

DISABLED EMPLOYEES PROGRESS REPORT

THIS REPORT HAS BEEN PREPARED BY KOSKIE MINSKY LLP IN ITS CAPACITY AS REPRESENTATIVE COUNSEL TO THE NON-CAW (NOW UNIFOR) DISABLED EMPLOYEES OF NORTEL

September 22, 2014

As Representative Counsel for many of Nortel's former employees (including LTD Beneficiaries), we are writing to provide you with an update on Nortel's insolvency proceedings.

If you are a CAW (now known as Unifor) member, we have their permission to send you this letter. If you have any questions or would like to speak with your legal counsel, you may contact Barry Wadsworth at Unifor at 1-800-268-5763, extension 3776 or e-mail linda.cantin@unifor.org.

If you are not a (Unifor) member, you may contact your Representative Counsel by email at nortel@kmlaw.ca or through our toll-free hotline at 1-866-777-6344.

Allocation Litigation

The trial to determine the allocation of Nortel's assets began on May 12th, 2014 in a joint hearing before Justice Frank Newbould in the Ontario Superior Court of Justice (Commercial List) and Judge Kevin Gross of the United States Bankruptcy Court for the District of Delaware. The evidentiary portion of the allocation trial included fact and expert witnesses providing testimony for twenty one days from May 12th to June 24th, 2014.

Your court appointed representatives and their advisors have been working together with the NRPC and court appointed representatives for pensioners and former employees; Unifor (formerly the CAW); the wind-up administrator of the Nortel Pension Plans (Morneau Shepell); the Financial Services Commission of Ontario; and Representatives of Nortel active and transferred employees (collectively, a group known as the "Canadian Creditors' Committee" or "CCC"), and are a Core Party in the allocation litigation.

The CCC has made two submissions with respect to the allocation of Nortel's assets: First, the CCC argues that since the vast majority of the intellectual property created by Nortel was owned by the Canadian parent, NNL, the majority of the sale proceeds should be allocated to the Canadian Estate. Based on the allocation position, the CCC's expert, Thomas Britven concluded that under the ownership allocation theory the Canadian Estate should receive 79% of the \$7.3 billion sale proceeds; the EMEA Debtors should receive 7%; and the U.S. Debtors should receive 14%. This position is also put forward by the Canadian Debtor and Monitor with small variations in the amounts based on assumptions made by their expert. Under this Ownership allocation theory, while the majority of sale proceeds would initially be allocated to the Canadian Debtors, those proceeds would thereafter be subject to inter-estate claims and disbursed to the other Estates. Under the CCC Ownership allocation theory, the CCC's expert estimates this would mean approximate recoveries by Canadian creditors of 58.7% of their claims; the guaranteed bonds would recover 100% of their pre-filing claim; the U.S. creditors would recover 95% of their claims; EMEA creditors would recover 26.5% of their claims and the UKPC would recover 43.7% of their claims.

As an alternative, the CCC argues that allocation should be on a pro rata basis, allocating the funds proportionately to claims made against all of the Estates. Under the pro rata theory, the CCC's expert concluded that creditors would receive approximately 71.2% of their claims based on certain assumptions regarding treasury cash positions and claims. However, if the guarantees of the Bondholders in the U.S. are recognized as an additional claim, the recovery would drop down to 50%.

Please note that all the numbers are estimates made in the spring of 2014 in preparation for trial and will likely be reduced downwards due to the costs of litigation and the ongoing administration of the Nortel Estate.

The U.S. Interests, including the U.S. Debtors, the UCC and the Ad Hoc Group of Bondholders, are advocating that the Courts should allocate the proceeds according to Revenue Theory, whereby the sale proceeds are allocated to each Estate based on their proportionate share of revenues in Nortel's 2009 carve-out statement. Based on this allocation theory, the CCC's expert believes this will provide a recovery for Canadian creditors of 11%; guaranteed Bondholders and other U.S. creditors would receive 100%; EMEA creditors would receive 48% and the UKPC would receive 51%.

The EMEA Debtors have been arguing that the Courts should allocate according to the contribution each party made to research and development, which ultimately created the intellectual property. The EMEA Debtors, however, advocate that the contribution formula provided in the Master Research and Development Agreement should not be used but argue that the Courts should consider contributions from the 20 years prior to the filing date. Under this Contribution Approach, the EMEA Debtors' expert projects that EMEA should receive 18.2% of the sale proceeds, the Canadian Debtors should receive 31.9%, and the U.S. Debtors should receive 49.9%. Secondly, the EMEA Debtors propose that the Courts allocate the Sale Proceeds according to the relative fair market value of the license rights to the intellectual property held by each entity as of the date of the asset sales. Under this approach, the EMEA Debtors would receive 30.9% of the sale proceeds, the Canadian Debtors would receive 11.5% and the U.S. Debtors would receive 57.7%.

The UKPC has submitted a pro rata position, however, the assumptions and implementation differ from that of the CCC's Pro Rata theory.

Arguments were made in writing through a series of pre- and post-trial briefs. All submissions are available publicly on representative counsel's website at the following link:
<http://www.kmlaw.ca/Case-Central/Overview/Page/?rid=107&cpid=34>

The parties are currently preparing for closing arguments, which will be heard by both Courts in a joint hearing on September 22 and 23, 2014. Each Court will then make a decision independently of the other, but the timing of this is unknown. We will provide further information on our website and hotline when available.

Please visit our 'Allocation Litigation' tab on our website for regular updates as they become available or call the toll-free hotline at 1-866-777-6344 for further information.

Bondholder Post-Filing Interest Issue

On August 19, 2014, Justice Newbould of the Ontario Superior Court of Justice (Commercial List) released a decision finding that Nortel Bondholders were not entitled to post-filing interest in the Canadian allocation proceeding. The decision was released following a hearing on July 25, 2014 on two issues, including:

- a) whether the holders of the crossover bond claims are legally entitled in each jurisdiction to claim or receive any amounts under the relevant indentures above and beyond the outstanding principle debt and pre-petition interest (namely, above and beyond the U.S. \$4.092 billion claim for principal and pre-filing interest); and
- b) if it is determined that the crossover Bondholders are so entitled, what additional amounts are such holders entitled to so claim and receive.

The CCC, Monitor and Canadian Debtors, UK Pension Claimants, EMEA Debtors and Wilmington Trust successfully argued that post-filing interest was not legally payable. The decision of Justice Newbould dated August 19, 2014 can be accessed on our website.

The Bondholders have given notice that they will be seeking leave to appeal the decision of Justice Newbould to the Ontario Court of Appeal. We will provide further information on our website and hotline as it becomes available.

The issue of post-filing interest was first raised during the allocation trial, and the Canadian and U.S. Courts both requested submissions from the parties identifying what the post-filing interest issue is and why it would be helpful for a decision to be made by the Courts. The Bondholders and other parties, including the CCC, subsequently filed replies and on June 24, 2014 the Courts advised the parties they were going to hear the post-filing interest issue and scheduled a joint hearing.

The hearing in the U.S. Court was adjourned as a result of a "settlement" between the U.S. Debtors and certain Bondholders. The settlement allows for as much as US \$1.0 billion in post-filing interest payable to the guaranteed noteholders from the U.S. Estate. The Canadian Monitor has objected to the settlement and will be opposing the settlement approval. It is the position of the CCC, on your behalf, that no allocation should result in interest payable to some creditors while others face reductions in benefits. However, there are risks that the Court in the U.S. will not agree. The U.S. Court is expected to hear the motion for approval of the settlement agreement on November 4, 2014.

Compensation Claims

The Monitor continues to review the Personal Information Change Forms (Form B) and Proof of Claim Forms (Form C) that it received. If you submitted a Form B or Form C and have not received a decision yet, please be patient. There is no significance to the order in which reviews are completed. The Monitor is sending decisions as soon as the claims are reviewed and will continue to do so over the coming months.

For those individuals who have received a response from the Monitor and have questions, please call us at 1-866-777-6344 or e-mail us at nortel@kmlaw.ca.

We continue to receive questions about when to expect a cash distribution from Nortel. The distribution on claims from the Nortel Estate will depend on conclusion of the Allocation Litigation, as described above. Unfortunately, the timing of distribution on claims remains unknown, and we do not expect any such distribution in the near future.

Hardship Fund

On March 21, 2014, the court extended the next deadline for applications for the Hardship Fund to October 3, 2014. The court will continue to be asked to extend the deadline together with the stay of proceedings as needed. Please check our website for the latest version of the application with the latest deadline information.

As previously reported, on July 27, 2012 the Court approved the expansion of the scope of Nortel's Hardship Fund to include Nortel LTD Beneficiaries, including those who are receiving CPP-Disability or the Quebec Equivalent.

Payments from the Hardship Fund are treated as an advance on future distributions from the Nortel Estate, so any amount awarded will be deducted from the recipient's ultimate Compensation Claim recovery from the Nortel Estate.

If you are in a position of immediate financial hardship, you may request a payment from the Fund by completing a Hardship Payment Application. Koskie Minsky can help you complete this form. This will be a private and confidential process, and you will not be required to share your personal information with anyone other than the Monitor, who is responsible for assessing your application, and Representative Counsel.

If you have any questions regarding the eligibility criteria or would like to apply for a payment from the Hardship Fund, please visit our website or call our toll-free hotline at 1-866-777-6344 to request an Application for Hardship Payments.

Wind-up of Nortel's Registered Pension Plans

Morneau Shepell, the administrator of Nortel's Registered Pension Plans, filed the wind-up report for the Negotiated Plan at the beginning of 2014 and is still waiting for approval from the Financial Service Commission of Ontario ("FSCO").

FSCO, the regulatory body in Ontario responsible for pensions, reviews the report and approves the wind-up before any steps are taken in the wind-up. Once Morneau has received approval of the wind-up report, members will receive Option Forms which will provide you with a description of the options available for receiving your pension benefits, and the monetary value of those options.

Those options will differ among the provinces, and will depend on which province you were living in when you terminated employment.

Once the Option Forms are distributed, Morneau Shepell will be conducting information sessions in various locations across the country to provide you with further information regarding the next steps and an explanation of your options. You can expect to receive further information about the information sessions once approval of the wind-up report is received.

The wind-up report for the Managerial Plan is expected to be completed by the end of 2014. FSCO approval will be required for that Plan as well. Similar to the Negotiated Plan, information sessions will be held across the country.

If you have any questions please call us at 1-866-777-6344 or Morneau Shepell at:

Managerial Plan Members: 1-877-392-2074

Negotiated Plan Members: 1-877-392-2073

The Health and Welfare Trust (HWT)

On November 19th, 2013, the Ontario Superior Court of Justice approved the final HWT distribution to Participating Beneficiaries, including LTD members. The distribution brought the total distribution for LTD members to 38% of entitlements.

As previously reported, in an Advance Income Tax Ruling dated July 19, 2011, the Canada Revenue Agency held that LTD Basic Life and LTD Optional Life and Pensioner Life were taxable in addition to some other benefits paid from the HWT. At the request of the Court-appointed Representatives, Koskie Minsky is challenging the correctness in law of this Advance Tax Rulings through test case appeals to be heard by the Tax Court of Canada.

Koskie Minsky sent out packages in December 2013 to all those individuals who received a payment from the HWT for LTD Basic Life, LTD Optional Life and Pensioner Life during 2012.

The appeals have now been filed together with an agreed statement of facts. As this matter has not yet been decided by the Court, we will be considering in the next few weeks whether individuals who received payments from the HWT in 2013 will need to fill out a form. We will advise as soon as possible.

Address Changes

Please ensure you keep your address updated with either Koskie Minsky or the Monitor, Ernst & Young. The Monitor can be reached at:

1-866-942-7177
nortel.monitor@ca.ey.com

Koskie Minsky and the Monitor have a Change of Address Form that must be completed and supporting documentation of the new address must be provided. Examples of supporting documentation include a driver's license or a recent utility bill showing the member's name and new address.

Please visit the Koskie Minsky website to obtain a copy of the form or call the toll-free hotline at 1-866-777-6344 in order to receive a copy of the Change of Address Form.

In order to receive a copy of the Change of Address Form, please visit the Koskie Minsky website or call the toll-free hotline at 1-866-777-6344.

Please also ensure that you update Morneau Shepell with your address change even if you are not receiving your pension yet. Morneau Shepell can be reached at:

Managerial Plan Members: 1-877-392-2074

Negotiated Plan Members: 1-877-392-2073

Questions?

Please keep yourself informed by continuing to check the Koskie Minsky website at www.kmlaw.ca/case-central/overview/?rid=107. We will continue to post important updates on our website.

If you have a specific question or wish to speak to your Representative Counsel, please contact us by email at nortel@kmlaw.ca or through our toll-free hotline at 1-866-777-6344.

Alternatively, you can reach your Court-Appointed Representative by e-mailing the Canadian Nortel Employees of Long Term Disability (CNELTD) at SteeringCommittee@cneltd.info.

If you are a CAW (Unifor) member, please contact Barry Wadsworth at Unifor at 1-800-268-5763, extension 3776 or e-mail linda.cantin@unifor.org for any forms or information you may need.