Lottery and Gaming Control Commission

1800 Washington Boulevard, Suite 330, Baltimore, MD 21230

AMAYA AMERICAS CORPORATION

Approval of Acquisition of Manufacturer Licensee Diamond Game by Amaya Americas Corporation and Qualification of Principal Entities

COMMISSION PRESENTATION

AMAYA AMERICAS CORPORATION

EXECUTIVE SUMMARY

Introduction

In July 2013, Amaya Gaming Group, Inc. ("Amaya"), submitted a Principal Entity Disclosure Application (VLT Form #1006) to the Maryland Lottery and Gaming Control Commission (MLGCC or Commission) to be deemed qualified as a principal entity. Amaya is the parent corporation of Amaya Americas Corporation (AAC). Amaya is in the process of purchasing Diamond Game Enterprise (Diamond) through its subsidiary AAC.

Diamond currently holds a manufacturer license in Maryland. Under the transaction, Diamond would be 100% owned by AAC, but Diamond would retain its manufacturer license. AAC's acquisition of Diamond is contingent upon the Commission's approval of AAC and Amaya, because they would be principal entities (owners) of Diamond.

The firm of Manuel, Daniels, Burke, International, LLC (MDBI) was authorized by the Maryland Lottery and Gaming Control Agency (MLGCA) to conduct the investigation of AAC, its parent Amaya, principal employees and subsidiaries.

Amaya is a Canada-based corporation that engages in the design, development, and distribution of technology-based gaming solutions for the regulated gaming industry worldwide. It offers interactive gaming solutions, including the Game Office platform, casino games, a poker network, a sports book system, and back-office management and land-based gaming solutions, which include electronic bingo terminals, server-based and stand-alone slot machines, multilevel and wide-area progressive slots, and a slot management system. Amaya offers Mosino Entertainment Platform, an entertainment and information system, which enables the hospitality industry participants to offer gaming and other hospitality services, including peer-to-peer or house-banked games, networked or stand-alone play, media and targeted advertising streaming, and video-on-demand services. Amaya also offers Mobile Lottery Solution, a software platform that operates lotteries via mobile and cellular devices.

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Amaya was first incorporated on January 30, 2004 under the name "9138-5666 Québec Inc." Amaya amended its articles of incorporation on three occasions. It first amended its articles on May 14, 2007 to change its name from "9138-5666 Québec Inc." to "Gametronix Systems Inc." On November 2, 2007, the Corporation amended its articles to change its name to "Amaya Gaming Group Inc." Since June 18, 2013, Amaya has been doing business as "Amaya." Amaya's corporate office address is 7600 TransCanada Highway, Pointe-Claire, Québec H9R 1C8.

Amaya's Subsidiaries

<u>Amaya Americas Corporation (AAC)</u>

Amaya is the parent company of subsidiary AAC, the entity that will eventually purchase Diamond. As of March 1, 2013, Amaya has 52 wholly-owned subsidiaries, one of which is AAC. The corporate management of Amaya and AAC is interlocking, in that certain officers of parent Amaya are also officers of AAC. The organizational chart is current, and there have been no changes to this structure as of the date of this report.

Five board directors (identified below) submitted applications for licensure as Principal Employees in Maryland, and were subjected to a background investigation accordingly.

As of December 31, 2012, three subsidiaries represent 10% or more of Amaya's consolidated revenue and for that reason are considered significant for purposes of Amaya's qualification as a Principal Entity in Maryland: CryptoLogic, Inc.; Amaya (Alberta) Inc. (Chartwell Technology, Inc.); and Cadillac Jack, Inc. Amaya subsidiary Ongame Network, Inc. (Ongame) is also a subsidiary of interest for reporting purposes due to its current and future impact on Amaya's current business model.

Accordingly, the following four Amaya subsidiaries were subjected to a full background investigation to determine their suitability as principal entities.

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CryptoLogic, Inc. CryptoLogic is a 100% owned subsidiary of Amaya. CryptoLogic was founded in 1995 and is a developer and supplier of internet gaming software. Through its subsidiary companies, WagerLogic and Gaming Portals, Ltd., CryptoLogic provides software licensing for its internet gaming software, e-cash systems, support, customer support and marketing support services and other services to third-party gaming operators and licensees. CryptoLogic was based in Toronto, but in January, 2007, relocated its headquarters office to Dublin, Ireland.

Amaya (Alberta) Inc. (Chartwell Technology Inc.). Amaya (Alberta), Inc. (Chartwell Technology Inc.) is located at 750-11th Street SW Suite 400, Calgary, AB, T2P 3N7, Canada. Chartwell has 140 employees and annual revenue of $12 million (Canadian). Chartwell Technology Inc. engages in developing, marketing, licensing, implementing, and supporting gaming applications and entertainment content for the Internet and remote platforms in North America and Europe. The company offers online casino games, such as card games, table games, slots, and video poker; and soft games or fixed odd games comprising scratch cards, pull tabs, lottery-style games and hi/lo games.

Chartwell was acquired by Amaya on July 14, 2011 and operates as a subsidiary of Amaya Gaming Group Inc. Amaya subsequently changed the name of Chartwell Technologies on December 8, 2011 to Amaya (Alberta) which continued to be a wholly owned subsidiary of Amaya.

Cadillac Jack. Cadillac Jack, Inc. was incorporated in the State of Georgia in 1995. Cadillac Jack, formerly known as Cadillac Jack Gaming Inc., operates as a leading supplier of innovative games and systems to the global gaming industry. The company designs and manufactures a dynamic portfolio of video reel slots, wide area and multi-level progressives and Latin style bingo games. It develops content and technologies specific to the needs of each of the markets they serve, including Class II and Class III gaming markets in the United States, and the Mexican gaming market.

On November 5, 2012, Amaya acquired Cadillac Jack for approximately $158 million (U.S.) with $153 million in cash with $5 million due on the second anniversary of the acquisition closing.

<u>Ongame.</u> Online gaming has grown into significant gaming businesses in most countries around the world other than in the United States. Ongame is a leading business-to-business online poker network. Ongame's global online poker network includes 25% of the e-gaming industry's strongest brands, owned by a total of 19 operators in regulated jurisdictions, and currently reaches more than 20 million customers in over 25 markets. Ongame also operates regional networks in France, Italy and Spain.

Institutional Investor - Fiera Capital Corporation (Fiera)

Violaine Des Roches, Senior Vice President – Legal Affairs and Compliance and Corporate Secretary of Fiera, submitted an Institutional Investor Waiver Form (VLT Form #1009) to the Commission for Fiera as an institutional investor in Amaya. Fiera meets the definition in the Gaming Law of an “institutional investor” under SG § 9-1A-01(o)(8) because it is registered under the Investment Advisors Act of 1940.

Fiera, which is also known as Fiera Asset Management and Fiera Capital, is incorporated in Canada and maintains principal executive offices at 1501 McGill College, Suite 800, Montreal, Quebec, H3A 3MB, Canada. With over $66 billion in assets under management, Fiera Capital Corporation, an independent firm, has become one of Canada’s leading investment managers. Fiera Capital provides extensive expertise in Canadian and foreign equity, fixed income, asset allocation, and non-traditional investment solutions through a broad range of strategies and services.

According to Fiera, it does not have a single majority stockholder and has a majority of independent directors. Fiera Capital, L.P, and Natican Investment Management, Inc. are listed as owning 5% or greater interest in the company, with the remaining shares owned by institutional and individual investors. Fiera owns 8.44% of Amaya stock.

Amaya's Shareholders

Shareholders of record for Amaya with greater than 5% holdings are: board member David Baazov – 29%; and institutional investor Fiera – 8.44%.

Amaya's Board of Directors

Amaya's Articles of Incorporation provide that the Board of Directors shall consist of a minimum of three and maximum of fifteen directors, all of who are to be elected annually. Amaya's current Board consists of five directors, each of whom have executive responsibilities for gaming activity in Maryland and were therefore required to file applications for licensure as Principal Employees and subjected to a full background investigation:

David Baazov, Chairman, President and CEO of Amaya
Daniel Yaacov Sebag, Director and V.P. and Chief Financial Officer of Amaya
Harlan Wayne Goodson, Director (Outside) and Chairman of the Audit Committee
Wesley Kanne Clark, Director (Outside)
Divyesh Gadhia, Director (Outside)

On December 3, 2012, Amaya appointed two paid outside advisors to its Board: Dr. Aubrey Zidenberg; and Ben Soave. Dr. Zidenberg is a gaming industry specialist with extensive experience in the development, implementation and operation of international gaming. Mr. Soave is a retired Chief Superintendent of the Royal Canadian Mounted Police. Both Mr. Soave and Dr. Zidenberg are under contract with Amaya. Their compensation consists of an annual retainer of $30,000 (CND) and stock option grants.

The Acquisition of Diamond by AAC

In June of 2013, Amaya entered into definitive purchase agreement to acquire 100% of the issued and outstanding securities of Diamond Game. Upon closing of the transaction, Amaya is expected to pay US$25 million, subject to customary purchase price adjustments, to acquire 100% of the equity of Diamond Game and to retire its debt. Amaya will finance the consideration to be paid for the transaction through cash on hand. Closing of the transaction will be subject to Amaya receiving all necessary licensing and regulatory approvals and is expected to occur during the fourth quarter of 2013.

The transaction is expected to unlock value for both companies by pairing their respective patented technology, innovative products and key contracts in the Lottery segment with a well-capitalized entity in Amaya, which possesses a solid foundation of expertise throughout its organization as well as key relationships throughout the industry.

Concurrently with the execution of the definitive purchase agreement, Amaya has agreed to make available to Diamond Game credit facilities of up to 2.5 million dollars to support equipment acquisition to fulfill existing contracts by Diamond Game until closing of the transaction.

Expected Benefits of the Transaction

- Anticipated by management to be immediately accretive to adjusted EBITDA
- The Corporation has identified a number of potential synergies including:
    - Integrating Amaya's extensive games into Diamond Game's Lottery Technology
    - Leveraging Amaya's network of relationships to provide new revenue opportunities for Diamond Game
    - Leveraging Diamond Game's U.S. Lottery relationships for the expanded deployment of Amaya's suite of products

Background Investigation

MDBI commenced the background investigation for the MLGCA in late August 2013, during which it vetted:

Principal Entities

Amaya

AAC

Principal Employee applicants

David Baazov

Daniel Yaacov Sebag

Harlan Wayne Goodson

Wesley Kanne Clark

Divyesh Gadhia

Institutional Investor

Fiera Capital Corporation

Subsidiaries

Cadillac Jack, Inc.

(Chartwell, Inc.) Amaya (Alberta) Inc.

CryptoLogic, Inc.

Ongame Network Ltd. (Ongame).

Scope of Background Investigation

Applicants for gaming licenses, and persons that are required to submit to the Commission principal entity or institutional investor disclosures, have the affirmative obligation to prove, by clear and convincing evidence, that they meet relevant criteria specified in Maryland's Gaming Law, State Gov't (SG) § 9-1A-01, *et seq*.

MDBI conducted a comprehensive review of compliance and due diligence procedures employed by Amaya to ensure compliance with the Foreign Corrupt Practices Act and to provide transparency and accountability regarding payments to agents, consultants and lobbyists to obtain or renew contracts. The investigative process included a thorough analysis of database searches in Canada and the U. S. as well as a sampling of inquiries with other jurisdictions where Amaya is licensed; AAC and Fiera hold no gaming licenses. A corporate financial analysis of Amaya was also conducted. Principal entity applicant AAC was subject to investigation that included database searches, interviews with the principals, and financial analysis. As Fiera applied as an institutional investor waiver, MDBI conducted a limited background investigation of Fiera that included analysis and database searches in the U.S. and Canada, but not a full investigation of its principals. An extensive due diligence investigation was conducted on each of the five individual principal employee applicants associated with Amaya and AAC.

The results of MDBI's background investigation, and findings indicate that, overall, the applicants, principal entities, principal employee applicants, subsidiaries, and institutional investor meet the criteria of the Gaming Law, and are not subject to any mandatory disqualification criteria. SG §§ 9-1A-07, -08. The investigation also indicates that the proposed acquisition of Diamond by AAC meets and is consistent with the Gaming Law. SG § 9-1A-19(b). The investigation is summarized:

1. Financial stability, integrity and responsibility

MDBI conducted a comprehensive review of all of the consolidated financial statements provided by Amaya for the last five years. No areas of concern were identified regarding Amaya's financial stability, integrity, and responsibility.

2. Integrity of financial backers, investors, mortgages, bondholders, and other holders of indebtedness

Applicable credit and available financial statements were researched and examined and there were no areas of concern within this category for Amaya.

3. Good character, honesty, and experience

The investigation revealed that the current management of Amaya and ACC is considered to be of good character, honesty and experience.

4. Sufficient business ability and experience

The current management of Amaya and ACC is considered to have the business ability and experience required to satisfy the conditions, criteria and responsibilities associated with this application.

5. Significant Litigation/Regulatory action

Amaya Gaming Group (Kenya) Ltd. v. Betting Control and Licensing Board, Attorney General et al. and Lion's Heart Self Health Group Application for payment of benefit under lottery. Judicial Application 219 and Judicial Application 191 were filed in June 2011 in the High Court of Kenya. The applicants disclosed that "the civil suit concerned various disputes resulting from the interpretation of a statute, and judicial reviews were instituted to require proper interpretation of the statute. The case was resolved in the following manner: Judicial Application 191, also known as the Lion's Heart application was settled on September 22, 2011.

However, further research disclosed that 2012 and 2013 news stories reported that Amaya Gaming, known in Kenya as M-Lotto Kwachu Mamili, was accused of embezzling more than Sh98 million (the equivalent of about $1M USD) from a children's charity. The substance of the allegations are that as part of its agreement with Kenyan officials to have an online gaming presence in Kenya, a significant percentage - as much as 25 % - of its proceeds were to be paid into a children's foundation, but were not.

Amaya maintains the news sources are false and that there was legitimate misunderstanding over the interpretation of the proceeds to be paid into the foundation. Amaya states the suit was settled and Amaya paid KsH 28 million (approx. $326,000 USD) and Lion's Heart acknowledged payment and fulfillment of all of Amaya's obligations. Amaya further states there is no investigation ongoing in Kenya, and added that Amaya did not renew the lottery permit in Kenya when it became due in June 2011, and that it currently have no contact or communication with the Betting Control and Licensing Board (BCLB). Since the general elections held on 4th March 2013, Amaya believes that there has been a reorganization of the governmental structure in Kenya. In short, this matter is considered resolved because, after the litigation was settled, Amaya pulled out of doing any gaming business in Kenya.

<u>Diamond Game</u>

On October 29, 2013, MLGCA Staff made MDBI aware of pending litigation involving Diamond, and on November 4, 2013 directed MDBI to review the circumstances surrounding the litigation and report back to the MLGCA Staff. MDVI's review of this issue is summarized as follows:

In a letter dated October 16, 2013, to MLGCA from Oji Nwankwo, Diamond's General Counsel, Mr. Nwankwo revealed the existence of pending litigation involving Diamond and the State of Texas and a motion for contempt against Diamond. The following is a synopsis of the information Mr. Oji Nwankwo provided to the MLGCA.

In a case that has been pending for about 14 years in the U.S. District Court for the Western District of Texas – El Paso Division, the State of Texas has filed a motion for contempt against Diamond. *State of Texas v. Ysleta Del Sur Pueblo*, *et al.* (No. EP-99-CA-320). Texas's motion alleges that the Tribe violated a Court order enjoining it from engaging in, promoting and conducting activities at two entertainment centers in violation of Chapter 47 of the Texas Penal Code, and 25 U.S.C. § 1300g of the Restoration Act, and in violation of previous orders issued by the court in this case. By adding Diamond Game as a Respondent in a motion for contempt of a court order, the State is alleging that Diamond Game is acting in concert with the Tribe to violate the Court's order.

Diamond asserts that (1) it was not previously a party to this suit, so it cannot be the subject of a contempt order; and (2) the business it conducts with the Ysleta Del Sur Pueblo Tribe (the Tribe) violates neither Texas law nor the court's previous orders.

As of Mr. Nwakwo's letter to MLGCA, Diamond states it has not yet been served with the motion for contempt. Court pleadings available online that Diamond has been named as a defendant along with the Tribe and other defendants. Mr. Nwankwo stated that the basis for Texas naming Diamond in the suit is the allegation that Diamond's machines are facilitating the Tribe's sweepstakes games. He further advised that Diamond supplies machines for sweepstakes in Mississippi and Alabama.

On November 14, 2013, Mr. Nwankwo from Diamond stated, "Diamond Game has not been validly added as a party or effectively served with the motion. We are seeking a voluntary dismissal from the suit by the Attorney General's Office or, alternatively, will move the court to dismiss Diamond Game from the suit if/when Diamond Game is served. In the event that we file a motion to dismiss, it is my understanding that we will have 30 days from effective service or 60 days from our waiver of service to file the motion…"

It is the opinion of MLGCA Staff that it is not qualified or authorized to determine whether Diamond is properly a subject of the contempt motion, violating Texas law, or in contempt of a court order. MLGCA Staff believes this matter may take some time to litigate, and cannot predict whether Diamond will prevail. MLGCA Staff will actively monitor this case and report its findings following the outcome of this matter.

<u>Cadillac Jack</u>

The investigation identified several regulatory and compliance issues regarding Cadillac Jack. These issues existed prior to Amaya's purchase of Cadillac Jack, Inc., and centered on allegations that Oleg Boyko, former compliance manager and an owner, mishandled business dealings with tribal interests in Iowa, Kansas and Oklahoma. However, as Mr. Boyko sold his interests in late 2010, and is no longer affiliated with Calico Jack, these matters are considered resolved.

Conclusions and Opinion

The investigation confirmed that the principal entities have the financial resources, experience, and acumen to execute business plans with no derogatory information uncovered regarding their suitability. The subsidiaries, institutional investor, and principal employee applicants meet the statutory qualification criteria in the Gaming Law. No disqualifying factors were identified that would preclude any of the persons investigated from qualification.

Based on the investigation, MLGCA Staff recommends that the Commission find that the principal entities, subsidiaries, institutional investor meet the Gaming Law's relevant qualification standards, and that the five principal employees be approved for principal employee gaming licenses. Also based on the investigation, MLGCA Staff has determined that the proposed acquisition of Diamond by AAC meets and is consistent with the Gaming Law, and therefore recommends that the Commission approve the transaction.