranties, or guarantees, express, implied, statutory or otherwise, regarding the Purchased Assets, the financial performance of the Purchased Assets or the physical condition or

location of the Purchased Assets, or the completeness of any information provided in connection therewith or the Auction, except as expressly stated in these Bidding Procedures or as set forth in a definitive purchase agreement with Parlay. This section shall not merge on closing and is deemed incorporated by reference in all closing documents and deliveries.

Free of Any and All Liens

Except as otherwise provided in the Stalking Horse Asset Purchase Agreement or another Successful Bidder's purchase agreement, and subject to any Permitted Liens which may be defined in the Approval and Vesting Order all of Parlay's right, title and interest in and to the Purchased Assets subject thereto shall be sold free and clear of all Liens other than Permitted Liens pursuant to the Approval and Vesting Order.

The Auction and Auction Procedures

If a Qualified Bid (other than that submitted by the Stalking Horse Bidder) or Qualified Bids which, in either case, in the aggregate provide for consideration of not less than the Minimum Bid Amount, have been received by the Proposal Trustee on or before the Bid Deadline, the Proposal Trustee shall conduct an auction (the "**Auction**") with respect to all of the Purchased Assets, with the Lead Bid as the starting bid for the Auction.

The Auction shall be conducted at the offices of the Proposal Trustee, 123 Front Street, Suite 1200, Toronto Ontario M5J 2M2 (the "**Auction Site**") at 11:00 a.m. (prevailing Eastern time) on **July 25, 2011** (the "**Auction Date**"), or such other place and time as the Proposal Trustee shall notify all Qualified Bidders who have submitted Qualified Bids and expressed their intent to participate in the Auction as set forth above.

Except as otherwise provided herein, based upon the terms of the Qualified Bids received, the number of Qualified Bidders participating in the Auction, and such other information as the Proposal Trustee determines is relevant, the Proposal Trustee may conduct the Auction in any manner that it determines will achieve the maximum value for the Purchased Assets, provided that all Qualified Bidders that have timely submitted a Qualified Bid shall be entitled to be present during each round of bidding, the identity of each such Qualified Bidder shall be disclosed to all other Qualified Bidders, and all material terms of each Qualified Bid and each subsequent bid made by each such Qualified Bidder shall be disclosed to all other Qualified Bidders. The Proposal Trustee also may set opening bid amounts in each round of bidding as the Proposal Trustee determines to be appropriate.

If Qualified Bidders submit Qualified Bids, then the Proposal Trustee shall (i) promptly following the Bid Deadline, review each Qualified Bid on the basis of the financial and contractual terms and the factors relevant to the sale process, including those factors affecting the speed and certainty of consummating the Sale Process, and (ii) as soon as practicable after the conclusion of the Auction, identify the best offer for the Purchased Assets (to the extent any such bid is acceptable to the Proposal Trustee, a "**Successful Bid**" and the bidder or bidders making such bid, the "**Successful Bidder**").

At the hearing on the Sale Approval Motion, the Proposal Trustee will present the Successful Bid to the Court for approval. The Proposal Trustee reserves all rights not to submit

any bid which is not acceptable to the Proposal Trustee for approval by the Court. The Proposal Trustee acknowledges that the Stalking Horse Bid is a Qualified Bid and shall be submitted to the Court for approval in the event that there is no other Successful Bid. Except as otherwise provided herein or as restricted by the Stalking Horse Asset Purchase Agreement, the Proposal Trustee, in the exercise of its fiduciary duties, may adopt rules for bidding at the Auction that, in its business judgment, will better promote the goals of the bidding process or any order of the Court entered in connection herewith.

If no Qualified Bid is submitted by the Bid Deadline or all Qualified Bids that have been submitted have been withdrawn prior to the Bid Deadline or the Auction Date, then the Proposal Trustee shall cancel the Auction (in which case, the Successful Bid shall be the Stalking Horse Bid, and the Successful Bidder shall be the Stalking Horse Bidder).

Break-Up Fee and Expense Reimbursement

To provide an incentive and to compensate the Stalking Horse Bidder for performing the substantial due diligence and incurring the expenses necessary in entering into the Stalking Horse Asset Purchase Agreement with the knowledge and risk that arises from participating in the sale and subsequent bidding process, the Proposal Trustee has agreed that Parlay shall pay the Stalking Horse Bidder, under the conditions outlined herein and in the Stalking Horse Asset Purchase Agreement, a break-up fee in the amount of \$50,000 (the “**Break-Up Fee**”), and to reimburse the Stalking Horse Bidder for the reasonable out-of-pocket expenses associated with the Stalking Horse Asset Purchase Agreement in the amount of up to \$50,000 (the “**Expense Reimbursement**”). **The Proposal Trustee will take into account the Break-Up Fee and the maximum amount of the Expense Reimbursement in each round of bidding with respect to the Stalking Horse Bidder.**

The Break-Up Fee and Expense Reimbursement were material inducements for, and a condition of, the Stalking Horse Bidder's entry into the Stalking Horse Asset Purchase Agreement. The Break-Up Fee and the Expense Reimbursement, if payable in accordance with the Stalking Horse Bid, shall be paid in accordance with the Stalking Horse Bid and the Bidding Procedures Order.

Overbid Amount; Minimum Bid Increment

There shall be an overbid amount that a Qualified Bidder must bid to exceed the Stalking Horse Bid (“**Overbid Amount**”), and that amount shall be at least \$75,000 for all bids made by Qualified Bidders, at the Auction. All subsequent bids shall not be less than \$35,000 in excess of the preceding bid, unless modified by the Proposal Trustee. **In each round of bidding, the Proposal Trustee will take into account the fact that the Break-Up Fee and Expense Reimbursement is not payable with respect to the Stalking Horse Bidder.**

For example, at the Auction, if the Lead Bid is at the Minimum Bid Amount:

- (a) the next bid for any Qualified Bidder other than the Stalking Horse Bidder cannot be less than \$2,103,822 (the Minimum Bid Amount plus \$35,000); and

- (b) the next bid for the Stalking Horse Bidder cannot be less than \$2,003,822 (\$1,968,822³ plus \$35,000).

Acceptance of Qualified Bids

The sale of the Purchased Assets to any Successful Bidder by the Proposal Trustee is expressly conditional upon the approval of the Successful Bid by the Court at the hearing of the Sale Approval Motion. The Proposal Trustee's presentation of any Qualified Bid to the Court for approval does not obligate the Proposal Trustee to close the transaction contemplated by such Qualified Bid until the Court approves the bid. The Proposal Trustee will be deemed to have accepted a bid only when the bid has been approved by the Court at the hearing on the Sale Approval Motion.

Sale Approval Motion Hearing

The Sale Approval Motion shall be made returnable on or before **August 2, 2011** at 10:00 a.m. (prevailing Eastern Time) in the Court. The Proposal Trustee, in the exercise of its business judgment, reserves its right to the extent consistent with the Stalking Horse Asset Purchase Agreement to change the date of the hearing of the Sale Approval Motion in order to achieve the maximum value for the Assets.

At the hearing of the Sale Approval Motion, Parlay shall, with the assistance of the Proposal Trustee, seek approval from the Court to consummate the Successful Bid, and at the Proposal Trustee's election, to consummate the next best Qualified Bid (the "**Back-Up Bid**", and the party submitting the Back-Up Bid, the "**Back-Up Bidder**") should the Successful Bid not be closed in accordance with its terms for any reason.

If the Successful Bidder fails to consummate an approved Sale Process within two (2) business days after satisfaction of all conditions thereof, the Proposal Trustee may, but shall not be required, to consummate the Back-Up Bid without the requirement of any further approval thereof by the Court. The Back-Up Bid shall remain open until the first business day following the consummation of a Sale of the Purchased Assets to the Successful Bidder.

Modifications

The Proposal Trustee may (i) determine which Qualified Bid, if any, is the best offer; and (ii) reject at any time before the issuance and entry of an Approval and Vesting Order approving a Qualified Bid, any bid that is (a) inadequate or insufficient, (b) not in conformity with the requirements of the Bidding Procedures, or the terms and conditions of sale, or (c) contrary to the best interests of the Proposal Trustee, Parlay's estate or its creditors.

Notwithstanding the foregoing, the provisions of this paragraph shall not operate or be construed to permit the Proposal Trustee to (a) accept any Qualified Bid that (i) does not require a bid deposit of at least \$100,000 be placed in a protected, segregated account, which shall serve as protection and security for the Stalking Horse Bidder as outlined herein; or (ii) does not equal or exceed the Overbid Amount, or (iii) impose any terms and conditions upon the Stalking Horse

³ Being the Stalking Horse Bid of \$1,893,822 plus the Overbid Amount of \$75,000.

Bidder that are contradictory to or in breach of the terms of the Stalking Horse Asset Purchase Agreement other than any such terms and conditions set forth in these Bidding Procedures or the Bidding Procedures Order.

Miscellaneous

The Auction and these Bidding Procedures are solely for the benefit of the Proposal Trustee and nothing contained in the Bidding Procedures Order or these Bidding Procedures shall create any rights in any other person or bidder (including without limitation rights as third party beneficiaries or otherwise) other than the rights expressly granted to a Successful Bidder under the Bidding Procedures Order. The bid protections incorporated in these Bidding Procedures are solely for the benefit of the Stalking Horse Bidder.

Except as provided in the Bidding Procedures Order and Bidding Procedures, the Court shall retain jurisdiction to hear and determine all matters arising from or relating to the implementation of the Bidding Procedures Order.