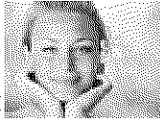

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## THE GLOBE AND MAIL

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# Mobilicity's outlook murky as Ottawa rejects Telus bid

By RITA TRICHUR

*Cash-strapped carrier continues to bide its time until restriction on spectrum sale is lifted in 2014*

Mobilicity is facing a hazy future after the federal government rejected Telus Corp.'s second attempt to purchase the cash-strapped wireless carrier.

Industry Minister James Moore confirmed Wednesday the proposed sale was denied, following a report on The Globe and Mail's website. Ottawa's main concern is enforcing a federal ban on the transfer of new-entrant wireless licences to major carriers before 2014. Its decision will force Mobilicity to explore other options as it bides its time until the restriction expires in February.

"That transaction has not been approved," Mr. Moore told reporters in Ottawa when asked about a proposed sale to Telus.

Although the small carrier is saying nothing about its future plans, its court-appointed monitor, Ernst & Young Inc., previously indicated in court filings that the company would likely rely on a new \$30-million financing as it considers "its other alternatives."

In rejecting the proposed sale, Ottawa did not impose any new restrictions on Mobilicity's ability to transfer its spectrum to an incumbent after the standstill period runs out, which had been a key concern for note holders, according to court documents.

But Mobilicity's longer-term prospects remain in doubt. The Vaughan, Ont.-based carrier has only until Dec. 20 before the "stay period," during which it is shielded from legal action from creditors, runs out.

Outgoing president and chief operating officer, Stewart Lyons, declined comment on Ottawa's decision, noting that "conversations with IC [Industry Canada] are private and ongoing." Mr. Lyons plans to leave Mobilicity this week.

When Mobilicity won a court order on Sept. 30 granting it protection under the Companies' Creditors Arrangement Act, its executives said the startup carrier needed time "to advance and complete a going-concern transaction" that was before Industry Canada for approval.

But sources have since confirmed that Mobilicity did not present Industry Canada with an actual deal to approve or deny. Rather, the company sought an informal, non-binding assessment from the government under the spectrum transfer framework about a potential sale to Telus.

Last week, an Ontario judge gave Mobilicity more time to complete that deal and win government approval after being told that talks were in progress with Industry Canada.


"Regardless, we believe that either the government will be forced to change its mind and Mobilicity will be acquired by Telus, or it will cease to operate – either scenario is positive for the incumbents and negative for the government," wrote Dvai Ghose, an analyst with Canaccord Genuity, in a note to clients.

Mobilicity, which is legally known as Data & Audio-Visual Enterprises Holdings Inc., declined to identify its potential buyer. But sources say the small carrier was in talks with Telus to rekindle a sale that Ottawa rejected in June.

Telus's original \$380-million offer to buy Mobilicity was similarly blocked due to the current prohibition on wireless newcomers transferring spectrum licences to large carriers. Telus, however, was lobbying Ottawa to ease those rules. The Vancouver-based company declined to comment for this story.

Last week, however, Telus secured Ottawa's blessing to acquire another struggling new entrant carrier, Public Mobile, for an undisclosed amount. Public Mobile, though, never faced any restrictions on selling its spectrum because the type it purchased is considered less valuable.

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