

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.**

**SUPPLEMENTARY REPORT TO THE THIRD REPORT OF THE BDO CANADA LIMITED,
AS PROPOSAL TRUSTEE
July 12, 2011**

1. As reported in paragraphs 4.1.1 to 4.1.4 of the Trustee's Third Report dated July 5, 2011 (the "**Third Report**"), the Chief Financial Officer of Parlay, Mr. David Callander C.A. prepared an updated thirteen week cash flow forecast (the "**Forecast**") for the period of July 8 to September 2, 2011. A copy of the Forecast was included as Appendix "**G**" to the Third Report.

2. Following further review by Mr. Callander and discussion with the Trustee, a few revisions have been made to the timing and amounts of certain disbursements and to the wording of certain of the assumptions, which are included in the notes to the Forecast (the "**Revised Forecast**"). A copy of the Revised Forecast is attached as Appendix "**A**" to this Supplementary Report. A comparison of the Revised Forecast to the Forecast is summarized as follows:
 - 2.1 The receipts have not changed. Total disbursements have decreased by \$25,004 due to the following revisions:
 - (a) Legal fees payable to Heenan Blaikie - increased by \$25,000 (from \$130,850 to \$155,850).
 - (b) Contingency - decreased by \$50,004 (from \$130,000 to \$79,996).

 - 2.2 The total DIP Advance has not changed, however the timing and amount of the DIP Advances during the forecast period are revised as follows:
 - (a) Opening balance of the DIP Advance has increased by \$25,004 to correct an error in the Forecast and now agrees to the actual closing balance as at July 1, 2011.
 - (b) DIP advance for the week ending August 12, 2011 is forecast to decrease by \$25,004 (from \$144,447 to \$119,443).

2.3 Notes 13, 15 and 16 to the Forecast have been revised as follows:

(a) Note 13 - clarifies that the rental payments of \$15,000 do not include HST of \$1,950.

(b) Note 15 -explains that the payment to MSCM LLP is for completion of Parlay's 2010 financial audit.

(c) Note 16 -discloses that this is a recurring receipt from a customer of Parlay Entertainment Limited, a wholly owned subsidiary of Parlay (it should be noted that this note is incorrectly recorded as "Note 17" on the Revised Forecast).

3. The Trustee has reviewed the Revised Forecast including the revised assumptions, and believes that the revisions are not significant overall changes to the Forecast, but do provide reasonable corrections to certain amounts, as well as additional details and clarity.

All of which is respectfully submitted this 12th day of July, 2011.

BDO CANADA LIMITED
Proposal Trustee
Per:

A handwritten signature in black ink, appearing to read "Ken Pearl", written over a light blue horizontal line.

Ken Pearl, CA•CIRP
Vice President

**Parlay Entertainment Inc.
Cash Forecast - Revised
July 2, 2011 to September 2, 2011**


Note	1	2	3	4	5	6	7	8	9	Totals
	Forecast 08-Jul	Forecast 15-Jul	Forecast 22-Jul	Forecast 29-Jul	Forecast 05-Aug	Forecast 12-Aug	Forecast 19-Aug	Forecast 26-Aug	Forecast 02-Sep	
1	\$ 160,000									160,000
2				\$ 150,000						150,000
3		\$ 2,400					\$ 2,400			4,800
3		8,500			\$ 3,700	8,500				17,000
3		3,250				3,250				6,500
4	24,000						24,000			48,000
5			\$ 12,000					\$ 12,000		24,000
17			2,800					2,800		5,600
6									60,000	60,000
7										
	187,700	14,150	14,800	150,000	3,700	11,750	26,400	14,800	63,700	487,000

Total Cash Receipts

	1	2	3	4	5	6	7	8	9	Totals
8			65,000			65,000				130,000
9				65,000				65,000		130,000
10			11,300				11,300			22,600
11			13,407				13,407			26,814
12			7,700				7,700			15,400
12			750				750			1,500
11			3,000				3,000			6,000
10			1,000				1,000			2,000
13	16,950		1,300		16,950		1,300			33,900
14		3,000				3,000				6,000
		800				800				1,600
		3,600				3,600				7,200

Total Cash Disbursements

	1	2	3	4	5	6	7	8	9	Totals
Overhead Costs										
Payroll - gross										
Vacation pay										
Pericom (Perry Malone)			11,300				11,300			22,600
Scott F. White Barrister and Solicitor			13,407				13,407			26,814
Manulife - health benefits			7,700				7,700			15,400
RBC - LTD			750				750			1,500
Expenses - CIBC WISA			3,000				3,000			6,000
Expenses - TD Canada Trust			1,000				1,000			2,000
Expenses - employees										
Overhead Cost	16,950		1,300		16,950		1,300			33,900
Rent (gross rent)										
Toronto Maintenance (cleaners)										
Telephone - One Connect		3,000				3,000				6,000
Telephone - Bell (all three accounts)										
Internet - Blink										
Sales & Promotion										
Operating Leases										
Insurance										
Anchor - annual premium										
D & O - annual premium										
Professional Fees										
MSCM llp - 2010 audit										
Heenan Blake - balance of retainer										
BDO - balance of retainer										
Heenan Blake - originating fees	50,850	50,850	10,000	10,000	4,000	10,000	5,000	10,000	5,150	155,850
BDO - originating fees	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	72,000
BDO - legal fees	10,000				5,000					15,000
Other										
SEDAR filing fees and penalties										
Bank fees										
Audit committee expenses										
FedEx										
MPP Projects Assets S.A. legal fees	10,000	10,000	5,000	10,000	8,000	10,000	5,000	5,000	4,996	20,000
MPP Projects Assets S.A. compliance fees										
Contingency										
FX movements										
Total Cash Disbursements	95,800	158,250	61,457	93,000	41,950	115,400	56,457	108,000	18,146	748,460
Net Cash from Operations	91,900	(144,100)	(46,657)	57,000	(38,250)	(103,650)	(30,057)	(93,200)	45,554	(261,460)
Opening balance - Bank balance	212,440	304,340	160,240	113,583	170,583	148,126	118,069	24,869	212,440	1,144,000
Net Cash from Operations	91,900	(144,100)	(46,657)	57,000	(38,250)	(103,650)	(30,057)	(93,200)	45,554	(261,460)
DIP Advances (Repayment)	304,340	160,240	113,583	170,583	132,333	28,683	118,069	24,869	70,423	(49,020)
Closing Balance - Bank Balance	\$ 304,340	\$ 160,240	\$ 113,583	\$ 170,583	\$ 132,333	\$ 119,443	\$ 118,069	\$ 24,869	\$ 70,423	\$ 19,443
DIP Loan - opening balance	\$ 380,557	\$ 380,557	\$ 380,557	\$ 380,557	\$ 380,557	\$ 380,557	\$ 500,000	\$ 500,000	\$ 500,000	\$ 380,557
Advance (Repayment) - includes deposit										
Drawn	\$ 380,557	\$ 380,557	\$ 380,557	\$ 380,557	\$ 380,557	\$ 380,557	\$ 500,000	\$ 500,000	\$ 500,000	\$ 119,443
DIP Loan - closing balance	\$ 97,099	\$ 97,099	\$ 97,099	\$ 97,099	\$ 97,099	\$ 97,099	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Deposit amount - BDO trust account	\$ 97,099	\$ 97,099	\$ 97,099	\$ 97,099	\$ 97,099	\$ 97,099	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Advance										

Parlay Entertainment Inc.
Per: 
Ken Peart
Vice President
Date: July 12/11

This statement of revised projected cash flow of Parlay Entertainment Inc. has been prepared in accordance with section 50.4 (2) of the Bankruptcy and Insolvency Act and should be read in conjunction with the Trustee's Report on the Cash Flow Statement dated July 12, 2011.

Parlay Entertainment Inc. ("PEI")
Assumptions to the Statement of Cash Flows - July 12, 2011 Revision

- 1 Represents cash to be collected pursuant to a Memorandum of Understanding dated April 25, 2011, the terms of which have yet to be formalized in a signed contract. The MOU calls for a license fee of \$300,000 to be paid by Slim Creek Business S.A. (Panama) to PEI. A \$140,000 deposit was received by PEI on May 2, 2011 leaving \$10,000 still owed on the required deposit per the MOU. The MOU does not explicitly provide any restrictions with regard to PEI's use of deposit funds. The MOU also does not explicitly provide that the deposit shall be refundable to Slim Creek Business S.A. (Panama) in the event that a contract is not finalized. Per the MOU, an installment of \$150,000 to cover the total contract value was due on June 1, 2011. It has not yet been paid but is expected during the week ended July 8, 2011. The proceeds in that week include the \$10,000 still owed on the initial deposit.
- 2 Represents the second installment on a \$550,000 MOU dated May 14, 2011. As the customer is currently using an earlier version of Parlay's software, the MOU was entered into to give them access to more current software and the MOU contemplates that two applications of the software will be provided, one initially and one at a later date. The definitive contract has yet to be signed. The MOU included a \$50,000 deposit and a \$200,000 first installment. Both amounts have been received and were paid in U.S. not \$Cdn. as a result of which \$8,475 is still due on these two payments. A further \$150,000 is due July 28, 2011 with \$100,000 due on October 27, 2011 and the balance of \$50,000 is due when the second software application is installed. It is presently assumed that the \$8,475 presently owed will be received at the end of the payment
- 3 PEI has sub-leased certain of its leased Oakville premises to 207 Media, a customer of PEI's. PEI has also seconded one of its employees to 207 Media. Total monthly payments to be received from 207 Media includes \$3,700 on account of sublet rent (including HST) and \$8,500 on account of the seconded employee's salary (including HST), and \$3,000 US for a management fee (approximately \$3,250 including HST). PEI and 207 Media have signed an agreement with regard to the sub-lease of PEI's Oakville premises, however, no agreement exists regarding the seconded employee's salary. The rent is paid in advance and the other amounts are paid in arrears on submission of an invoice.
- 4 Represents partial payment on a US \$400,000 contract signed March 25, 2009 between Parlay Entertainment Limited, PEI's Barbados-based subsidiary ("PEL") and Double B Investments. To date, US \$325,000 has been received by PEL. A \$50,000 U.S. payment (approximately \$48,000), was expected and is still outstanding. It is included partially in July, we are advised it was wired on July 5, 2011, and partially in August.
- 5 Monthly royalty fee paid to Parlay Malta Limited ("PML"), PEI's Malta-based subsidiary by Palaces, a UK-based website.
- 6 HST refunds received on account of ITC claims in excess of HST collected. As a supplier of services sold primarily on an international basis, PEI is only responsible for collecting HST on sales made in Canada, therefore, PEI generally receives HST refunds. As the 2010 corporate tax return is now overdue, no further HST refunds will be received until that 2010 return is filed.
- 7 PEI generated fiscal 2007 taxable income of \$220,000 for federal income tax purposes and \$150,000 for provincial income tax purposes. Upon filing its 2010 income tax return PEI expects to recover approximately \$60,000 on the basis of a carry-back of sufficient 2010 losses to 2007 to negate all taxable income from 2007. It had originally been anticipated that the return would be filed in June 2011 but that did not prove possible. It is now anticipated that the return will be filed in late July 2011.
- 8 Gross payroll of approximately \$65,000, net of HST, is paid bi-weekly to continuing employees - source deductions are withheld and remitted on PEI's behalf by Ceridian. Certain employees can be paid overtime based on circumstances so a go-forward estimate of \$65,000 per pay is used.
- 9 Not used

Parlay Entertainment Inc. ("PEI")
Assumptions to the Statement of Cash Flows - July 12, 2011 Revision

- 10 Monthly gross compensation payment to PEI's Chief Technology Officer and reimbursement of business expenses paid personally.
- 11 Monthly gross compensation payment to PEI's Chief Executive Officer and reimbursement of business expenses paid personally.
- 12 Employee health and long term disability benefits consistent with historical costs.
- 13 Monthly premises rent of \$15,000 is paid pursuant to a verbal agreement reached approximately March, 2011 between the landlord and PEI. Actual rent payable to the landlord pursuant to the lease is approximately \$27,000 per month. The \$15,000 premises rent payment, plus HST of \$1,950, is to be paid pursuant to the verbal agreement which is to continue during the restructuring period.
- 14 Represents payment of \$3,600 per month to a supplier for hosting PEI's servers for its Canadian managed services.
- 15 Our auditors have finished the 2010 audit and this amount represents the final payment on the 2010 audit
- 16 Recurring revenue from a licensee of Parlay Entertainment Limited.
- Other BDO requested a copy of Parlay's bank reconciliation at May 4, 2011 to verify the correct opening cash balance and it was provided.
- Other PEI, the ultimate owner of all of the subsidiaries has, over time, received significant cash that is actually not earned by it. PEI has, for example, received deposits from product sales, service and licensing agreements undertaken by PEI and by PGL, which have created significant intercompany loan balances between the entities.
- (a) PEI Effective November 30, 2010 (PEI's taxation year-end), PEI unofficially amalgamated with PEI in order to consolidate operations (as PEI was not earning positive income) and also to shore up its intercompany balance with PEI by virtue of an intercompany dividend on amalgamation. PEI, however, must file approximately ten years of outstanding Barbadian income tax returns before the amalgamation can be completed.
- Approximately \$581,000 of \$680,000 total projected receipts during the ten week period are on account of revenue earned by subsidiaries, approximately \$557,000 of which are owed to PEI.
- All Parlay intellectual property, before November 30, 2010 was owned by PEI.


(b) PGL

earns implementation fees and support work revenue from two customers. The cash received will be held with PGL as PGL is off-side on a number of its covenants with the Alderney Gaming Control Commission. Such covenants require, among other things, that PGL meet certain working capital and net asset targets, which PGL has failed to meet. Failing to meet its covenants could ultimately lead to a shutdown of PGL's gaming operation by the Alderney Gaming Control Commission.

The Alderney Gaming Control Commission has informally agreed to waive PGL's covenant requirement provided that PEI furnish the Alderney Gaming Control Commission with a guarantee that it would honour all of PGL obligations. At present, PGL is in arrears on account of monthly fees of approximately 67,000 pounds sterling owed to three customers; moreover, it has negative working capital at May 31, 2011. Its negative working capital position is eased on account of several factors including \$305,000 and \$237,000 of deferred revenue and amounts due to related companies respectively, which, if discounted from PGL's working capital position, would leave PGL working capital positive.

In the past, PEI has been called upon to fund PGL's obligations as PGL has been unable to generate sufficient cash flow to pay current liabilities as they come due. Should the Alderney Gaming Control Commission call on PEI to honour its guarantee, PEI will likely be unable to provide significant working capital to cover PGL's obligations, which could lead to the Alderney Gaming Control Commission's commencement of legal action against PEI, and the shutdown of PGL. It is assumed that the guarantee will not be called during the restructuring period.

Parlay Entertainment Inc.
Per: _____
David Callander
Authorized Signing Officer
Date _____

BDO Canada Limited
Per: 
Ken Pearl
Vice President
Date July 12/11

This statement of revised projected cash flow of Parlay Entertainment Inc. has been prepared in accordance with section 50.4 (2) of the Bankruptcy and Insolvency Act and should be read in conjunction with the Trustee's Report on the Cash Flow Statement dated July 12, 2011.

(b) PEI

earn implementation fees and support work revenue from two customers. The cash received will be held with PGI as PGI is off side on a number of its covenants with the Alberta Gaming Control Commission. Such covenants require, among other things, that PGI meet certain working capital and net asset targets, which PGI has failed to meet. Failing to meet its covenants could ultimately lead to a shutdown of PGI's gaming operation by the Alberta Gaming Control Commission.

The Alberta Gaming Control Commission has informally agreed to waive PGI's covenant requirement provided that PEI furnish the Alberta Gaming Control Commission with a guarantee that it would honour all of PGI's obligations. At present, PGI is aware on account of monthly fees of approximately \$7,000, pounds sterling owed to three customers, moreover, it has negative working capital at May 31, 2011. Its negative working capital position is based on account of several factors including \$500,000 and \$277,000 of deferred revenue and amounts due to related companies respectively, which, if disclosed from PGI's working capital position, would have PGI working capital positive.

In the past, PEI has been called upon to fund PGI's obligations as PGI has been unable to generate sufficient cash flow to pay current liabilities as they come due. Should the Alberta Gaming Control Commission call on PEI to honour its guarantee, PEI will likely be unable to provide significant working capital to cover PGI's obligations, which could lead to the Alberta Gaming Control Commission's commencement of legal action against PGI, and the shutdown of PGI. It is assumed that the guarantee will not be called during the restructuring period.

Parlay Entertainment Inc.
Per

David Clarke
Authorized Signing Officer

John A. Bell
Date

8000 Canada Limited
Per

Ken Bial
Vice President

July 12, 2011
Date

This statement of revised projected cash flow of Parlay Entertainment Inc. has been prepared in accordance with section 80.4 (2) of the Bankruptcy and Insolvency Act and should be read in conjunction with the Trustee's Report on the Cash Flow Statement dated July 12, 2011.