Court File No.: CV-13-10274-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF 8440522 CANADA INC., DATA & AUDIO-VISUAL ENTERPRISES WIRELESS INC., AND DATA & AUDIO-VISUAL ENTERPRISES HOLDINGS INC.
(collectively, the "Applicants")

EIGHTH REPORT OF THE MONITOR

September 19, 2014

INTRODUCTION

1. On September 29, 2013, Data & Audio-Visual Enterprises Holdings Inc. ("**Holdings**") and its wholly owned subsidiaries, Data & Audio-Visual Enterprises Wireless Inc. ("**Wireless**") and 8440522 Canada Inc. (collectively with Wireless and Holdings, the "**Applicants**" or "**Mobilicity**") filed an application before the Court for an Initial Order under the *Companies' Creditors Arrangement Act* (Canada) ("**CCAA**") in order to restructure their business and affairs or complete a sale of their business and assets.

2. On September 30, 2013, this Court made an order (the "**Initial Order**") granting the application and providing for, among other things, the appointment of Ernst & Young Inc. as monitor in the CCAA proceedings of the Applicants (the "**Monitor**") and a stay of proceedings against the creditors of the Applicants until October 30, 2013 or such later date as this Court may order. The stay of proceedings was most recently extended to September 26, 2014 pursuant to an order of this Court dated June 24, 2014.

3. On June 24, 2014, the Monitor filed its seventh report to the Court (the "**Seventh Report**"). The Seventh Report, *inter alia*, provided the background in respect of an order (the

"**Mediation Order**") made by the Court requiring the parties to "attend at a mediation to mediate any outstanding issues with the Honourable Warren Winkler, who will determine when the mediation will terminate." The Honourable Mr. Winkler is referred to in this seventh report as the "**Mediator**." A copy of the Mediation Order is attached as Appendix "**A**" to this report.

PURPOSE

4. The purpose of this Eighth Report (the "**Report**") is to provide information to the Court with respect to:

   a) A brief update on operational matters;

   b) The Applicants' actual receipts and disbursements;

   c) The Applicants' updated cash flow statement;

   d) The status of the mediation ordered by the Court, and recent developments in respect of litigation and strategic matters;

   e) The fees and disbursements of the Monitor and its counsel to September 12, 2014;

   f) The Applicants' request for an extension of the Stay Period (as defined in the Initial Order) until December 1, 2014; and

   g) The Monitor's conclusions and recommendations.

DISCLAIMER

5. In preparing this Report and making the comments herein, the Monitor has been provided with, and has relied upon, unaudited financial information, books and records prepared by Mobilicity, and discussions with management of the Applicants ("**Management**")

(collectively, the "**Information**"). Except as described in this Report in respect of the Applicants' cash flow statement:

(a) the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards ("**GAAS**") pursuant to the Canadian Institute of Chartered Accountants Handbook and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information; and

(b) some of the information referred to in this Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Canadian Institute of Chartered Accountants Handbook, has not been performed.

CONTEXT

6. Unless otherwise stated all monetary amounts contained herein are expressed in Canadian dollars.

7. Copies of this Report and other court material filed in connection with these CCAA proceedings may be obtained from the Monitor's website established in connection with these proceedings (www.ey.com/ca/mobilicity) (the "**Monitor's Website**").

OPERATIONAL MATTERS

General

8. Since the Monitor's previous report, Mobilicity's operations have continued in the ordinary course and without interruption. The Applicants continue to receive the services they require from all of their major suppliers and the payment arrangements that were previously negotiated continue uninterrupted.

9. As described in the affidavit of William E. Aziz dated September 18, 2014 (the "**Aziz Affidavit**"), the Applicants have implemented a number of operational changes with a view to improving the Mobilicity Group's operations and business model. Those changes have contributed to the positive cash flow variances, described in detail below under "Actual Receipts and Disbursements", experienced by the Applicants and have allowed Mobilicity to continue to operate without the need for DIP funding.

10. Management has reported to the Monitor that Mobilicity had approximately 156,300 active subscribers at August 31, 2014.

Discontinuation of Multi-Month Plans

11. As discussed in the Aziz Affidavit, as part of their ongoing review of the cellular phone plans offered to customers, the Applicants have determined to only offer month-to-month plans to their existing and new customers.

12. Under Mobilicity's business model, as with most wireless telecommunications providers, all of its subscribers prepay for wireless telecommunication services. Customers under month-to-month plans prepay for 30 days of service at a time, while customers under the multi-month plans, which Mobilicity recently discontinued, prepaid for multiple months. The individual prepayment amounts average less than $40 per active subscriber. The customer deferred revenue liability recorded on the unaudited balance sheet of Mobilicity, representing the Applicants' calculation of the aggregate unused prepayments at the date of the balance sheet, has declined from approximately $6.6 million at September 30, 2013 to approximately $5.5 million at August 31, 2014. The customer deferred revenue liability at

a point in time is reduced through the continued provision of services to the applicable customers and, to a lesser extent, through refunds paid as a result of ordinary-course customer cancellations.

13. The Monitor concurs with Management's decision to limit future subscription sales to month-to-month plans, while allowing existing multi-month plans to expire in the ordinary course, as the change will reduce the average time for which customer prepayments are outstanding. As noted in the Aziz Affidavit, the Applicants will offer customers with expiring multi-month plans the opportunity to continue to pay the same discounted rate on a monthly basis, and are of the view that discontinuing the sale of multi-month plans will not materially impact the Applicants' business.

ACTUAL RECEIPTS AND DISBURSEMENTS

14. The Applicants, with the assistance of the Monitor, have prepared a consolidated summary of actual receipts and disbursements as compared to the cash flow projection included as Appendix "**B**" to the Seventh Report of the Monitor dated June 24, 2014 (the "**June Cash Flow Statement**"). A summary of the actual receipts and disbursements for the thirteen-week period ended September 12, 2014, as compared to the projections in June Cash Flow Statement, is attached as Appendix B to this Report. As indicated in further detail in Appendix B, actual net cash flow for the thirteen-week period ended September 12, 2014 was approximately $4.24 million higher than projected in the June Cash Flow Statement due to $2.23 million positive variance in receipts and a $2.01 million positive variance in disbursements. As a result and as shown in Appendix B, the Applicants have not needed to draw upon the DIP loan (reflected in June Cash Flow Statements as "Incremental Funding") that was approved by this Court in the Initial Order.

UPDATED CASH FLOW STATEMENT

Summary of Cash Flow Statement

15. The Applicants, with the assistance of the Monitor, have prepared an updated fifteen-week cash flow projection (the "**Cash Flow Statement**") for the period from September 13, 2014 to December 26, 2014 (the "**Cash Flow Period**") for the purpose of projecting the estimated results of the Applicants' planned operating and other activities during the Cash Flow Period. A copy of the Cash Flow Statement is attached as Appendix "**C**" hereto.

16. The Cash Flow Statement is presented on a weekly basis during the Cash Flow Period and represents the estimates of Management of the Applicants' projected cash flow during the Cash Flow Period. The Cash Flow Statement has been prepared by Management using the probable and hypothetical assumptions set out in notes 1 to 17 to the Cash Flow Statement (the "**Probable and Hypothetical Assumptions**" or the "**Assumptions**").

17. At this time, assuming Mobilicity continues operations in substantially the same manner as it has done during the CCAA proceeding to date, the Cash Flow Statement estimates that during the Cash Flow Period the Applicants will have total receipts from operations of approximately $18.98 million and total disbursements of approximately $18.81 million, resulting in a projected net cash outflow from operations of $0.17 million.

Liquidity

18. The Applicants seek an extension of the Stay Period to December 1, 2014 (the "**Proposed Stay Extension Date**").

19. Assuming Mobilicity continues operations in substantially the same manner as it has done during the CCAA proceedings to date, the Applicants are projected to have sufficient funding for their operational costs to achieve a projected cash balance at or above $2.0 million throughout the Stay Period, without requiring additional financing.

Monitor’s Review of Cash Flow Statement

20. Section 23(1)(b) of the CCAA requires a Monitor to review the debtor’s cash flow statement as to its reasonableness and to file a report with the Court on the Monitor’s findings. The Canadian Association of Insolvency and Restructuring Professionals standards of professional practice include a standard for monitors fulfilling their statutory responsibilities under the CCAA in respect of a monitor's report on a Cash-Flow Statement. A copy of Standard 09-1 Cash Flow Statement is attached hereto as Appendix “**D**”.

21. Pursuant to this standard, the Monitor's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to information supplied to it by certain key members of Management and employees of the Applicants. Since the Probable and Hypothetical Assumptions need not be supported, the Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. The Monitor also reviewed the support provided by Management for the Probable and Hypothetical Assumptions and the preparation and presentation of the Cash Flow Statement.

22. Based on the Monitor's review, nothing has come to its attention that causes it to believe, in all material respects, that:

    (a) the Probable and Hypothetical Assumptions are not consistent with the purpose of the Cash Flow Statement;

    (b) as at the date of this Report, the Probable and Hypothetical Assumptions are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the Cash Flow Statement, given the Probable and Hypothetical Assumptions; or

    (c) the Cash Flow Statement does not reflect the Probable and Hypothetical Assumptions.

23. Since the Cash Flow Statement is based on Assumptions regarding future events, actual results will vary from the information presented even if the Probable and Hypothetical

Assumptions occur, and the variations may be material. Accordingly, the Monitor expresses no assurance as to whether the Cash Flow Statement will be achieved. In addition, the Monitor expresses no opinion or other form of assurance with respect to the accuracy of the financial information presented in the Cash Flow Statement, or relied upon by the Monitor in preparing this Report.

24. The Cash Flow Statement has been prepared solely for the purpose described above, and readers are cautioned that it may not be appropriate for other purposes.

MEDIATION, LITIGATION AND STRATEGIC DEVELOPMENTS

Mediation Status

25. At the request of the Mediator, formal mediation sessions were conducted on May 14-15 and 28, June 5 and 23, July 23 and August 14, 2014. Those sessions, which included both face-to-face and telephonic meetings, were attended by representatives and counsel from Mobilicity, Industry Canada, the Ad Hoc Committee of Noteholders, the DIP Lenders, the Monitor and for certain of the sessions, at the discretion of the Mediator, other creditors of the Applicants.

26. At the request of the Mediator, the parties taking part in the mediation executed an agreement whereby the parties agreed that all statements made and documents produced in the mediation be kept confidential. As a party to that agreement, the Monitor will not report on discussions that took place at the mediation.

27. On September 14, 2014 the Mediator, in accordance with the Mediation Order, gave notice to Industry Canada and (through the Monitor) the other participants noted above that, subject to further direction from the Court, the mediation is terminated.

Litigation Developments

28. On September 4, 2014, a statement of claim was filed in the Ontario Superior Court of Justice by Data & Audio-Visual Enterprises Investments Inc. ("**Investments**") and QCP CW S.A.R.L. ("**Quadrangle**") against Her Majesty the Queen in Right of Canada, as represented by the Minister of Industry (the "**Shareholders' Action**"). Investments and Quadrangle, which collectively own all of the issued and outstanding shares of Holdings, are not Applicants and the Shareholders' Action was not commenced in this Proceeding.

29. In the Shareholders' Action, Investments and Quadrangle claim damages in the amount of $1,204,415,703, plus interest and costs, for negligence, negligent and/or reckless misrepresentation, breach of contract, intentional interference with economic relations, abuse of public office, unjust enrichment, and loss of reputation and goodwill. The facts alleged in the Shareholders' Action include the allegation that the Minister of Industry threatened future economic sanctions against TELUS Corporation if it did not permanently abandon its efforts to complete the TELUS Sale described in the Sixth Report of the Monitor dated April 21, 2014 (the "**Sixth Report**"). A copy of the Shareholders' Action is appended to the Aziz Affidavit.

Strategic Developments

30. As indicated in the Seventh Report, the Applicants have confirmed to the Monitor that the contractual agreement in respect of the TELUS Sale has been terminated. The Monitor stated in the Monitor's Sixth Report that the Monitor and the Applicants considered the TELUS Sale to be the only acceptable going concern sale alternative at that time. Although two other En Bloc Bids were received as part of the Applicants' Court-approved sale process, each was subject to additional conditions precedent that posed significant risk to its timing, certainty of completion and net consideration. The Applicants continue to explore and consider potential alternatives and transactions (including the discussion of any transactions with any third parties in connection with the sale process or otherwise) based on recent developments and current circumstances.

31. As described in the Aziz Affidavit, since the date of the Seventh Report, there have also been some notable developments in the Canadian wireless telecommunications industry, including the announcement by the Minister of Industry on July 7, 2014 of the AWS-3 Auction (as defined in the Aziz Affidavit) to be held in early 2015. As described in the Aziz Affidavit, under the AWS-3 Auction Industry Canada will be setting aside the majority of the AWS-3 spectrum in each region of the country exclusively for operating new entrants satisfying certain criteria. Mobilicity is one of two wireless carriers (the other one being Wind Mobile) that would satisfy the criteria for an operating new entrant.

EXTENSION OF STAY OF PROCEEDINGS

32. The current stay of proceedings pursuant to the order of this Court dated June 24, 2014 expires on September 26, 2014.

33. The Applicants need additional time to review and consider any alternatives that may be available to them, to consult with their stakeholders on such alternatives and report back to this Court. Accordingly, the Applicants are seeking an extension of the stay period for approximately two months, to December 1, 2014.

34. Although it is possible the Applicants may complete their analysis of alternatives in less than the time requested, Management is of the view that the proposed extension of the Stay Period is necessary in order to maintain current customer levels and stability in the operations of the business generally. The Cash Flow Statement projects that the Applicants will have sufficient liquidity to operate, and to fund the costs of this Proceeding, to December 1, 2014.

35. The Monitor supports the Applicants' request for an extension of the stay period to December 1, 2014.

APPROVAL OF THE ACTIONS OF THE MONITOR AND OF THE FEES AND DISBURSEMENTS OF THE MONITOR AND ITS COUNSEL

36. Paragraph 31 of the Initial Order requires that the Monitor and its counsel, Thornton Grout Finnigan LLP ("**TGF**"), pass their accounts from time to time.

37. Attached as Appendix "**L**" to the Sixth Report (and appended to this Report as Appendix "**E**") is the Affidavit of Mike P. Dean dated April 17, 2014 (including appendices thereto) in respect of the fees and disbursements of the Monitor to April 11, 2014, in the combined amount of $1,205,801.22, including HST. Attached as Appendix "**F**" to this Report is the Affidavit of Mike P. Dean dated September 18, 2014 (including appendices thereto) in respect of the fees and disbursements of the Monitor from April 12, 2014 to September 12, 2014, in the combined amount of $415,198.75, including HST.

38. Attached as Appendix "**M**" to the Sixth Report (and appended to this Report as Appendix "**G**") is the Affidavit of Robert I. Thornton dated April 22, 2014 (including appendices thereto) in respect of the fees and disbursements of the Monitor to April 11, 2014, in the combined amount of $537,375.74, including HST. Attached as Appendix "**H**" to this Report is the Affidavit of Robert I. Thornton (including appendices thereto) in respect of the fees and disbursements of TGF, as independent counsel to the Monitor, from April 12, 2014 to September 12, 2014, in the combined amount of $208,537.79, including HST.

39. The relief sought by the Applicants also includes the approval of the activities to date of the Monitor. Those activities have been described in detail in this Report, in the First through Seventh Reports and the pre-filing report of the Monitor, all of which have previously been filed with the Court and are available on the Monitor's Website.

MONITOR'S CONCLUSIONS AND RECOMMENDATION

40. The Monitor is of the view that the Applicants have acted in accordance with the Initial Order, in good faith, and with due diligence.

41. The Monitor recommends that the Court approve the Applicants' request for an order extending the Stay Period to December 1, 2014 and requests that the Court approve the fees and disbursements of the Monitor and its counsel and the actions of the Monitor as described in this Report and the Monitor's previous reports to the Court.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 19th DAY OF SEPTEMBER 2014

ERNST & YOUNG INC.

in its capacity as the court-appointed Monitor of
Data & Audio-Visual Enterprises Holdings Inc.,
Data & Audio-Visual Enterprises Wireless Inc., and
8440522 Canada Inc.

Per:

Mike Dean
Senior Vice President