INTERVENTIONS TO PROTECT NORTEL'S CANADA ESTATE FOR CANADIANS

PREPARED BY: **Diane A. Urquhart**

Independent Financial Analyst

Tel: (905) 822-7618

Cell: (416) 505-4832

urquhart@rogers.com

DATE: **July 6, 2009**

EXECUTIVE SUMMARY

Nortel's Canada Estate is being depleted relative to the rest of the world and the consequence of this will be that the cash settlement ratio for Canadian creditor claims is apt to be very nominal and considerably lower than the cash settlement ratio applicable to US creditor claims and UK/EMEA creditor claims.

The estimated damages to Nortel's Canadian pension, health and long term disability plan members and severed employees will likely be at least Cdn$1,500 million.

- Canadian pensioners' income loss estimated at least -28%, possibly up to -40%
- Lost post-retirement health benefits estimated to cost up to $250 per month
- Disabled former employees' income loss of up to -90%
- Terminated employees getting only an estimated 10% of their severance

The Evidence of the Canada Estate being depleted is:

- In Figure 5, you see that Canada is the only country where the cash balances are declining, with increases occurring in the US and UK/EMEA since Jan. 14th.
- Canada's estate started the bankruptcy protection process on Jan. 14th with only US$261 million or 15% of the global available cash.
- This available cash is on a gross basis, not deducting for an inter-company loan of US$295 million outstanding at Jan. 14th owed to US Nortel Networks Inc. (NNI)
- The CCAA court judge has approved six heavy prior charges from the Canada estate before the Canadian pension, health and long term disability plan deficits and severance and other unsecured creditor claims may be paid.
- Transfer Pricing Agreement payments from the international sales offices that historically paid for Canada's head office and R & D costs were not paid from February 1st to June 7th. The replacement Interim Funding and Settlement Agreement is woefully low.
- Figure 6 shows that the Canada estate is being charged restructuring costs of US$33 million during the period February 1, 2009 to September 30, 2009.
- The US$200 million Debtor-in-Possession (DIP) line of credit from the US NNI is apt to be fully utilized as a prior charge against the Canada estate before Nortel's liquidation is completed. Also, in any case, NNI has the Sixth - Inter-Company Charge as a general catch-all for providing an additional inter-company loan to fund Canada's cash burn, which must be repaid before Nortel's Canadian pensioners, disabled and terminated employees are paid.

It is up to each creditor group to identify and seek intervention from the court in their region on any transactions that they perceive to treat them unfairly and unreasonably

not only within the context of the creditors in their own region, but also within the context of creditors in one region versus another.

The outlook is very bleak for getting full settlement of Nortel's Canadian pension, health and long term disability plan deficits and severance paid in the court room, since Nortel is expecting to liquidate and not be an ongoing concern. Under the Bankruptcy and Insolvency Act (BIA) pension, health and long term disability plan deficits and unpaid severance are treated the same as the unsecured debt holders and suppliers owed money.

The main fight for full cash settlement of the Canadian pension, health and long term disability plan members and severed employees is outside of the Canadian court room.

- At the House of Commons Standing Committee of Finance meeting on June 18, 2009, representatives of Nortel Canadian pensioners, disabled and terminated employees have asked the Federal Government to make an emergency amendment to the Bankruptcy and Insolvency Act (BIA) to put pension, health and long term disability plan deficits and severance ahead of unsecured creditors, in what is known to be preferred status.
- The representatives have also requested that the Federal Government use its authority to set conditions under the Investment Canada Act for a significant proportion of the proceeds from the foreign purchases of Nortel businesses to fund Nortel's Canadian legacy pension, health and long term disability plan deficits and severance.

The Equitable Principles for Pension Deficits and Severance Preferred Status are listed in this report. The case for taking actions on behalf of Nortel pensioners, disabled and terminated employees is even more compelling since these Canadians are badly damaged not only because of Nortel's decade of management greed and accounting fraud, but by today's financial and economic crisis due to toxic credit products sold by the investment banking industry and bought by the world's banks and institutional debt buyers. Government regulators did not stop the abuses.

The Federal Government's Crown Corporation, the Export Development Canada (EDC), pulled the plug on Nortel on January 15th by recalling its US$750 million line of credit, causing Nortel to file for bankruptcy protection in Canada, the US and the U.K. on January 14th. Then, EDC took the next step of funding US$300 million or 46% of a foreign buyer's purchase of Nortel's profitable CDMA & LTE business, with the hope that this Canadian government support will protect 800 current Nortel jobs in Canada.

The Federal Government has not taken any steps to deal with the collateral damage to Nortel's Canadian pensioners, disabled and terminated employees that the EDC decisions have caused and that the Federal Government's refusal to provide replacement funding for the EDC line of credit has also caused. The estimated Cdn$1,500 million collateral damages for the 19,000 Nortel Canadian pensioners, disabled and terminated employees would not have occurred but for the Federal Government's CCAA and BIA laws nullifying all of the Provincial laws for pension benefits and severance protection. These Provincial income protection laws evolved over a century in a country whose citizens cherish its social policies.

Canadian Governments have recently provided exemptive relief to enable corporations to extend the period for Special Contributions to eliminate pension fund deficits from 5 to 10 years. Do Canadian Governments always expect the pensioners to make concessions for the benefit of their employers during times of recession or bankruptcy protection proceedings in order to facilitate ongoing concerns and then offer no protection for these sacrificial lambs when the best efforts of corporate executives fail and the companies have to enter bankruptcy anyway.

The Section in this report on Preferred Status Will Have Only A Nominal Impact On The Cost And Availability Of Credit refutes the Federal Government's likely only argument for not accepting the recommendation for an emergency amendment of the BIA Act to give preferred status to pension, health and long term disability plan deficits and unpaid severance. The estimated impact on the cost of credit is in the range of less than 0.05% to 0.26% annually, with the amount depending on the term and whether the corporate bonds are investment grade or junk.

If Nortel successfully liquidates without paying for its pension, health and long term disability benefits and severance, Canada can expect a lineup of companies entering bankruptcy protection saying they wish to restructure as a going concern, while all along having plans to liquidate the company and to have their large debt holders profit from the pension, health and long term disability plan deficits and severance obligations not being paid. Whose higher priority, Canadian pensioners, disabled and terminated employees or junk bond speculators?

Ottawa and the Ontario government contributed a total of Cdn $3.2 billion in funding to keep Chrysler Canada and Cdn$10.5 billion of funding to keep GM Canada alive. The Chrysler and GM Canada pension funds were clear beneficiaries of these government bailouts, although the Ministers involved wanted the public to believe they were bailing out the Chrysler and GM Canada businesses and not the pension and health funds. An internal memo to GM Canada Salaried Retirees presents a different perspective on the GM government bailout and how it helped them.

Table of Contents

Table of Figures 6

Nortel Pensioners, Disabled and Terminated Employees Fighting Inside and Outside Court 7

Nature of the Court Battle 8

Nature of the Political Battle Outside of the Court 10

Nortel's Canada Estate Is Being Depleted Relative to the Rest of the World 13

(1) Canada's Starting Cash Balance Was Too Low 13

(2) US Bondholders Committee, Unsecured Creditor Committee and U.K. Administrator's Control 15

(3) Canada's Estate Has Heavy Prior Charges 16

(i) First - Administrative Charge 16

(ii) Second - Carling Facilities Charge 17

(iii) Third - EDC Charge 18

(iv) Fourth - Directors' Charge 19

(v) Fifth - NNI Loan Charge 19

(vi) Sixth - Inter-Company Charge 19

(4) Cash Burn Is Too High 19

(i) Transfer Pricing Agreements Not Paid and the Interim Funding and Settlement Agreement Is Woefully Low 21

(ii) Excessive % Of Restructuring Costs Allocated To The Canada Estate 23

(iii) Canada Estate Paying for the KEIP & KERP and Canada's AIP 24

The Equitable Principles for Pension Deficits and Severance Preferred Status 25

The Federal Government's Objection to the Requested BIA Amendment 26

Preferred Status Will Have Only A Nominal Impact On The Cost And Availability Of Credit 26

Unsecured Creditors Worse Off in Bankruptcy, But for Equitable Reasons 29

"The Carrot And The Stick" Approach To Encourage Restructuring As An Ongoing Concern 29

Why Is The Federal Government Concerned About Preferred Status For Pensions When Abuses In The Structured Credit Markets Were Undeterred? 30

The Treatment of Pensioners in the Chrysler and General Motors Restructurings 32

Table of Figures

Figure 1: Estimated Nortel Damages to Canadian Pensioners, Disabled and Terminated Employees 7
Figure 2: Nortel Geographic Distribution of Financial Considerations........ 14
Figure 3: Nortel Global Creditor Claims By Region and Type 15
Figure 4: Nortel Canada's Available Cash 20
Figure 5: Nortel Canada's Versus Other Regions' Cash Balances 21
Figure 6: Canada Estate Restructuring Costs........ 23
Figure 7: Change in Annual Default Risk Premiums in Bonds Due to Pension Fund Deficits Preferred Status 28
Figure 8: Recent Experience with Default Risk Premiums in the 2007 to 2009 Financial Crisis 31

Nortel Pensioners, Disabled and Terminated Employees Fighting Inside and Outside Court

Nortel's Canada Estate is being depleted relative to the rest of the world and the consequence of this will be that the cash settlement ratio for Canadian creditor claims is apt to be very nominal and considerably lower than the cash settlement ratio applicable to US creditor claims and UK/EMEA creditor claims (US is United States, UK is United Kingdom and EMEA is Europe, Middle East, and Africa Region.) It is too soon in Nortel's restructuring/liquidation process to make a definitive estimate of what the Canadian cash settlement ratio is going to be, but it is plausible at this point to predict that without intervention that the cash settlement ratio for the Canada estate could be as low as $0.10 per dollar of creditor claim compared to over $0.33 per dollar of creditor claim in the US and the UK/EMEA.

Figure 1: Estimated Nortel Damages to Canadian Pensioners, Disabled and Terminated Employees

	# Impacted	Claims Cdn $ Millions	Expected Loss Cdn $ Millions	Income Loss %
Pensioners				
Pensions	17,500	$1,250	-$1,125	-28%
Health Benefits	11,000	$180	-$162	-90%
Sub-Total	17,500	$1,430	-$1,287	
Disabled Former Employees	450	$170	-$153	-90%
Severed Employees	1,000	$100	-$90	-90%
Total	18,950	$1,700	-$1,530	

The estimated damages to Nortel's Canadian pension, health and long term disability plan members and severed employees will likely be at least Cdn$1,500 million. There will be income losses of at least -28% for the Nortel Canadian pensioners, with the Nortel Retirees Protection Committee fearing that these income losses could become over -40% due to the weak state of current annuity markets and record low interest rates. Lost post-retirement health benefits are estimated to cost $250 per month.

Disabled former employees face income losses of up to -90% and those without savings and spouses to support them will need to go on welfare. It is shocking that

Nortel self-funded its long term disability benefits rather than through an insurance company. There would seem to me to be a reasonable case to be made that the Directors are liable for misrepresentation on the security of the long term disability income, and that they failed to ensure there were no omissions or misrepresentations in Nortel's and its Administrative Services Organization Sunlife's long term disability plan literature.

The terminated employees with unpaid severance face interim income losses of -90% . This amount is offset by their Employment Insurance Benefits providing for maximum income of $18,327 based on 41 weeks and maximum EI weekly income of $447 per week. The Alberta terminated employees have additional complaints about having been mislead by the Nortel Directors and Managers' statements to employ them for up to twelve months to assist the company with the closure of its Alberta facilities and the transfer of its functions to China.

Nature of the Court Battle

While there is an inter-country protocol for resolution of disputes amongst CCAA, Chapter 11 and U.K. Administration Courts, there is no official independent process whereby the three courts ensure that each region has the same cash settlement ratio. It is up to each creditor group to identify and seek intervention from the court in their region on any transactions that they perceive to treat them unfairly and unreasonably not only within the context of the creditors in their own region, but also within the context of creditors in one region versus another.

The opening balances and transactions within each of the regional estates during the bankruptcy protection process are approved by the bankruptcy courts at the beginning and during the bankruptcy protection process and not at the end. Ernst and Young Canada Court Monitor has in every instance so far sided with Nortel senior management on all of its proposed motions affecting the Canada estate. Ernst and Young Canada Court Monitor always says there is a scarcity of money available in the Canada estate and recommends against motions that would benefit Canadian pensioners, disabled and terminated employees, such as separate representative counsel for the terminated employees, preliminary payment of statutory severance and hardship cash payments for pensioners, disabled and severed employees who need them. Ernst and Young Canada Court Monitor never seems to provide information to the CCAA judge on the relative fairness of the decisions he is making in terms of how Canadian creditors are affected relative to Nortel's other global estate creditors.

The CCAA court decisions are very difficult to reverse at the end of the process, since they were capable of being opposed in the first instance and could have been

appealed along the way. There is a final opportunity to convince the CCAA judge that the CCAA restructuring plan is unfair and unreasonable, even after the majority of creditors by headcount or dollar value have approved the plan in the creditor vote. This is possible because the CCAA judge holds a fairness and reasonableness hearing after the creditor vote and makes a subsequent fairness and reasonableness decision.

However, Nortel Directors and Management have announced that it is their intention to sell the Nortel's CDMA & LTE wireless equipment business to Nokia Siemens Networks and to sell the remaining businesses. This means that it is now unlikely that Nortel will file a CCAA Compromise Plan as an ongoing plan, since it instead plans to liquidate the company. With liquidation, it is unlikely there will be a CCAA creditor vote and a CCAA fairness and reasonableness court hearing. Liquidation will occur under the priorities prescribed under the Bankruptcies and Insolvency Act (BIA) for disbursement of final cash to the creditors. Under the BIA Canadian pensioners, health and long term disability plan deficits and unpaid severance rank equally with all unsecured creditors.

A negotiated above pro-rata cash settlement of Canadian severance and long term disability plan deficits is still a viable outcome given the lower cost of these claims. Such a negotiated settlement would require that cash be sent to the Canada estate from the other regions of Nortel with ample cash reserves.

Outside of a negotiated cash settlement achieved directly with Nortel, it appears likely that the best Koskie Minskie LLP and legal counsel for the CAW can achieve in the courts for the Canadian pension, health and long term disability plan deficits and severance is this expected $0.10 cash settlement ratio, unless it fights vigorously for more. This being the largest creditor group in Canada bar none, it has to have their lawyers fight vigorously to get the same cash settlement ratio as the cash settlement for the global estate, which may be $0.33 per dollar of creditor claim.

This is not the time for the so-called "Canadian way" of lawyers working for adverse parties co-operating in the court process to achieve a compromise settlement for the benefit of all, since Nortel has announced its intention to liquidate the company and has thereby triggered certain damages for the Canadian pension, health and long term disability plan members and severed employees. Also, the Canadian pensioners, disabled and terminated employees should no longer tolerate a process of collegial compromise in the Canadian courts, when Nortel, Nortel's US Bondholders and US Unsecured Creditor Committees, and the U.K.\EMEA Ernst & Young Court Administrators have conducted transactions and reached an Interim Funding and Settlement Agreement that prejudices the Canada estate. The Ernst & Young

Canada Court Monitor has been apprised and supported all of the transactions and negotiations to date that are adverse to the Canada estate, in my opinion.

If a last ditch effort can still be formulated to keep Nortel intact in a downsized and focused ongoing concern provided for in a CCAA Compromise Plan, this would be a better outcome for the Canadian pension, health and long term disability plan deficits than the crushing estimated $0.10 cash settlement for Canada or even relative to the vigorously fought for estimated $0.33 cash settlement for Canada on par with the rest of the world.

The outlook is very bleak for getting full settlement of the Canadian pension, health and long term disability plan deficits and severance paid in the court room, since Nortel is expecting not to be an ongoing concern, where the pension, health and long term disability plans would remain ongoing plans too. The plans being ongoing would be a better outcome than wind-up because there would be future Special Contributions from the company to make up for the current deficits and the asset values in the fund would rise with the expected recoveries in the stock, debt and real estate markets.

Nature of the Political Battle Outside of the Court

The main fight for full cash settlement of the Canadian pension, health and long term disability plan members and severed employees is outside of the Canadian court room to get emergency Federal bankruptcy law changes and conditions added to Federal Government or Ontario Government loans and approvals for the sale of Nortel's businesses and facilities. Both the Federal Government and the Ontario Government need to offer leadership to help push back on Nortel's US Ad Hoc Bondholders and Unsecured Creditors Committee and the U.K. Ernst & Young Court Administrator to fight for Canada getting its proper share of Nortel's global estate. Furthermore, the Federal Government and Ontario Government should be intervening to ensure that Nortel's Canadian pensioners, disabled and terminated employees get their claims paid before the foreign owners of Nortel's junk bonds and Nortel's large suppliers owed money.

At the House of Commons Standing Committee of Finance meeting on June 18, 2009, representatives of Nortel Canadian pensioners, disabled and terminated employees have asked the Federal Government to make an emergency amendment to the Bankruptcy and Insolvency Act (BIA) to put pension, health and long term disability plan deficits and severance ahead of unsecured creditors, in what is known to be preferred status. The request is not for super-priority status above the secured creditors.

These representatives have also requested that the Federal Government use its authority to set conditions under the Investment Canada Act for a significant proportion of the proceeds from the foreign purchases of Nortel businesses to fund Nortel's Canadian legacy pension, health and long term disability plan deficits and severance. The latter request is due to concern about Nortel's Canada estate receiving only a small proportion of the expected cash proceeds from the Nokia Siemens Networks' purchase of Nortel's wireless business and the sale of Nortel's other businesses to foreigners. This concern is more than justified by how the Canada estate has been squeezed to date as discussed in the Section of this report entitled: Nortel's Canada Estate Is Being Depleted Relative to the Rest of the World

There are numerous equitable principles to support pension, health and long term disability plan deficits and unpaid severance getting preferred status within the BIA and in conditions set for Federal Government and Ontario Government loans and approvals of business and facilities sales. The equitable principles are listed in the Section of this report entitled: The Equitable Principles for Preferred Status. The case for taking actions on behalf of Nortel pensioners, disabled and terminated employees is even more compelling since these Canadians are being badly damaged here not only because of Nortel's decade of management greed and accounting fraud, but by today's financial and economic crisis in Canada due to toxic credit products sold by the investment banking industry and bought by the world's banks and institutional debt buyers. Canada's and the world's financial industry and securities regulators were asleep at the switch when the seeds of this economic carnage were planted.

There is already agreement in principle to consider the requested BIA amendment amongst all the Federal Political Parties, since there was unanimous consent in the House of Commons on June 16, 2009 for the motion presented by Mr. Marston (Hamilton East—Stoney Creek), seconded by Mr. Mulcair (Outremont),— That, in the opinion of the House, in light of the legitimate concerns of Canadians that pensions and their retirement security may not be there for them in their retirement years, the Government of Canada should begin to work with the provinces and territories to ensure the sustainability of Canadians' retirement incomes by bringing forward for review by the Federal-Provincial-Territorial Research Working Group at the earliest opportunity, measures such as: (c) ensuring that workers' pension funds go to the front of the line of creditors in the event of bankruptcy proceedings.

Coming back to Canada's role in this Nortel fiasco, we find that it was the Federal Government's Crown Corporation, the Export Development Canada (EDC), that pulled the plug on Nortel on January 15, 2009 by recalling its US$750 million line of credit to Nortel, causing it to file for bankruptcy protection in Canada, the US and the U.K. on January 14, 2009. Then, EDC took the next step of funding US$300

million or 46% of a foreign buyer's purchase of Nortel's profitable CDMA & LTE business, with the hope that this Canadian government support will protect 800 current Nortel jobs in Canada.

It is easy for Prime Minister Stephen Harper, International Trade Minister Stockwell Day, Industry Minister Tony Clements, Finance Minister James Flaherty and Parliamentary Secretary of Finance Ted Menzies to attempt to walk away from the needs of the Nortel's Canadian pensioners, disabled and terminated employees, by arguing they could not interfere with the EDC, as it is an independent Crown Corporation making its own financial decisions.

However, one or all of these Federal Government leaders also refused to provide a line of credit to replace the EDC line of credit when Nortel management came asking for this. They say that EDC's funding the Nokia Seimens Network's purchase of Nortel's wireless business is making the best of a difficult situation to salvage Canadian technology jobs in an enterprise they deem not to be economically viable as an intact ongoing concern. But, neither the EDC nor the Federal Government appear to have received enforceable conditions for Canadian employment in their support for the Nokia Siemens Networks purchase.

The Federal Government has not taken any steps to deal with the collateral damages to the 19,000 Nortel Canadian pensioners, disabled and terminated employees that the EDC decisions have caused and that the Federal Government's refusal to provide replacement funding for the EDC line of credit has also caused. The Cdn$1,500 million collateral damages for the 19,000 Nortel Canadian pensioners, disabled and terminated employees would not have occurred but for the Federal Government's CCAA and BIA laws that have nullified all of the Provincial laws for pension benefits and severance protection, which evolved over a century in a country whose citizens cherish its social policies.

The Provincial Governments and Federal Government have recently made amendments to their pension benefit acts to enable corporations to extend the period for making Special Contributions to make up for their pension fund deficits. Where is the quid pro quo revision made to the Federal bankruptcy laws to give the pensioners and severed employees of Canada protection when their former employers have to enter bankruptcy protection or bankruptcy while their pension funds are in significant deficit. Does the Federal Government always expect the pensioners to make concessions for the benefit of their employers during times of recession or bankruptcy protection proceedings in order to facilitate ongoing concerns and then offer no protection for these sacrificial lambs when the best efforts of corporate executives fail and the companies have to enter bankruptcy anyways.

The owners of Nortel's junk bonds are primarily outside of Canada and they have bought Nortel's bonds at a deep discount and speculated that they could earn profit by hiving off Nortel's pension, health and long term disability plan members and severed employees onto the Ontario Pension Guarantee Fund, the Federal Employment Insurance Fund and Provincial welfare programs. Canadian taxpayers should not be bearing these costs so that junk bond holders can make profits on the loophole in the Federal bankruptcy laws that eliminate the Provincial pension benefit and severance protection laws built over a century at the stroke of a judge's pen operating under the Federal CCAA and BIA laws.

Nortel's Canada Estate Is Being Depleted Relative to the Rest of the World

Nortel's Canada estate is being depleted relative to the rest of the world due to the following factors:

(1) Canada's Starting Cash Balance Was Too Low

(2) US Bondholders - Unsecured Creditor Committees and U.K. Administrator's Control

(3) Canada's Estate Has Heavy Prior Charges

(4) Cash Burn Is Too High Due to Inadequate TPA and Excessive Restructuring

(1) Canada's Starting Cash Balance Was Too Low

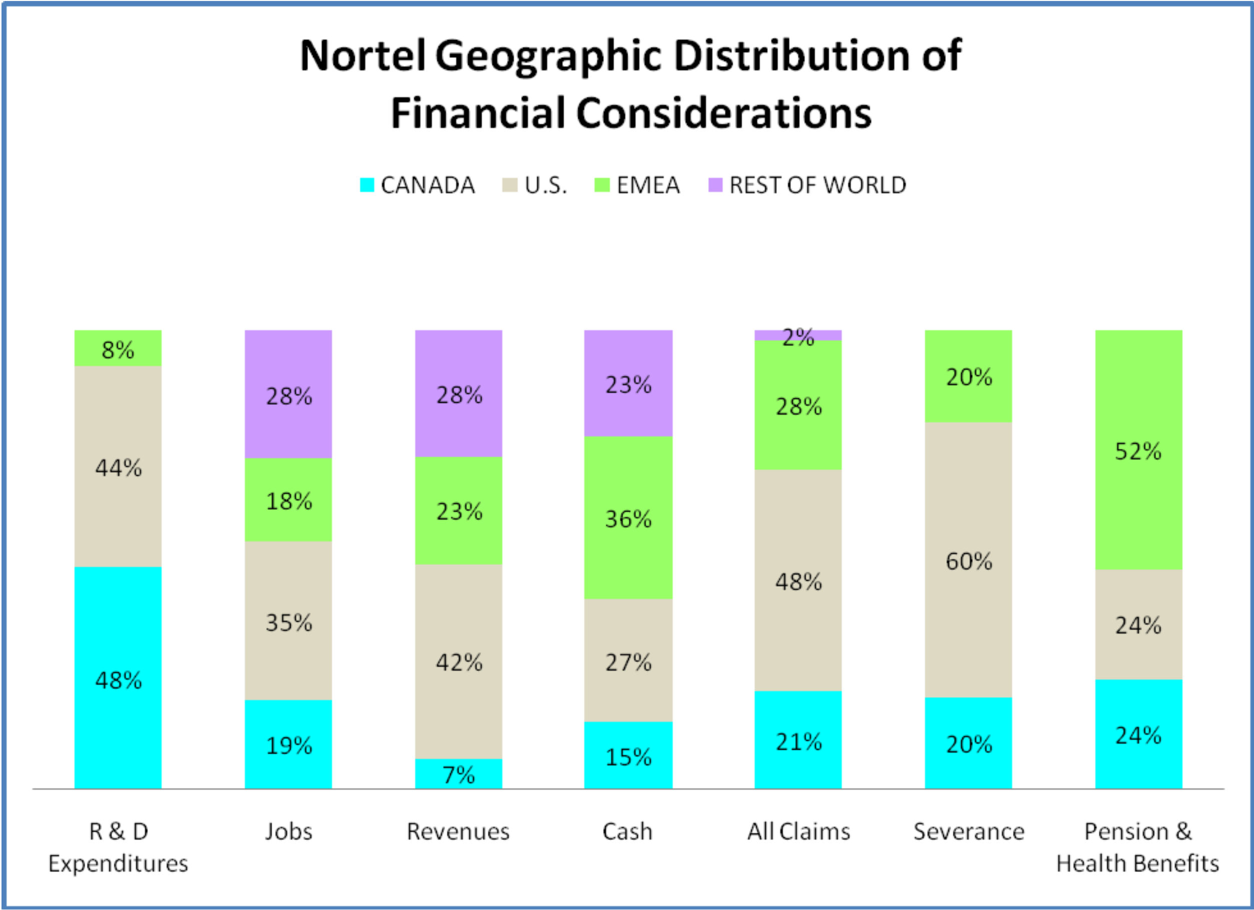
Canada's estate started the bankruptcy protection process on January 14, 2009 with only US$261 million or 15% of the global available unrestricted cash, despite its creditor claims estimated to be 21% of the global estate, as shown in Figure 2. The cash available in the Canada estate is on a gross basis, not deducting for an inter-company loan of US$295 million outstanding at January 14, 2009 owed to US Nortel Networks Inc. (NNI)

The lesser starting point for cash means the Canada estate has much less flexibility to spend money during the restructuring period than other countries as its cash will be used up much sooner by its "cash burn." Cash burn is the amount by which cash receipts fall short of the cash expenses each month.

The lower starting point for Canada's available cash also means that the Canadian creditors will get a much smaller contribution from this small starting cash balance, which is further eroded by the Canada's cash burn during the restructuring period.

To make the situation worse, the cash burn rate in Canada is at a much higher relative level than the other countries, due to it being primarily a cost center for head office and research & development services that must rely upon transfer pricing agreement payments from the other countries where 93% of the sales occur. The factors causing Canada's relatively high cash burn rate are discussed in point (3) below.

Figure 2: Nortel Geographic Distribution of Financial Considerations

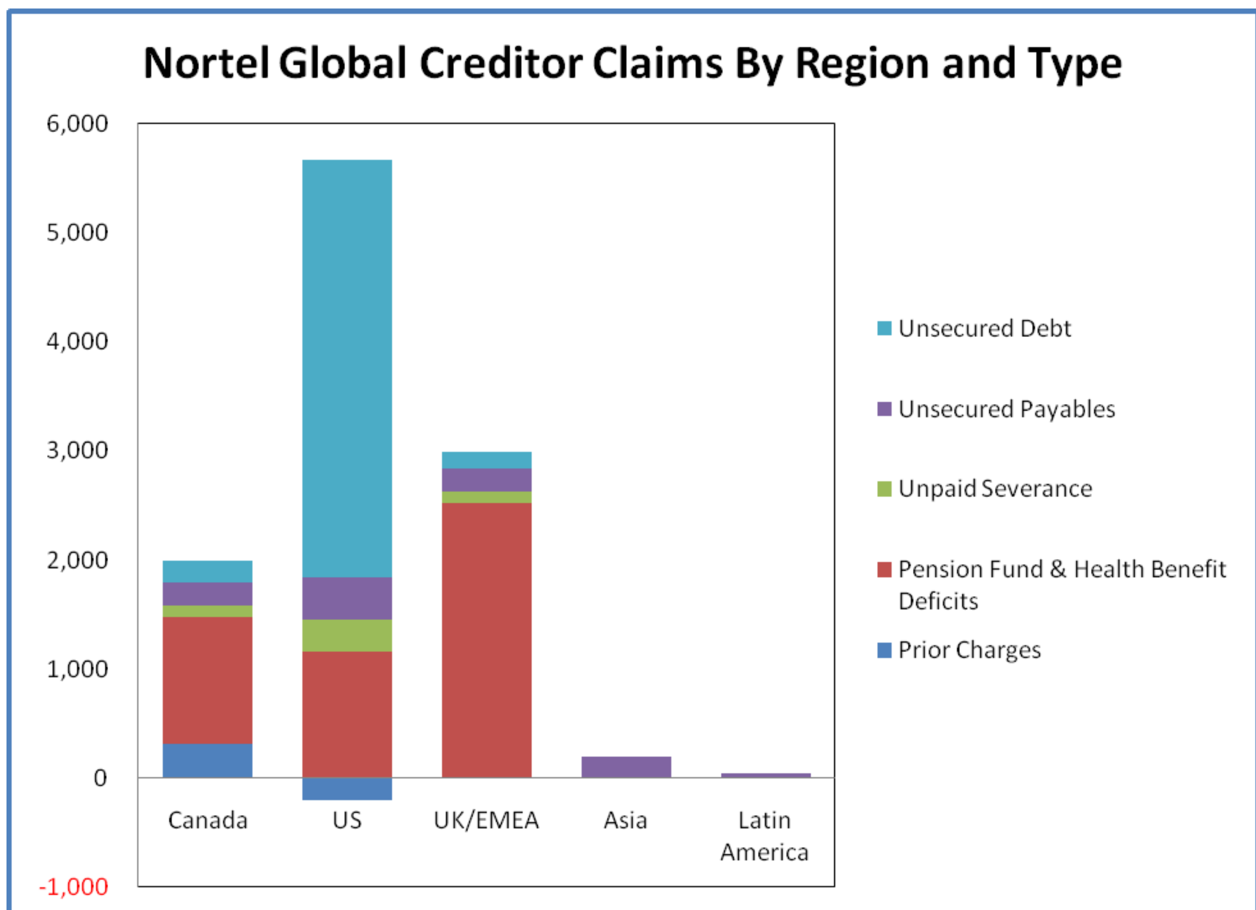


(2) US Bondholders Committee, Unsecured Creditor Committee and U.K. Administrator's Control

In order to understand how Nortel's head office country, Canada, could be so badly treated in this bankruptcy protection process, you need only look at the mix of Nortel's Global Creditor Claims by Country and Type and the role of the US Ad Hoc Bondholders Committee, US Unsecured Creditor Committee and the UK/EMEA Ernst & Young Court Administrator in the international bankruptcy process.

The CCAA legislation does not require disclosure of the creditors to the Canada estate, but we believe that the Canadian pension, health and long term disability plans and the severed employees are by far the largest Canadian creditor group. Koskie Minsky LLP was appointed by Justice Morawetz to be the representative counsel for all the Nortel employment-related claims and staff CAW legal counsel is acting for the Nortel pensioners who are CAW members.

Figure 3: Nortel Global Creditor Claims by Region and Type



The US Ad Hoc Bondholders Committee, US Unsecured Creditor Committee and the U.K.\EMEA Ernst & Young Court Administrator are considered by Nortel to be the key stakeholders involved in progress report teleconferences, meetings, and negotiations with Nortel on material transactions and sales procedures during the bankruptcy protection process. These are the dominant players protecting the US Estate and the U.K.\EMEA Estate, that are the largest creditor regions and the regions where the debt holders and largest creditors reside.

The Canadian pension, health and long term disability plans and severed employees are not listed as key stakeholders involved in these out-of-court activities, even though this group must be by far the predominant creditors of the Canada estate, as illustrated in Figure 3.

Figure 2 shows that the Canada creditor claims are estimated to be 21% of global creditor claims, but there are few large bond holders and supplier creditors in Canada. The Ontario Government is listed as a key stakeholder eligible for Nortel progress reports on the sales procedure for LG Nortel, but the interests of the Ontario Government to protect against abuse of the Ontario Pension Guaranty Fund, really just deals with the first $12,000 of annual pension guaranteed for the Nortel Ontario-based pensioners only.

(3) Canada's Estate Has Heavy Prior Charges

The CCAA court judge has approved six heavy prior charges for payments that must be made from the Canada estate before the Canadian pension, health and long term disability plan deficits and severance and other unsecured creditor claims may be paid. The prior charges are:

First - Administration Charge

Second - Carling Facilities Charge

Third - EDC Charge

Fourth - Directors' Charge

Fifth - NNI Loan Charge

Sixth - Inter-Company Charge

(i) First - Administrative Charge is US$5 million for the professional fees and disbursements of the Ernst & Young Court Monitor, the Monitor's lawyer Goodmans

LLP and for Nortel's Canadian lawyer, Ogilvie Renault LLP. This is a standard prior charge and Justice Morawetz has approved this prior charge amount. There has already been US$33 million restructuring costs deducted from the Canada estate operations between February 1st to June 7th, 2009 according to the Eighth and Fifteenth Ernst and Young Canada Court Monitor's Reports.

(ii) Second - Carling Facilities Charge relates to the US$200 million non-arm's length Debtor-in-Possession (DIP) line of credit from NNI, which stands for Nortel Networks Inc., Nortel's US operations. The US$200 million non-arm's length DIP line of credit receives the benefit of both the Second - Carling Facilities Charge and Fifth - NNI Loan Charge. The purpose of the DIP line of credit is to finance the expected cash burn within Canada, in the event that the cash available within Canada is insufficient to absorb the expected cash burn within Canada during the restructuring period.

The DIP line of credit being a prior charge means that the outstanding amount of loan under this DIP line of credit must be paid before the Canadian unsecured creditors get paid. The Canadian unsecured creditors are predominantly the Canadian pensioners, disabled and terminated employees. The current amount of DIP loan outstanding is US$75 million and Nortel has pledged that this will not increase before September 30, 2009. However, due to the significant cash burn occurring in Canada each month, I am expecting the full US$200 million DIP line of credit to be utilized before the Nortel restructuring is complete, which is still apt to be a year from now.

This is a non-arm's length DIP line of credit because it is provided to the Canada estate from the US estate of Nortel and not from a commercial third party lender. Nortel puts this non-arm's length DIP financing in place with a prior charge on the Canada estate rather than sending up to US$200 million of cash to Canada from elsewhere in the world. This is presumably done because the US Unsecured Creditors Committee and the Ad Hoc Bondholders Committee and the U.K. bankruptcy administrator, Ernst & Young U.K., want to retain the cash they already have in their own country to maximize their own country's estate.

The non-arm's length US$200 million DIP line of credit was approved by the CCAA judge on the first day of the CCAA filing on January 14, 2009. The CAW and Koskie Minsky LLP had not yet been retained by Canadian pensioners in time to oppose the non-arm's length DIP line of credit receiving the Second - Carling Facilities Charge on the first day. There has been no appeal of Justice Morawetz's first day decision on the matter.

(iii) Third - EDC Charge was approved by Justice Morawetz on the first day of the CCAA filing. Export Development Canada (EDC) recalling its US$750 million credit facility on January 15, 2009 is a contributing cause for Nortel filing for bankruptcy protection on January 14, 2009. EDC was or could recall its US$187 million loan outstanding on January 15, 2009. EDC appears to have cancelled its original US$750 million line of credit on January 15, 2009, left its US$187 million EDC loan outstanding, and then agreed to extend a new US$30 million EDC loan under this Third - EDC Charge.

The initial decision of the EDC to call for the early termination of the US$750 million EDC Credit Facility was within its legal means to do so after Moody's downgraded Nortel credit below B3 on December 15, 2008. This decision can be rationalized as necessary to protect the Canadian taxpayers, while compelling Nortel to take strenuous restructuring actions to remain an ongoing concern.

The EDC initially and the Federal Government subsequently appear not to have considered removing the current Nortel management and Directors in order to select a new team that was willing and knew how to preserve Nortel as a leaner and more focussed ongoing concern with its head office based in Canada. Nortel as an ongoing concern would have mitigated the estimated Cdn$1,500 million damages for the Nortel Canadian pensioners, disabled former workers and terminated employees, since the Nortel Canadian pension, health and long term disability plans would remain as ongoing concerns rather than being forced to be wound up with substantial funding shortfalls.

EDC's subsequent US$300 million funding of the foreign acquisition of Nortel's wireless business has accelerated Nortel's decision to liquidate the company rather than downsizing to a leaner more focused ongoing concern. The Federal Government rationalizes this subsequent EDC financing as necessary to protect about 800 Canadian jobs. Yet the combination of not funding Nortel's' ongoing concern plan and supporting Nortel's liquidation plan, is imposing CDN$1,500 million income losses on Nortel's 19,000 Canadian pensioners, disabled former employees and severed employees.

The EDC gets this Third - EDC Charge for US$30 million to be paid, while these 19,000 Canadian pensioners, disabled former employees and severed employees are expected to suffer significant impairments of their living and the Ontario Pension Guarantee Fund, Federal Employment Insurance Fund and Provincial welfare programs are burdened by the swell of Nortel persons filing for these minimal social security benefits.

(iv) Fourth - Directors' Charge was also approved on the first day of the CCAA filing. This is $90 million for indemnification of the Directors for liabilities that arise in lawsuits against them. This is an indemnification amount for Directors who are working for the global operations of Nortel. Yet, the entire Directors' indemnification amount is a prior charge to the Canada estate only. There was no appeal of his decision on this full allocation of the Directors' indemnification amount to the Canada estate.

(v) Fifth - NNI Loan Charge was created on April 7, 2009, when Justice Morawetz approved that the $200 million non-arm's length DIP line of credit, that was initially subject to the Second - Carling Facilities Charge, be extended to become a general Fifth - NNI Loan Charge. Had the DIP line of credit been restricted to the sale of the Carling Facilities only, the Canadian unsecured creditors would have benefited in the event that the Carling Facilities are sold for less than US$200 million. The CAW and Koskie Minsky LLP did not oppose the extension of the non-arm's length DIP line of credit to both the Second - Carling Facilities Charge and the Fifth - NNI Loan Charge, and so there was also no appeal of his decision on this extension.

(vi) Sixth - Inter-Company Charge has been granted for any amount of inter-company loans or other transfers of value from the US Chapter 11 Nortel entities to the Canada estate that is made after January 14, 2009. There does not seem to be a mechanism within the Canadian CCAA court for Nortel's Canadian pensioners, disabled and terminated employees to set limits on how much money NNI lends to the Canada estate and therefore takes a prior charge ahead of them for disbursement of the Canada estate upon liquidation.

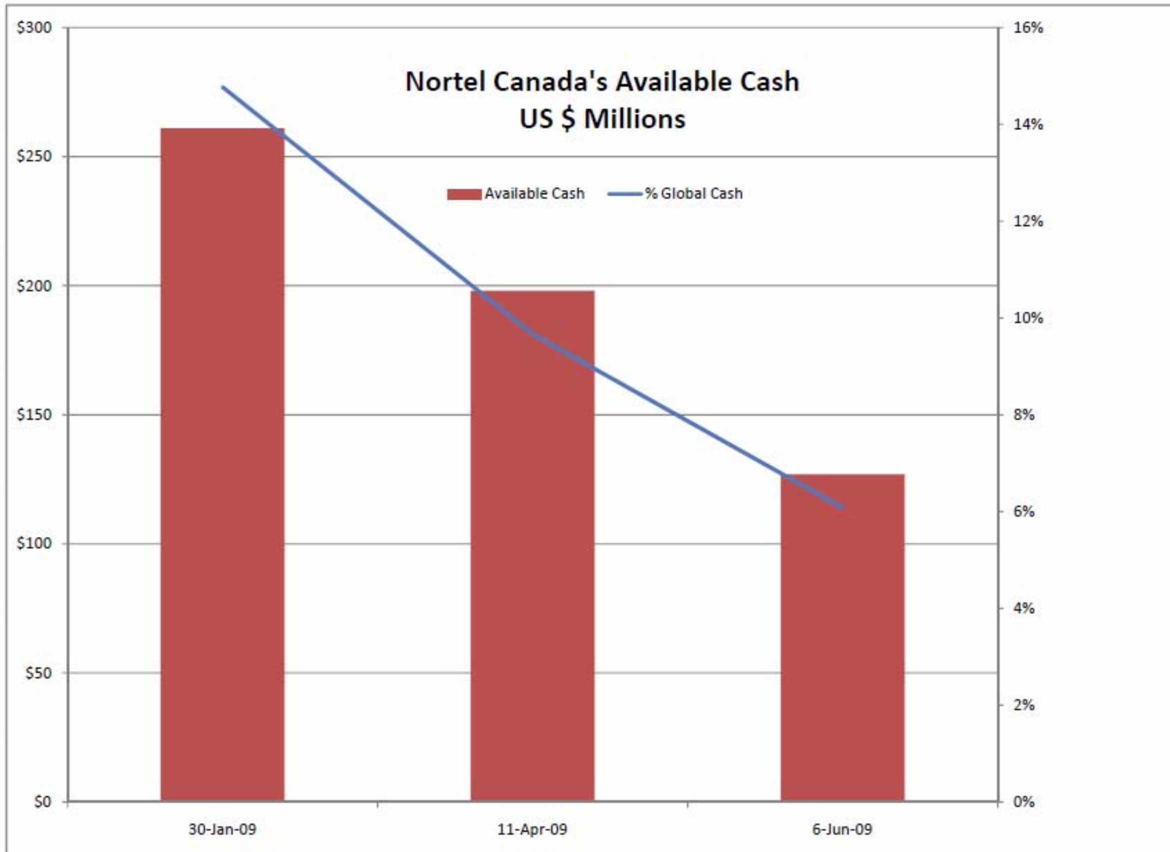
This Sixth Charge does not cover the pre-filing Inter-Company Loans owed to the US Chapter 11 Nortel entities from the Canada estate, whose amount was disclosed to be US$295 million in the Doolittle affidavit dated January 14, 2009. The inter-company loan of US$295 million outstanding at January 14, 2009 ranks equally to the Canadian pensioners, disabled and terminated employees' claims.

(4) Cash Burn Is Too High

The cash burn in Canada is at a much higher relative level than the other countries due to it being a cost center and due to it relying upon Transfer Pricing Agreement payments from the other countries where most of Nortel's sales occur.

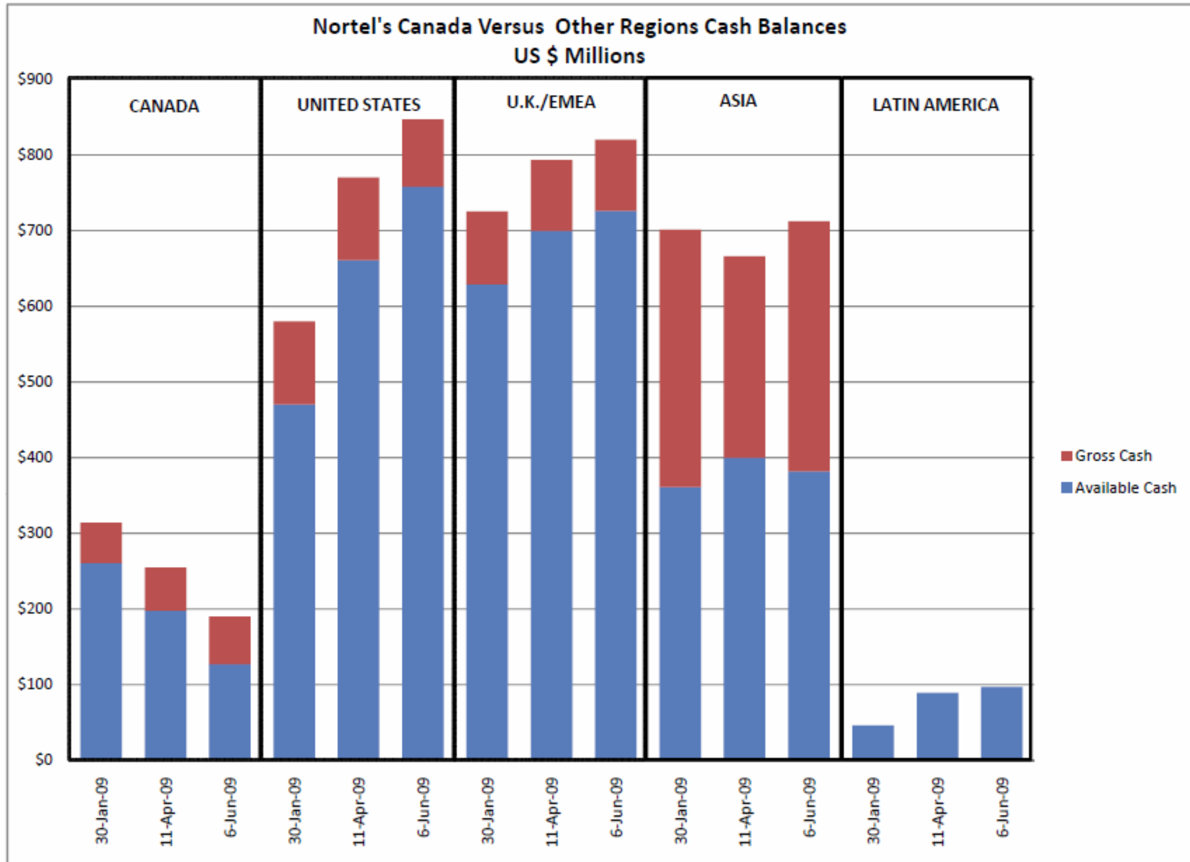
In Figure 4 , you can see the dramatic decline in Nortel's available cash balance from US$261 million on January 14, 2009 to just US$127 million on June 7, 2009. Canada's available cash balance has fallen from 15% to 6% of the global available cash balance.

Figure 4: Nortel Canada's Available Cash



The financial stress in Canada is much worse than in the other countries where Nortel operates. In Figure 5, you see that Canada is the only country where the cash balances are declining. Not surprising there are big cash balance increases in the US and UK/EMEA that are under the significant influence of the US Ad Hoc Bondholders Committee, the US Unsecured Creditors Committee, and the UK Ernst & Young Court Administrator, who are the likely significant players that asked for the TPA payments to be withheld from Canada during February 1, 2009 to June 7, 2009 and who negotiated the IFSA going forward.

Figure 5: Nortel Canada's Versus Other Regions' Cash Balances



(i) Transfer Pricing Agreements Not Paid and the Interim Funding and Settlement Agreement Is Woefully Low

Transfer Pricing Agreements are explained in point 17 below from the Motion Record, Interim Funding Agreement (returnable June 29, 2009.) NNL stands for Nortel Networks Ltd., the Canadian based company.

17. Within Nortel, NNL is the owner of the vast majority of Nortel's intellectual property assets and, in accordance with the Master R&D Agreement, NNL licenses its intellectual property to the Main Nortel Companies on a royalty-free basis. The Nortel Transfer Pricing Regime, in normal times, is the means by which NNL is compensated for the development and use of its intellectual property by affiliates. NNL has historically been a net recipient of payments under the Nortel Transfer Pricing Regime given that NNL generates lower levels of revenue when compared to the high level of corporate overhead and R&D Activity incurred in Canada.

The US Ad Hoc Bondholders Committee, US Unsecured Creditor Committee and the U.K.\EMEA Ernst & Young Court Administrator had major influence on the Transfer Pricing Agreement (TPA) payments not being to Canada from February 1, 2009 to June 6, 2009. On July 9, 2009, the Canadian CCAA court will hear a motion for the approval of a new Inter-Company Funding and Settlement Agreement (IFSA) to replace the current TPA Agreement. The new IFSA has been negotiated between the Nortel Canada, US and U.K.\EMEA debtor companies with input from the US Ad Hoc Bondholders Committee, US Unsecured Creditor Committee and U.K/EMEA Court Administrators.

The IFSA will pay Canada US$157 million for the period June 7 to September 30, 2009, which is an amount far short of the Nortel's Canada operating costs during this period. There is no disclosure to compare the new IFSA with what the old TPA payment would have been. For the period June 7 to September 30, 2009, the IFSA normalized payment is only 42% of the expected Canada operations costs or negative cash burn without this IFSA payment. For the period June 7 to September 30, 2009, Canada's cash burn is forecast to be negative US$23 million taking into account the Westwind facilities sale proceeds of US$86 million and the US $157 million IFSA payment. This will bring the available cash in the Canada estate to just US$104 million by September 30, 2009.

If after September 30, 2009, the IFSA payments do not continue at the same rate and without any allocated cash proceeds from other sales by this date, the Canada operations' cash burn will likely exceed US$55 million per month [We cannot determine how much of this Canada cash burn will decline due to the sale of Nortel's wireless equipment business to Nokia Siemens Networks since limited financial details about this sale have been disclosed. With only 800 Canada jobs being taken out by the Nokia Siemens Networks' purchase, Canada's continuing cost for the other 4200 Canada employees will remain significant.]

So after September 30, 2009, there appears to be just a few months of cash left and Canada will need to go begging for another IFSA from its US and U.K.\EMEA regional subsidiaries. Clearly at this point in the process, it is reasonable to conclude that the DIP line of credit is apt to be fully utilized as a prior charge against the Canada estate before Nortel's liquidation is completed. Also, in any case, the NNI has the Sixth - Inter-Company Charge as a general catch-all for providing an additional inter-company loan post January 14, 2009, which will be repaid out of the Canada estate before the Nortel's Canadian pensioners, disabled and terminated employees are paid.

(ii) Excessive % Of Restructuring Costs Allocated To The Canada Estate

Figure 6 shows that the Canada estate is being charged restructuring costs of US$33 million during the period February 1, 2009 to September 30, 2009 based on the actual amount and forecast amounts to be booked as disclosed in the Eighth and Fifteenth Ernst and Young Canada Court Monitor's Reports. The restructuring costs shown in Figure 6 are well in excess of the US$5 million First - Administrative Charge and appears to be an abusive allocation of the expected total global restructuring costs to the Canada estate.

Nortel announced that it was spending US$5.5 million per month on its restructuring globally. The US$33 million restructuring costs being allocated to the Canada estate for the period Feb. 1, 2009 to September 30, 2009 would appear to be 76% of the total global restructuring costs for this period. It is well worth noting that the expected Nortel restructuring costs will be at least US$100 million by next June 2010, when Nortel's liquidation is expected to be completed.

Figure 6: Canada Estate Restructuring Costs

Annualized	Actual	Actual	Forecast	Actual & Forecast
	Feb. 1 - April	April 12 - June	June 7 - Sept	
Feb 1- Sep 30	11	6	30	Feb 1- Sept 30
-50	-8	-6	-19	-33

Source: Eighth and Fifteenth Ernst and Young Canada Court Monitor's Reports

(iii) Canada Estate Paying for the KEIP & KERP and Canada's AIP

The Canada estate is paying for an undisclosed share of the US$45 million being spent on the KEIP and KERP bonuses. With Canada being the official Head Office jurisdiction a significant portion of the KEIP & KERP costs would be charged to the Canada estate. The Canada estate is also paying an estimated Cdn$68 million for the Annual Incentive Plan applicable to its Canadian current employees, based on Nortel having paid its highest bonus factor ever in 2009Q1 for its AIP.

Nortel pensioners and severed employees have been asking whether the KEIP & KERP will be paying out lesser executive and key employee bonuses now that Nortel has announced that it is liquidating rather than completing a CCAA Compromise Plan for an ongoing concern. The answer is no, the Unvested Bonus Awards of the KEIP and KERP are paid in full, if there is a sale of businesses and the Key Executives and Employees are terminated at the time of the sale or related to the sale later.

One line in the KEIP & KERP document is very confusing since it suggests that the whole KEIP & KERP are paid to their participants on the date of the consummation of the applicable divestiture, regardless of whether they are terminated or not.

DEBTORS' MOTION FOR AN ORDER SEEKING APPROVAL OF KEY EMPLOYEE RETENTION PLAN AND KEY EXECUTIVE INCENTIVE PLAN, AND CERTAIN OTHER RELATED RELIEF

18. The KElP, which has been designed by taking into account the levels of compensation at other comparable companies, is properly tailored to provide incentives to the Debtors' senior executives to maximize the size of the Debtors' estate and guide the Debtors out of bankruptcy as swiftly as possible. Accordingly, the awards under the KEIP will be tied to the achievement of three important milestones: (1) the achievement of North American objectives of Nortel's cost reduction plan ("First Milestone"); (2) the achievement of certain parameters, which have been disclosed to the Monitor, the Committee and the advisors to the Bondholder Group, that will result in a leaner and more focused organization ("Second Milestone"); and (3) the later of the confirmation of the Debtors' plan of reorganization or the confirmation by the Canadian Court of a plan or plans of restructuring and/or arrangement in Canada ("Third Milestone" and together with the First Milestone and the Second Milestone, the Milestones").

Under the KElP, 25% of each incentive award would vest upon achievement of the First Milestone; 25% would vest upon achievement of the Second Milestone; and the remaining 50% would vest upon achievement of the Third Milestone.

20. The KERP has been tailored to provide incentives to the Debtors' critical employees to remain with Nortel and to strive for speedy achievement of the Milestones. Under the KERP, the incentive awards shall vest as follows: 25% upon the earlier of June 30, 2009 or the achievement of the First Milestone; 25% upon the earlier of December 31, 2009 or the achievement of the

Second Milestone; and 50% upon the earlier of June 30, 2010 or achievement of the Third Milestone.

24. The participants under the Plans whose employment with Nortel is terminated as a result of a divestiture (including participants who are transferred to or hired by a third-party buyer in connection with a divestiture or any employee whose employment is terminated as a result of organizational re-sizing following and related to a divestiture) will continue to have a right in any Unvested Awards, unless those participants receive, with Nortel's consent, an opportunity to be employed by the buyer and fail to accept the buyer's offer.

Any Unvested Awards will be accelerated on the date of the consummation of the applicable divestiture (the "Closing Date") and will vest automatically on the Closing Date.

The Equitable Principles for Pension Deficits and Severance Preferred Status

(i) Pensioners, disabled and severed employees are persons with one source of income only and without other sources of income to replace the loss on either an interim or permanent basis:

severed employees have an interim loss before finding a new job, with employment insurance only a fraction of what they used to earn and insufficient to fund living expenses

pensioners and long term disabled former employees cannot be expected to go back to work, with only the Ontario Pension Guaranty Fund protecting up to $12,000 of annual income for Ontario pensioners and welfare being the safety net for others in need .

(ii) Pensioners, disabled and severed employees were promised employment benefits, which were amongst their reasons for taking jobs at Nortel versus working for organizations without benefits:

Defined benefit pension plan benefits were deferred wages, with Nortel accepting less take-home salaries.

(iii) Pensioners with defined benefit pension plans were limited in their capacity to obtain tax benefits for their own RRSP savings, without there being an assurance in place that the corporation sponsors of the defined benefit pension plans had an obligation to pay the registered pension plan benefits upon bankruptcy.

(iv) Pensioners, disabled and severed employees are not in the business of extending credit, like the debt investors or suppliers.

Did not get rewarded for taking calculated risks in the form of credit risk premiums or conducting profitable business with the corporation as suppliers.

(v) Pensioners, disabled and severed employees have no future opportunity to make up for the damages from future business opportunities with the corporation or the acquirers of its businesses.

(vi) Pensioners, disabled and severed employees have no tax credits to cushion their damages on an after tax basis like the debt holders and suppliers who can deduct their losses for tax purposes.

(viii) Public taxpayers and public insurance premium payers should not be required to bear the burden for corporations who choose to enter bankruptcy protection so as not to pay for pension, health and long term disability benefits and severance that would otherwise be payable by their implicit or explicit contracts, employment benefit protection minimum statutes or common law standards. This means that the debt holders benefit by shifting costs onto the public purse.

In times of financial and economic crisis, who deserves preferred status, Canadian pensioners, disabled and severed employees or distressed debt holders trying to profit from the situation of gaps in bankruptcy laws?

The Federal Government's Objection to the Requested BIA Amendment

The Canadian government's apparent objection to the emergency BIA amendment would be the one you described in your letter.

"In bankruptcy law, an appropriate balance is sought between the competing interests of the debtor and the creditors and between the creditors themselves. Changing the priority of unfunded pension liabilities and severance payments could have a negative impact on the cost and availability of credit. Increases in the cost and availability of credit would increase the cost of doing business and potentially reduce employment and economic growth. "

Preferred Status Will Have Only A Nominal Impact On The Cost And Availability Of Credit

In my opinion drawing upon many years of studying capital markets, preferred status for pension fund deficits and severance will have only a nominal impact on the cost and availability of credit in the debt market as a whole. The estimated impact on the cost of credit is in the range of less than 0.05% to 0.26% annually, with the amount depending on the term and whether the corporate bonds are investment grade or junk, as estimated in Table 2. Let me explain.

The cost of capital is the weighted average of the cost of equity and cost of debt, where debt is typically not more than half of total capital. The cost of debt is the interest rate on bonds, which is a combination of the risk free rate of return on

government bonds plus a "default risk premium" on corporate bonds to compensate for the proportion of the corporate bonds that are expected to go into default and have losses.

The change in the "default risk premium" for bonds when pension fund deficits and severance get preferred status is a function of the following factors:

(1) Expected Default Rate %

(2) Increase in Expected Loss %

(3) Proportion of Bonds Where Corporate Issuers Have Defined Benefit Pension Plans

(4) Likelihood that Defined Benefit Pension Plans are in Deficit at the Time of Corporate Bankruptcy

(5) A Factor for Defaults Occurring over Future Years Within the Time Period Before Bond Maturity

The layman's high level explanation for why preferred status can have only nominal impact is that the % of investment grade corporate bonds that enter liquidation is very small; the % of corporations that have defined benefit pension funds is only about one third in Canada; only a portion of pension plans should be in deficit at the same time that the corporations are liquidating due to government pension regulations; and, the average realized loss for unsecured creditors in bankruptcy is already very high and so the additional loss for unsecured creditors that arises due to pension fund deficits and severance being at preferred status is incrementally modest.

In Figure 7, I summarize the findings of the analysis I have done on 10 year investment grade bonds and 10 year junk bonds using the 1920 to 2007 average for 10 year cumulative default rates. The estimated impact of pension fund deficits and severance getting preferred status is less than 5 basis points or 0.05% annually for investment grade 10 year bonds and less than 20 basis points or 0.20% annually for junk 10 year bonds. I stress tested the impact on bonds having a one year term, for a very high one year default rate of 4% and an extra loss of -31% on the defaulted bonds. I get that the preferred status for pension fund deficits and severance would likely create an increase in the cost of debt in the whole market of only about 26 basis points or 0.26% based on a one year term to maturity.

Figure 7: Change in Annual Default Risk Premiums in Bonds Due to Pension Fund Deficits Preferred Status

Annual Default Risk Premiums in Bonds	Investment Grade	Investment Grade	Junk
Term	**1**	**10**	**10**
Status Quo in Bankruptcy Laws	2.44%	0.25%	1.78%
Pension Fund Deficit Preferred Status	2.70%	0.27%	1.97%
Change in Annual Default Risk Premium	**0.26%**	**0.03%**	**0.19%**
Assumptions:			
Risk Free Rate	3.50%	3.50%	3.50%
Default Rate	4%	4%	26%
Loss %			
Before	-61%	-61%	-61%
After	-100%	-100%	-100%
Percentage of Corporations with Pension Funds	33%	33%	33%
Percentage of Pension Funds with Deficits	50%	50%	50%

Unsecured Creditors Worse Off in Bankruptcy, But for Equitable Reasons

The sought BIA amendment will indeed impose significant cost on unsecured creditors of bankrupt companies that have defined pension plans with deficits at the time of the company's bankruptcy. However, there are well documented equitable principles supporting this cost for the unsecured creditors at the time of liquidation, relating to the needs of pensioners, disabled former employees and terminated employees. There would not have been a significant cost had the corporation fully funded the pension, health and long term disability plans while it was a going concern.

"The Carrot And The Stick" Approach To Encourage Restructuring As An Ongoing Concern

In theory, there is merit in having both the Federal CCAA and BIA giving preferred status to pension, health, disability plan deficits and severance over the unsecured creditors. However, the Nortel former employee representatives are seeking that only the BIA get an emergency amendment at this time. In this way the BIA amendment can provide benefit to the Nortel pensioners, disabled and severed employees without triggering retroactivity, since Nortel is under CCAA currently. The goal would be to get the BIA amendment, while Nortel is in CCAA and before it enters BIA, which is the expected likely outcome down the road.

The CCAA having a different approach for employment benefit plan deficits and severance than the BIA would be good public policy, in my opinion. If pension fund deficits remain a contingent unsecured claim for an ongoing concern until the company liquidates, there is a greater chance that the company will have a successful restructuring as an ongoing concern and as such will live to provide future special contributions to make up for the pension fund deficit. During CCAA, if pension fund deficits are priority claims above unsecured creditors, their crystallized nature at this stage could cause liquidation rather than strenuous efforts to restructure the company as an ongoing concern.

If the company must enter liquidation under BIA, the pension fund deficit becoming crystallized as part of the pension fund wind-up process has the desired effect of discouraging liquidation. The debt holders are more likely to work hard on the restructuring of the company as an ongoing concern, if pension plan deficits need to be paid first before them in liquidation. This is "the carrot and the stick" approach. Pension fund deficits being contingent unsecured claims only during CCAA is the

carrot for restructuring as an ongoing concern and pension fund deficits becoming crystallized preferred status claims during BIA is the stick to deter debt holders from seeking liquidation.

Why Is The Federal Government Concerned About Preferred Status For Pensions When Abuses In The Structured Credit Markets Were Undeterred?

My conclusion is that the BIA should be amended to provide preferred status for pension, health and long term disability plan deficits and severance.

- Debt holders getting a cost of debt that is better by less than 0.05% to 0.26% annually is not worth more than Canadian pensioners, disabled former employees and terminated employees having income to live. This cost of debt is not enough to override the pension benefit and severance standards otherwise available in primarily Provincial laws.

- The nominal additional cost of capital must be measured against the benefits to corporations from having defined benefit pension plans and paying severance, which are lower employee turnover and higher employee productivity.

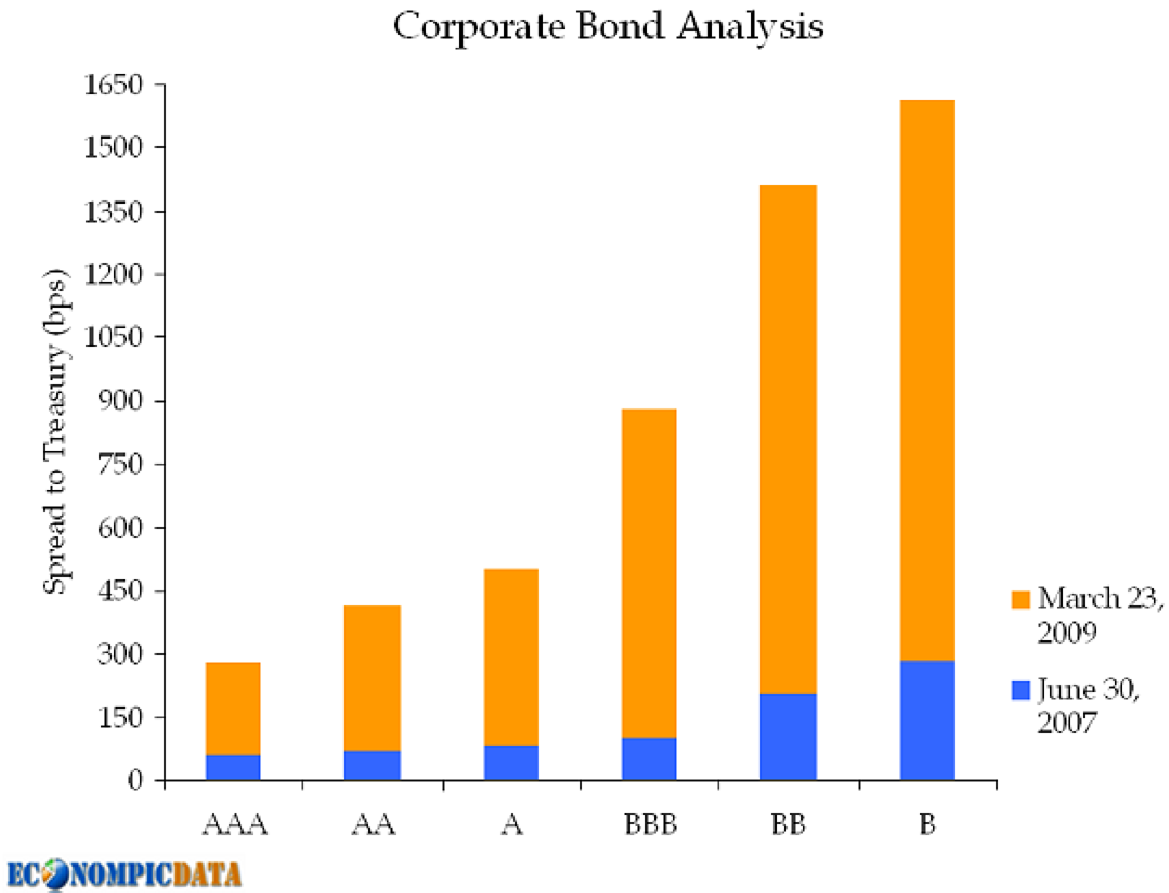
- The nominal additional cost of capital must also be measured against the benefits to governments from lower taxpayer spending on welfare, pension guaranty insurance and unemployment insurance programs, when debtors bear the burden of pension, health and long term disability plan deficits and severance.

- The countries that have already moved to preferred status for pension deficits and severance for their citizens in times of crisis have not seen large increases in the cost of debt for bond holders as a whole.

It is almost a farce in the context of today's financial crisis to argue that there can be no preferred status for pension, health and long term disability plan deficits and severance in bankruptcies, when the estimated increase in the cost of credit ranges from less than 0.05% to 0.26% annually. Investment banks and debt players

throughout Canada and the world were designers, distributors and/or buyers of toxic structured credit products that caused the financial crisis, where the cost of debt measured by increased credit default risk premiums rose 2.50% to 13.50% for the market as a whole, shown in Figure 8 below.

Figure 8: Recent Experience with Default Risk Premiums in the 2007 to 2009 Financial Crisis



The Treatment of Pensioners in the Chrysler and General Motors Restructurings

Ottawa and the Ontario government contributed a total of Cdn$3.2 billion in funding to keep Chrysler Canada and Cdn$10.5 billion of funding to keep GM Canada alive. The Chrysler and GM Canada retirees were clear beneficiaries of these government bailouts, although the Ministers involved wanted the public to believe they were bailing out the Chrysler and GM businesses and not the pension and health funds. The following internal memo to GM Canada Salaried Retirees presents a different perspective on the GM government bailout and how it helped them.

> ***The following note was sent to General Motors of Canada, Limited Salaried Retirees on Monday, June 22, 2009.***
>
> **Dear GM Canada Salaried Retirees,**
>
> As an interested stakeholder in the viability of General Motors, you are no doubt aware that the re-invention of General Motors is well underway. The re-invention includes measures to secure the viability of the salaried pension plan and to help ensure that retirees are confident about the future.
>
> In discussions with the Governments of Canada and Ontario regarding the long term viability of GM, reducing the underfunded status of the GM pension plans and the reduction of benefit costs took centre stage. The solution to General Motors' financial difficulties would have to include measures that help ensure that retirees are protected.
>
> In response to that mandate, the agreement with the Governments includes provisions that require GMCL to rescind the Section 5.1 election (Qualified Plan status) that allows going concern funding, and move to implement 10 year solvency funding by the end of the year. In addition, GMCL is required to make a large upfront contribution to the pension plan in 2009 and make significant annual contributions going forward. These actions will ensure solvency funding levels commensurate with other pension plans in Ontario.
>
> We are happy that the re-invention of General Motors includes measures to assist in securing the future that the retirees had planned. We are excited about the reinvention of General Motors and count on your continued support.
>
> Elise Grenier
> General Director Human Resources Management
>
> John Stapleton
> Vice President of Finance and CFO

In the restructuring of Chrysler, the secured creditors got assigned $2 billion in cash or 29% of their secured creditor claim. The Chrysler estate made significant payments to a host of unsecured creditors such as vendors and dealerships that ranked behind all secured creditors in terms of priority. In order to consummate the purchase of the Chrysler assets and operate thereafter, a New Chrysler received $6 billion in funded debt from [US] Treasury in new senior secured debt. Aside from this debt, New Chrysler also issued a note in an amount of nearly $4.6 billion to a Voluntary Employee Benefit Association (VEBA) of the United Auto Workers. The VEBA will also receive 55% of New Chrysler's equity. Treasury and the Canadian government received 8% and 2% respectively of the company's new equity.

DIANE A. URQUHART
1486 Marshwood Place,
Mississauga, Ontario, L5J 4J6
Phone: (905) 822-7618
Cellular: (416) 505-4832
FAX: (905) 822-0041
E-mail: urquhart@rogers.com

PROFESSIONAL EXPERIENCE

Currently	Independent financial analyst promoting better investor protection laws, enforcement and adjudication in Canada. Conduct research and prepare communications for federal and provincial legislators, the media, police forces, Canadian and U.S. securities and accounting regulators, and citizen associations, such as: the National Pensioners & Senior Citizens Federation (estimated 1,000,000 members), the United Senior Citizens of Ontario (300,000 members), Small Investor Protection Association, Canadian Union of Public Employees and the KAIROS Social Ecumenical Initiative.
	Financial expert for class action lawsuits and Companies' Creditors Arrangement Act court proceedings involving large numbers of small investors, pension funds and employees. Appointed financial advisor under the Representative Counsel Order for the Ad Hoc Committee of Retail ABCP Owners on April 15, 2008.
	Equities representative on the United Church Investment Committee overseeing external investment management of over $1 billion pension fund assets.
	Manage family investments.
1999 to 2001	Senior Portfolio Manager and owner of investment counsellor registered with the Ontario Securities Commission.
Aug. 1994 - Feb. 1998	Scotia Capital Markets Managing Director of Equity Research and Investment Strategist. Lead a team of 62 people, including 27 strategic, fundamental and quantitative analysts, with the support of research associates, publishers, systems and communications personnel. Member of Executive Committee. Chairman of Investment Strategy Committee and key spokesperson for Scotia Capital Markets to the media and clients on retail and institutional investor issues. Helped build SCM institutional equities business by recruiting 62 people or 42% of sales, trading and research personnel.
	Chaired Strategic Technology Task Force with representatives from 12 business

divisions. Oversaw the design and implementation of new web-based analytical and trading systems

Dec. 1984 - July 1994	Burns Fry Limited Managing Director of Equities Research and Institutional Equities. Co-led the daily operations of 175 research, sales and trading personnel in Canada's best reputational franchise for institutional equities and number one equity research operation. Chairman of Investment Strategy Committee and Institutional Equities Portfolio Committee and member of Investor Services Portfolio Committee. Member of BF Planning Committee and Retirement Committee, and trustee for Investor Services Wrap Accounts. Key responsibilities for equity research, sales and marketing, and equities system development. Managed both Canadian and U.S. research operations. Financial Services Analyst, December 1984 to January 1991. Achieved number one non-bank financial services analyst position in Brendan Wood International Institutional Equities Survey.
Dec. 1980 -Nov. 1984	Toronto Stock Exchange Director of Economics and Business Development Supported various Canadian Exchange and Investment Dealers Association Committees, covering investment taxation, registered retirement plans and other areas affecting the integrity and effectiveness of the capital markets.
May 1977 -July 1980	City Of Toronto, Planning and Development Real Estate Economist

EDUCATION & PROFESSIONAL ASSOCIATIONS

Current	Member of CFA Institute and Toronto CFA Society
- Feb. 1992	Section 16 Supervisory Analyst Examination, New York Stock Exchange
March 1991	Partners, Directors and Senior Officers Examination, Canadian Securities Institute
Feb. 1981	Canadian Securities Course and Registered Representative Examination Canadian Securities Institute
Sept.1976 -May 1977	M.A. in Economics, University of Toronto, Econometrics and Monetary Economics
Sept.1972 -May 1976	Honours B.A. in Economics and Mathematics, McMaster University, Hamilton

SCHOLARSHIPS AND AWARDS

Canada Council Special M.A. Scholarship 1976-1977; Hurd Medal For Honours Economics and Kenneth W. Taylor Book Prize For Top Standing in Economics 1976; Dr. Thomas Hobley Prize For Top Standing in Economics or Political Science 1975; C.U.N.A. Mutual Insurance Society Scholarship For Top Standing in Honours Economics and Math or Commerce 1974-1975; Senate Scholarships For Academic Proficiency 1973-1975; Lloyd Memorial Scholarship For Science 1972-1976; and, Ontario Scholarship-Grade XIII Pelham High School 1972.