

**ONTARIO  
SUPERIOR COURT OF JUSTICE**

**BETWEEN:**

PETER GALLARDI

Plaintiff

- and -

NORTEL NETWORKS CORPORATION, FRANK A. DUNN, DOUGLAS BEATTY,  
MICHAEL GOLLOGLY, JOHN EDWARD CLEGHORN, ROBERT ELLIS BROWN,  
ROBERT ALEXANDER INGRAM, GUYAINE SAUCIER, SHERWOOD HUBBARD  
SMITH, JR. and DELOITTE & TOUCHE LLP

Defendants

*Proceeding under the Class Proceedings Act, 1992*

**AFFIDAVIT OF PETER GALLARDI**

I, **PETER GALLARDI**, of the Town of North Bay, in the Province of Ontario,

**MAKE OATH AND SAY:**

1. I am the representative plaintiff in this action, and as such, I have personal knowledge of the matters to which I hereinafter depose. Where I have been informed of facts to which I depose, I have stated the source of my information and I hereby confirm that I believe such facts to be true.

## **DEFINITIONS**

2. The defined terms used in this affidavit that are not defined herein have the meanings ascribed in the proposed settlement approval Order attached as Schedule "A" to the Notice of Motion.

## **INTRODUCTION**

3. I have reviewed a draft solicitor's affidavit proposed to be sworn by Sakie Tambakos dated October 13, 2006 to be filed in support of the settlement approval motion and agree with the content of the affidavit and the analysis contained therein. Based on my review of the Settlement Agreement, and having regard to the delay and risks involved in pursuing this action through contested litigation, I am similarly satisfied that the Settlement is fair, reasonable and in the best interests of the Ontario National Class.

4. Further, I am aware of the considerable time and effort expended by my lawyers at Rochon Genova LLP and Lerner LLP in prosecuting this action and facilitating this Settlement. In June 2006, I authorized Ontario National Class Counsel to request legal fees up to a maximum of 0.7% of the Gross Settlement Fund. I believe that amount to be fair and reasonable in light of the effort expended, the risk assumed and the benefits provided to members of the Ontario National Class through Ontario National Class Counsel's participation in facilitating this Settlement. I am advised by my lawyers that the final fee request of Ontario National Class Counsel, however, will be considerably lower than the amount set out in the settlement Notice.

## SETTLEMENT PROCESS

5. In the spring of 2006, I was advised by Sakie Tambakos of Rochon Genova LLP of a proposed settlement affecting this action. Specifically, I was advised that on February 8, 2006, Nortel announced that an agreement in principle was reached in relation to two class actions pending in the U.S. Federal District Court for the Southern District of New York (the "New York Actions") for a global settlement of certain shareholder class actions in Canada and the U.S., including the within action.

6. In May and June I had a number of further conversations and meetings with my lawyers at Rochon Genova to discuss the proposed settlement. During these discussions, I was advised of the terms and provisions of the proposed settlement and was kept informed as to the status of negotiations amongst plaintiffs' counsel and between Nortel in papering a final agreement (the Stipulation) and other settlement documents. On June 8, I met with Joel Rochon and Sakie Tambakos to further review the proposed settlement. During this meeting, I instructed Rochon Genova to enter into a settlement agreement with Nortel on the terms being considered.

7. On June 20, 2006, Ontario National Class Counsel and Nortel executed an agreement to settle this action in accordance with the terms of the Stipulation (the "Settlement Agreement"). The Settlement Agreement and the Stipulation are attached as an exhibit to the affidavit of Sakie Tambakos.

8. Pursuant to the Settlement, Nortel agreed to consent to the certification of this action as a class proceeding for the purpose of effecting the Settlement. On June 22,

2006, I attended the certification hearing in this action before the Honourable Mr. Justice Winkler. On June 27, 2006, Justice Winkler certified this action as a class proceeding for the purpose of effecting the Settlement on behalf of the Ontario National Class, which was defined as follows:

All persons and entities, except Excluded Persons and members of the Quebec Class, who, while resident in Canada at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the Class Period.

9. The certification Order set a deadline of September 16, 2006 for members of the Ontario National Class to opt-out, or request exclusion from, this proceeding.

#### **SETTLEMENT TERMS – OVERVIEW**

10. I understand that in respect of the Nortel II Actions, the cash consideration made available to Class Members as part of the Settlement is \$370,157,418. In addition, Nortel has agreed to offer 314,333,875 of its common shares (representing 7.25% of Nortel's current equity) to eligible Class Members, which are to be freely tradable. Further, Nortel has committed to contribute for the benefit of Class Members one-quarter of any recovery it obtains in existing litigation by Nortel against certain former senior corporate officers. Nortel has also agreed to adopt various corporate governance enhancements.

11. I understand that contemporaneous to executing the Settlement Agreement, Ontario National Class Counsel, as well as plaintiffs' counsel in the other Nortel II Class Actions, executed with Nortel's counsel a "Supplemental Agreement" setting forth certain conditions under which the Settlement may be terminated by Nortel if potential

Class Members who purchased in excess of a certain number of shares of Nortel Securities during the Class Period opt-out of the Class.

12. I understand that the Settlement is further conditional on a number of events, including the approval of the Settlement by the U.S. Court, the Ontario Court and the Quebec Court, and upon certain regulatory and securities requirements being satisfied.

13. Pursuant to the Settlement and Certification Order, Class Members are required to submit a Proof of Claim form to the Claims Administrator on or before November 20, 2006, unless such deadline has been extended by order of the applicable Court.

14. I understand that the Plan of Allocation will provide the basis on which Class Members will share in the Net Settlement Fund. Under the proposed plan, all eligible Class Members, or Authorized Claimants, will share in the Net Settlement Fund in proportion to their "Recognized Claims", which is predicated on the concept, arrived at by damages experts retained by plaintiffs' counsel, that Nortel common shares were artificially inflated during the Class Period by as much as 42%.

15. Each Authorized Claimant shall be allocated a *pro rata* share of the Net Settlement Fund based on his, her or its Recognized Claim compared to the total recognized claims of all Authorized Claimants. In short, I understand that the fewer Class Members who advance eligible claims, the more each Class Member will receive and *vice-versa*. I understand that Ontario National Class Counsel have consulted with appropriate experts in considering the fairness and reasonableness of the Plan of

Allocation and I support their assessment that the Plan of Allocation reflects a fair and reasonable method of allocating the settlement proceeds to eligible Class Members.

16. Overall, I am satisfied that the Settlement provides valuable benefits and believe that the Settlement is fair, reasonable and in the best interests of members of the Ontario National Class.

### **ONTARIO NATIONAL CLASS COUNSEL FEES**

17. On June 18, 2004, I entered into a contingency fee retainer agreement with Rochon Genova which, subject to court approval, authorized Rochon Genova to request fees representing 25% of a settlement or judgment in the event of "success in the class proceeding", plus disbursements and applicable taxes. Notwithstanding the terms of the retainer, Ontario National Class Counsel agreed to request fees in cash and shares of no more than point seven percent (0.7%) of the Gross Settlement Fund. I attach as Exhibit "A" a copy of my retainer agreement with Rochon Genova.

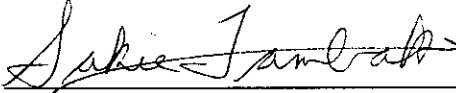
18. Since then, I have had a number of further discussions and meetings with my lawyers at Rochon Genova with respect to Ontario National Class Counsel's fee request. I have also reviewed Ontario National Class Counsel's fee request, including their time sheets and bill of costs. I am advised by my lawyers that the final fee request of Ontario National Class Counsel, however, will be considerably lower than the amount set out in the settlement Notice.


19. Having regard to the extent of the work performed, the benefits provided to members of the Ontario National Class through Ontario National Class Counsel's efforts and the significant risks undertaken, I am satisfied that a fee request by Ontario National Class Counsel of less than 0.7% of the Gross Settlement Fund is fair and reasonable, and I support their application.

20. I have further reviewed Ontario National Class Counsel's list of disbursements, and believe that the amounts requested for reimbursement of expenses have been reasonably incurred in the prosecution of this action, and should be approved.

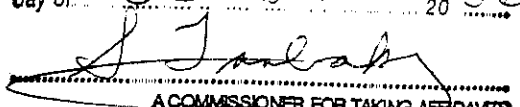
21. I swear this affidavit in support of a motion for approval of the Settlement Agreement and for Ontario National Class Counsel Fees and for no other purpose.

SWORN BEFORE ME at the City of )  
Toronto, in the Province of Ontario, )  
this 16<sup>th</sup> day of October, 2006. )

  
A Commissioner for Taking Affidavits

  
Peter Gallardi

RETAINER AGREEMENT

This is Exhibit A referred to in the  
affidavit of Peter Gallardi  
sworn before me, this 16<sup>th</sup>  
day of October 20 06  
  
A COMMISSIONER FOR TAKING AFFIDAVITS

Retainer

I, PETER GALLARDI, hereby retain and employ the law firm of Rochon Genova LLP as my solicitors and hereby authorize them to institute a Class Action pursuant to the *Class Proceedings Act, 1992*, naming myself as representative Plaintiff on behalf of a class of persons who suffered damages as a result of purchasing shares in Nortel Networks Corporation on or after December 23, 2003 and on or before April 27, 2004 in accordance with the definition of the class as described in the Statement of Claim, and to take such actions and conduct such proceedings as they may consider necessary or proper for the conduct of the proceeding.

Commitments

1. I understand that this litigation is to be pursued on a contingency basis such that fees and reasonable disbursements with respect to the common issues will be payable only in the event of success in the class proceeding. Fees, reasonable disbursements and GST will not be charged to me unless the litigation is successful.
2. I understand that according to the *Class Proceedings Act, 1992*, "success in a class proceeding" includes:
  - a) judgment on the common issues in favour of some or all class members; and
  - b) a settlement that benefits one or more class members




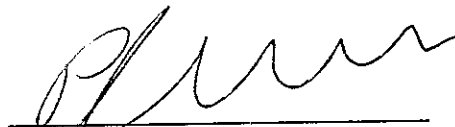
3. I understand that Rochon Genova LLP shall be entitled to a legal fee which is a percentage of the total value of any settlement or judgment to the class, over and above any award of court costs, or claim for reasonable disbursements incurred by Rochon Genova LLP. I agree that the above percentage will be calculated on a 25% fee of the total value of the amount recovered. I agree that in addition to any legal fee, Rochon Genova LLP shall be entitled to recover from any settlement or judgment all reasonable disbursements incurred along with interest which has accrued on such disbursements, and G.S.T.
  
4. I understand that the total legal fee will vary according to the total value of any settlement or judgment which may result from this litigation. I understand that any such settlement or judgment could vary greatly depending on several factors, including the total number of injured persons in Canada, additional information which comes to light during the course of the litigation, and the nature of any settlement or judgment. By way of illustration only, I understand that in the event a judgment of \$30 million was awarded and upheld following any and all appeals, the total legal fee payable to Rochon Genova LLP would be \$75 million. I understand that the legal fee could be significantly lower than this amount, or significantly higher than this amount, depending upon the size of the damages to the class. In terms of reasonable disbursements, by way of illustration only, I understand that if the reasonable disbursements are \$1 million, then \$1 million is payable to Rochon Genova LLP from any settlement or judgment in addition to legal fees. I understand that in the event no judgment or settlement results, no legal fees or reasonable disbursements will be payable.

- 5 I understand that in the event of success, Rochon Genova LLP will make further application to the court for the time expended by me, the representative Plaintiff in this matter, and will seek to obtain compensation for me for the time expended and for expenses incurred in acting as representative plaintiff. This amount will be in addition to any damages awarded to the representative Plaintiff.
  
6. I understand that this Retainer Agreement, and any fees awarded pursuant to the Retainer Agreement, shall be subject to approval of the Court.
  
7. Notwithstanding the foregoing, if I terminate, at my initiative, this Retainer Agreement and/or retain a different solicitor in this class proceeding, I hereby acknowledge that Rochon Genova LLP will then render an account for hours worked to date, reasonable disbursements and GST, which account will be paid forthwith by me, or alternatively, will be the subject of protection of my new counsel, said protection to be satisfactory to Rochon Genova LLP. In the event the account is not paid forthwith and is instead protected by my new counsel, it shall be a first charge on any judgment or settlement funds pursuant to s.32 (3) of the *Class Proceedings Act* and shall rank ahead of any fees and reasonable disbursements chargeable by my new counsel. I shall not be personally liable to pay any account rendered by Rochon Genova LLP in the event that I retain new counsel and my new counsel:
  - a) agrees to protect Rochon Genova's account as a first charge on any proceeds; and
  - b) pursues the matter to judgment, regardless of the outcome.

8. I understand that Rochon Genova will conduct meaningful consultations with the representative Plaintiff before accepting any settlement or pursuing an appeal of the trial verdict.
  
9. I understand that in the event that I, the representative Plaintiff, die prior to the completion of this matter, it is proposed that my estate continue in my place. In the event that the estate is unable or unwilling to continue as representative Plaintiff, arrangements could be made to substitute another individual to act as representative Plaintiff. In the event that the estate is unwilling to continue, then the estate will be liable for the account as detailed in paragraph 7. If, however, the action is unable to proceed due to the unavailability of a substitute representative Plaintiff as described in s. 2(1) and s. 2(2) of the *Class Proceedings Act*, then I will not be liable for an account as detailed in Paragraph 7, or any other costs.
  
10. This Retainer Agreement replaces any previous Retainer Agreement which I may have executed.

Dated at *NORTH BAY*, Ontario, this *15<sup>th</sup>* day of *JUNE*, 2004.

  
Witness

  
Peter Gallardi