

DISABLED EMPLOYEES PROGRESS REPORT

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

March 19, 2013

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 member, we have received permission of the CAW 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 the CAW at 1-800-268-5763, extension 3776.

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

Stay of Proceedings and Allocation Litigation

A mediation session was held the week of January 14, 2013 and was extended twice to try to resolve outstanding global asset allocation and claims issues. On January 24, 2013 Chief Justice Winkler announced that the mediation had ended without any agreement having been reached.

On January 31, 2013, Justice Morawetz and Judge Gross ordered all parties to the Nortel insolvency proceedings to submit a list of what they considered to be current, outstanding issues. Submissions were made to Justice Morawetz by Friday February 8, 2013 and a report on behalf of the former employees and disabled employees was filed that day by the court appointed representatives and their advisors.

Following review of the submissions, Justice Morawetz and Judge Gross determined that the first step in resolving the outstanding issues between the parties was to decide whether the issues should be heard by the U.S. and Canadian Courts jointly, or by a panel of arbitrators.

A joint hearing to decide this matter was held on March 7, 2013. On March 8, 2013, Justice Morawetz and Judge Gross together released decisions, each holding that claims and allocation issues would be determined before the U.S. and Canadian Courts jointly.

Both Justice Morawetz and Judge Gross advised that they would like a trial of allocation and claims issues to be heard in the fall of 2013. The parties are currently working on establishing a litigation schedule, and we will post information on our website under the "Allocation Litigation" tab as it becomes available.

Nortel also recently received an extension of its CCAA stay of proceedings until May 3, 2013. The company continues to work through the many issues that must be resolved prior to the completion of the windup of Nortel.

Distributions – Compensation Claims and Health and Welfare Trust (HWT)

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 resolution of the allocation litigation, as described above. Therefore, unfortunately there is no scheduled distribution and we do not expect one in the near future.

We continue to work closely with the Monitor on the wind-down of the HWT, including on the form of financial reporting. As you know, 35% of the values of LTD Income Benefits, LTD Life and LTD Optional Life Benefits have been paid, and there may be little or no further payments from the HWT on these LTD benefits. Many LTD Beneficiaries are also entitled to Pensioner Life on which 20% has been distributed. There will be a further distribution with respect to Pensioner Life, but the amount and timing is not known.

Compensation Claims Decisions

The Monitor continues to review the Personal Information Change Forms (Form B) and Proof of Claim Forms (Form C) that it received. If you have not received a decision with respect to your Form B or C 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.

Please note that on December 18, 2012, Mr. Andrew Diamond and Mr. William Kaplan were appointed as Compensation Claims Officers. If you file a dispute and no settlement is reached with the Monitor, the Monitor will refer the matter to one of the Claims Officers or bring the matter to Court, for determination.

2012 Tax Slips

Tax slips were sent out at the end of February for taxable income that was received in 2012. Individuals who received payments from the Nortel HWT for LTD Basic Life and LTD Optional Life in March 2012 will receive slips in the next few weeks.

LTD Income is not taxable and therefore the tax slips do not include LTD Income.

In addition, those individuals who have started receiving pensions from the registered pension plans will also receive a tax slip for the pension payments that were received during 2012. For those individuals who were receiving pensions in January and February 2012, a tax slip has been sent by Northern Trust, who was the custodian at the time. Effective March 2012 the custodian was changed to was CIBC. Accordingly, tax slips will also be sent for pension payments received from March to December 2012 from CIBC.

Health and Welfare Trust - Tax Appeal

In an Advance Income Tax Ruling dated July 19, 2011, the Canada Revenue Agency held that LTD Basic Life and LTD Optional 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 these Advance Tax Rulings through test-case appeals to be heard by the Tax Court of Canada.

In October 2012, Koskie Minsky sent out packages to all those individuals who received a payment from the HWT for LTD Basic Life and/or LTD Optional Life during 2011. Packages were also sent to individuals who were taxed for pensioner life insurance and the termination of survivor benefits.

To date, more than 65% of individuals have filed a Notice of Objection on their personal Income Tax Assessment, and Koskie Minsky is working to move the appeal forward.

If you haven't already filed your Notice of Objection, please do so by April 30, 2013.

If you do not file a Notice of Objection before the deadline, and the appeal is successful, you will not be eligible to have your 2011 taxes reassessed. In addition, the amount by which your Compensation Claim for life insurance benefits, including LTD Basic Life and/or LTD Optional Life, was "grossed up" for taxes may be eliminated from your claim amount.

Hardship Fund

As reported in our last Report, on July 27, 2012 the Court approved the expansion of the scope of Nortel's Hardship Fund to include Nortel LTD Beneficiaries.

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 to 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 your Representative Counsel.

Eligibility: In order to be eligible for a Hardship Payment, there are certain criteria you must satisfy, including:

1. You must be a former employee of Nortel who, prior to December 31, 2010, was in receipt of long term disability payments from Nortel; OR
2. You must be a member (or survivor of a member) of one of Nortel's defined benefit pension plans and had your pension reduced effective August 2011.

In addition, you must have a Compensation Claim against Nortel (i.e. you received an Information Statement through the Compensation Claims process), and you must demonstrate that you are in a situation of urgent or immediate financial hardship. Examples of financial hardship include the inability to cover your required drug costs or to pay for hydro. If you are

experiencing hardship but you are unsure whether your situation qualifies under the expanded criteria, please contact Koskie Minsky at 1-866-777-6344 to discuss your situation.

*Note: The maximum amount that will be payable to a former employee (including an LTD Beneficiary) under the expanded criteria is a payment of up to 8 weeks' salary based on a maximum salary of up to \$1,200 per week. It is not guaranteed that you will be approved for a payment, and if you receive a payment it may not be for the maximum amount. The Hardship Committee will also have the discretion to approve additional amounts in cases of medical and other emergencies in an amount up to \$2,500. Any amount that you do receive will be subject to applicable taxes, and the payment will be a lump sum advance on your distribution from the Nortel estate. **Your ultimate distribution from the Nortel estate will be reduced by any amount that you are awarded from the Hardship Fund.***

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

Windup of Nortel's Registered Pension Plans and Member Information Profiles

Morneau Shepell, the administrator of Nortel's Registered Pension Plans, is in the process of mailing out Member Information Profiles in preparation for the windup of the Pension Plans. Member Information profiles will be sent to you to review the information on file so that Morneau can ensure that your pension is calculated correctly.

Once Morneau has received all the Member Information Profiles by return mail, it will prepare the windup reports and then members will receive Option Forms. Depending on which province you were living in when you terminated employment, you may have different options.

If you have any questions about the Member Information Profile or Option Form, 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

Address Changes

Please ensure you keep your address updated with Koskie Minsky or please advise the Monitor, Ernst & Young.

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. Documentation includes a driver's license or a recent utility bill showing the 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.

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 or you can reach your court-appointed representative by e-mailing the Canadian Nortel Employees of Long Term Disability (CNETLD) at SteeringCommittee@cneltd.info.

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