

**REVIEW INTO PV HOSPITALITY, ULC & MICHAEL GRAYDON
WITH RESPECT TO THE PROVISION OF GAMING SERVICES**

REGISTERED GAMING SERVICES PROVIDER

Edgewater Casino, ULC (Class B casino operator)

ENTITIES SUBJECT TO THIS REVIEW

PV Hospitality, ULC – (PVH)

Michael Graydon – (MG) - President of PVH

OTHER RELATED ENTITIES REFERRED TO IN THIS REPORT

1. Paragon Gaming Inc. – (Paragon)
2. Paragon Holdings (Smithe Street) ULC
3. Dundee Corporation – (Dundee)
4. 2328110 Ontario Limited
5. PBC VUR Limited Partnership – (PBC)
6. Parq Equity Limited Partnership – (PELP)
7. Parq Holdings Limited Partnership – (PHLP)
8. Parq Holdings GP Inc.
9. New Edgewater Development ULC – (NED)
10. Edgewater Casino Limited Partnership

BACKGROUND

In order to understand how PVH is connected to Paragon Gaming, Inc and Edgewater Casino, ULC, it is important to provide some context.

A number of entities are involved in a Project known as the Parq Resort and Casino (Parq). Attachment #1 is a Corporate Structure chart from the Offering Memorandum “OM” that is described below.

GPEB and BCLC have provided provisional or conditional approval for Parq’s financing and corporate ownership structure. Until recently, Paragon and Dundee (through affiliates)^{s.21} of Edgewater Casino ULC. Following the gaming approvals noted above, Edgewater Casino ULC became wholly owned by PHLP. The sole purpose of PHLP is to develop, construct and operate the Parq. When Parq operations commence, PHLP’s business would be carried on through subsidiaries of PHLP: casino operations would be carried on through Edgewater Casino ULC on behalf of Edgewater Casino Limited Partnership and hotel and parking operations would be carried on by new limited partnerships to be created and wholly owned by PHLP.

Edgewater Casino ULC is registered with GPEB as the gaming services provider for the Edgewater Casino. GPEB has approved PBC and 2328110 Ontario Limited, a wholly owned subsidiary of Dundee, as associates.

Paragon and Dundee are securing financing for the Parq which is to be located at Site 10A in downtown Vancouver adjacent to BC Place. BC Pavilion Corporation "PAVCO" is the land owner and landlord. Upon successful completion of this Project, the existing Edgewater casino facility would close and relocate. Parq's completion is scheduled for December 2016.

An OM has been distributed s.21

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With the closing of this notes offering, PBC would

become an equity partner in PELP. s.21

Paragon and Dundee would own the remainder of PELP through Paragon Holdings (Smithe Street) ULC. s.21

The Management and Governance section of the OM identifies PVH as the "Asset Manager" for this Project and states that it would manage the operations of Parq upon its opening. The development and construction of Parq's infrastructure would be managed by NED. PVH and NED are each equally owned by an affiliate of the principals of Paragon and by an affiliate of Dundee.

PVH and NED have no employees other than MG. Once operations commence, MG is to be responsible for the oversight and operations of Parq and implementation of PVH's strategic business development plan domestically and internationally. s.21

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Prior to Parq's opening s.21

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It is intended that MG will be employed by

PHLP once Parq becomes operational.

PVH and NED currently utilize a senior management team consisting of employees of Paragon and Dundee or their affiliates.

SCOPE OF REVIEW

The primary purpose of this review was to establish whether PVH and/or MG have been involved in the provision of gaming services as defined in the Gaming Control Act (GCA). The roles and responsibilities of PVH and MG were examined to determine whether they meet a defined class of registration pursuant to Section 29 of the Gaming Control Regulation (GCR) or should be captured as associates pursuant to Section 2 (2) of the GCR.

This review has considered Paragon's involvement and whether the registrant's (Edgewater Casino ULC) conditions of registration were adhered to through an examination of certain records and events surrounding MG's resignation from BCLC and hiring by Paragon / PVH. If deemed relevant, information from this review may be incorporated into any subsequent due diligence investigation.

Information in this report has been accumulated from the following sources:

- An in-person interview with MG on July 10, 2014 and discussion with on-site Edgewater and BCLC staff.
- A review of various records pertaining to the Edgewater, Paragon related entities and MG.



- A review of the Employment Agreement between PVH and MG and the position description for the President of PVH.
- A review of the Internal Audit and Advisory Services (IAAS) *Report to the Minister on the Resignation of the CEO of BCLC* and preparatory discussion with IAAS.
- Discussion with Edgewater staff including: Brent Fleming, VP of Human Resources & Organizational Development; Lindsay Familton, Human Resources Manager and Larry Ho, CFO.
- Review of the September 2014 organizational chart for the Edgewater Casino.
- Discussion with Sam Stephens, BCLC Gaming Compliance Officer responsible for the Edgewater Casino.
- Telephone interviews with Bud (Stuart) Smith, current BCLC Board Chair and Constance Ladell, former BCLC Senior Legal Counsel and Corporate Secretary.
- Discussion with BCLC employees including: Jennifer M. Smith, Senior Legal Counsel and Corporate Secretary; Brad Desmarais, Vice President, Corporate Security & Compliance; Angela Swan, Director, Information Privacy & Security and Tammy Chung, Executive Assistant, Human Resources.
- Discussion with various GPEB staff members.
- A summary of FOI requests received by BCLC in relation to MG (to September 23/14) and a review of the completed submissions.
- A review of selected BCLC records including MG's BCLC Outlook account records over a limited timeframe.
- A review of the August 19/14 interviews of Paragon principals, Scott Menke and Diana Bennett.
- A review of the Final Offering Memorandum of Senior Secured Second Lien Notes in connection with financing of the Parq Resort and Casino.
- A review of selected websites including MG's LinkedIn profile.
- A review of Deloitte's report on the Parq Resort and Casino
- Correspondence with Paragon's CFO, Eric Boes.
- Ongoing interaction with Dennis Amerine, VP of Compliance for Paragon.
- Referral to the GCA, GCR and relevant Ministerial Directives.
- Certain records from MG's BCLC Outlook account as recovered by the Information Security Branch of the Ministry of Technology, Innovation and Citizens' Services "MTIC" in connection with the IAAS Core Review.

FINDINGS

Four primary questions were asked:

Has PVH been involved in the provision of gaming services as defined in the GCA?

No.

Did the registrant (Edgewater Casino ULC), observe its conditions of registration and conduct itself appropriately with respect to PVH's employment of MG?

Yes, this review has not identified any evidence of non-compliance.



Since MG commenced employment with PVH, has he been involved in the provision of gaming services as defined in the GCA?

No.

Has MG done anything inappropriate in connection with his employment by PVH?

IAAS issued a report that concluded MG was in a conflict of interest in that he failed to disclose his pre-employment discussions with Paragon while still employed by BCLC. There were no findings of an inappropriate benefit to MG or Paragon.

Other than the conflict of interest, Corporate Registration has not identified any issues with the process by which MG was hired by PVH or the activities he is engaging in with PVH. He is not working for the existing Edgewater Casino, ULC and his work is not related to the running of the current Edgewater Casino.

Additional Considerations:

- Both Paragon and MG have expressed a willingness to have him submit a personal application as a gaming worker given MG's role. MG's employment agreement with PVH includes the following under 1. Appointment: "Pending successful receipt of a Gaming License, the Employer will employ the Employee in the position of President".
- Paragon and MG have enquired about the "no contact" between MG and BCLC. Both Paragon and MG would like to see the "no contact" lifted in anticipation of MG meeting with BCLC to discuss, plan and seek potential approval for items related to the development, construction and pre-opening of the Parq Resort and Casino.

DISCUSSION

Since PVH and MG are not engaged in the provision of gaming services they are not required to submit applications to GPEB.

As stated earlier, NED and PVH are using senior management teams consisting of employees of Paragon and Dundee or their affiliates. NED will be the primary entity used during Parq's development and construction phase.

CREG's decision to capture or register other entities depends on their affiliation with the registrant. In making these decisions, GPEB relies on an interpretation of the GCA and GCR including any discretion that GPEB may exercise.

RECOMMENDATIONS

1. Advise Paragon Gaming Inc that they must keep GPEB informed as to the roles of MG and PVH, particularly any changes that would trigger a requirement to be registered under the GCA. CREG should consider requesting applications from MG and PVH prior to the Parq's opening.
2. Advise MG and Paragon that the "no contact" requirement between MG and BCLC is no longer in effect.



Prepared by Corporate Registration Staff

Approved by:



Robin Jomha
Director, Corporate Registration / Deputy Registrar

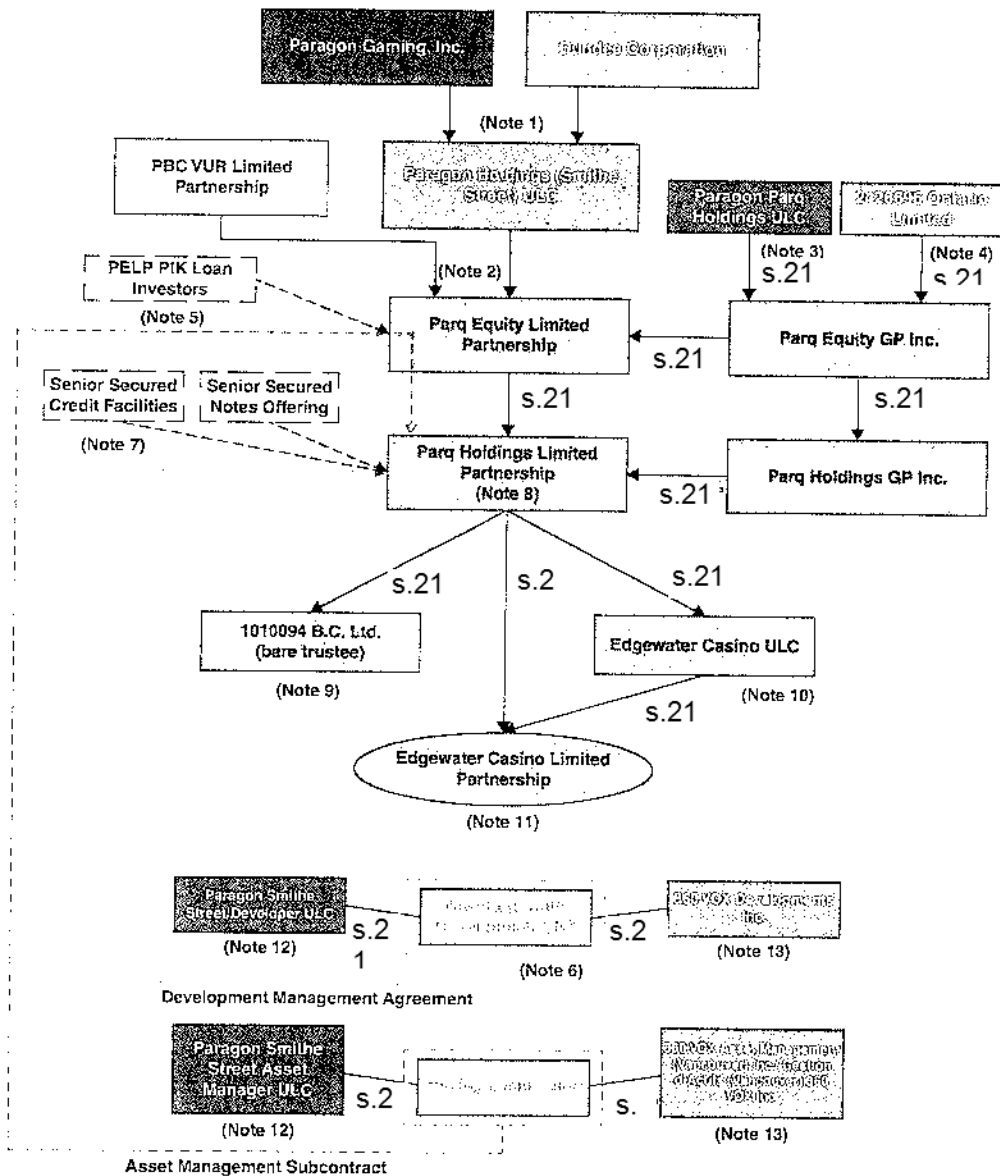
Director's Decisions:

1. Agreed. Paragon to keep GPEB informed of any changes to the role of Mr. Graydon as required by Regulation 34 (1) (b) of the GCR. According to the current plan, PVH and Mr. Graydon will be providing gaming services and will require registration when Parq opens to the public. To ensure adequate time for full due diligence investigations to be conducted and decisions on suitability to be made, MG and PVH will need to apply for registration several months prior to the scheduled opening of Parq.
2. Agreed. Mr. Graydon is not a registrant nor is he currently required to be a registrant and therefore GPEB has no opinion regarding who he communicates with in the development of Parq. A letter will be sent to Mr. Graydon and Paragon's VP of Compliance to this effect.



Our Corporate Structure

The chart below illustrates the organizational structure of Parq during the construction phase, prior to completion and commencement of operations.



- (1) Paragon Holdings (Smithe Street) ULC is a joint venture that is controlled by affiliates of Dundee Corporation and Paragon Gaming, Inc.

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- (4) 2428696 Ontario Limited is 100% owned by Dundee Corporation.

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When operations at Parq commence, we anticipate PHLP's business will be carried on through subsidiaries of PHLP. Casino operations will, as is the case as of the date of this offering memorandum, be carried on through Edgewater Casino ULC on behalf of Edgewater Casino LP, while hotel operations and parking operations will each, respectively, be carried on by new limited partnerships to be created and wholly-owned by PHLP.

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Q&As for Estimate Notes

Graydon Review:

1. Why did the GPEB review determine that Graydon did not need to be registered?

Mr. Graydon's is not providing gaming services as described in the Gaming Control Act. His duties with PV Hospitality ULC are focused on building the new Parq development which includes hotel, a large parkade and a casino. This development is not scheduled to open for another two years and his duties involve permits and construction and ensuring the development is built on time. His job does not involve the management or operation of the current Vancouver Edgewater Casino or any other gaming related duties.

2. Why did the Graydon review take so long to finish?

GPEB started looking at the roles of PV Hospitality and Michael Graydon in early February 2014, shortly after he left BCLC. On February 10th, 2014 Internal Audit and Advisory Services Branch announced that it would be undertaking a conflict of interest review of Michael Graydon at which time GPEB suspended its review until IAAS concluded its work.

3. Did Paragon Gaming Inc or Edgewater Casino ULC do anything wrong in relation to the hiring of Michael Graydon or disclosing his role with the company to GPEB.

Paragon and Edgewater were not found to have engaged in any wrongdoing in relation to Michael Graydon. GPEB was informed immediately upon Graydon's hiring and Paragon and Edgewater participated at all points with the review by producing documents, making staff and executives available for interviews with GPEB staff and agreeing to abide by any decision that GPEB made in relation to Michael Graydon and PV Hospitality ULC.

4. Why is GPEB now conducting a registration investigation on (or: why has GPEB now registered) Michael Graydon when the review concluded that he was not providing gaming services and did not fall into a Class of registration?

The review was concluded in December of 2014 and specified that Mr. Graydon had not been providing gaming services but that Paragon would be required to immediately inform GPEB if Mr. Graydon's role or duties changed so that the decision could be revisited. In January 2015, Paragon informed GPEB that Michael Graydon had taken a different position with a different Paragon subsidiary company and that his new role would involve some executive level management of the existing Edgewater Casino while still being involved with the development of the Parq project. Based on this new circumstance, GPEB required Mr. Graydon to submit an application for registration.