

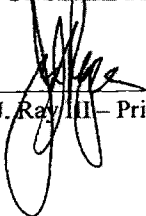
**UNITED STATES (U.S.) BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE**  
In re: Nortel Networks Inc. et al <sup>(1)</sup>  
Cases No. 09-10138 – 09-10152 (KG) Jointly Administered  
Reporting Period: August 1, 2011 through August 31, 2011

**MONTHLY OPERATING REPORT  
No. 31**

| <b>REQUIRED DOCUMENTS</b>   | <b>Form No.</b> | <b>Document Attached</b> | <b>Affidavit/ Supplement Attached</b> |
|---|-----------------|--------------------------|---------------------------------------|
| Condensed Combined Debtors-In-Possession Schedule of Cash Receipts and Disbursements for the period from August 1, 2011 through August 31, 2011 | MOR-1           | X                        |                                       |
| Condensed Combined Debtors-In-Possession Balance Sheets as of August 31, 2011   | MOR-2           | X                        |                                       |
| Notes to Monthly Operating Report   | MOR-3           | X                        |                                       |
| Schedule of Cash Disbursements  | MOR-4           |                          |                                       |
| Disbursements by Petitioning Entity   | A               | X                        |                                       |
| Bank Account Information  | B               | X                        |                                       |
| Changes in Balances with Debtors and Non-Debtors  | MOR-5           | X                        |                                       |
| Status of Post-Petition Taxes   | MOR-6           |                          | See Debtor Questionnaire              |
| Summary of Unpaid Post-Petition Debts   | MOR-7           |                          | See MOR-2 Schedule                    |
| Summary Accounts Payable Aging Schedule   | MOR-7           |                          | See Debtor Questionnaire              |
| Summary Accounts Receivable Aging Schedule  | MOR-7           |                          | See Debtor Questionnaire              |
| Debtor Questionnaire  | MOR-8           | X                        |                                       |

I declare under penalty of perjury (28 U.S.C. Section 1746) that this report and the attached documents are true and correct to the best of my knowledge and belief.

**RESPONSIBLE PARTY AND PREPARER:**

  
\_\_\_\_\_  
John J. Ray III – Principal Officer of each of the U.S. Debtors

September 30, 2011

<sup>(1)</sup> The U.S. Debtors in these chapter 11 cases, along with the last four digits of each Debtor's tax identification number, are: Nortel Networks Inc. (6332), Nortel Networks Capital Corporation (9620), Nortel AltSystems, Inc. (9769), Nortel AltSystems International, Inc. (5596), Xros, Inc. (4181), Sonoma Systems (2073), Qtera Corporation (0251), CoreTek, Inc. (5722), Nortel Networks Applications Management Solutions Inc. (2846), Nortel Networks Optical Components Inc. (3545), Nortel Networks HPOCS Inc. (3546), Architel Systems (U.S.) Corporation (3826), Nortel Networks International Inc. (0358), Northern Telecom International Inc. (6286), Nortel Networks Cable Solutions Inc. (0567) and Nortel Networks (CALA) Inc. (4226) (together, the "U.S. Debtors"). Addresses for the U.S. Debtors can be found in the U.S. Debtors' petitions, which are available at <http://chapter11.epiqsystems.com/nortel>.

**U.S. BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE**  
In re: Nortel Networks Inc. et al  
Cases No. 09-10138 – 09-10152 (KG) Jointly Administered  
**Condensed Combined Debtors-In-Possession Statement of Cash Receipts and Disbursements**  
Reporting Period: August 1, 2011 through August 31, 2011  
(Unaudited)  
(In millions of U.S. dollars)

|   | <u>NNI</u>      | <u>All Other</u> |
|---|-----------------|------------------|
| <b>Cash, cash equivalents and restricted cash at beginning of the period (August 1, 2011)</b> | \$ 1,045        | \$ 50            |
| <b>Cash receipts:</b>   |                 |                  |
| Transition Services Agreements  | 16              | -                |
| Residual receivables  | 1               | -                |
| Asset recoveries (see MOR-8)  | 1               | -                |
| Escrow reimbursements   | -               | -                |
| Other (see note 5)  | 1               | -                |
| Total cash receipts   | <u>19</u>       | <u>-</u>         |
| <b>Cash distributions:</b>  |                 |                  |
| Accounts payable  | (2)             | -                |
| Professional fees   | (12)            | -                |
| Inter-company payables  | (4)             | -                |
| Payroll   | (6)             | -                |
| Retention/Incentive plans   | (5)             | -                |
| Other   | -               | -                |
| Total cash disbursements  | <u>(29)</u>     | <u>-</u>         |
| Effect of foreign exchange rate changes on cash and cash equivalents                          | <u>-</u>        | <u>-</u>         |
| <b>Net increase (decrease) in cash, cash equivalents and restricted cash</b>                  | <u>(10)</u>     | <u>-</u>         |
| <b>Cash, cash equivalents and restricted cash at end of the period (August 31, 2011)</b>      | <u>\$ 1,035</u> | <u>\$ 50</u>     |

The Condensed Combined Debtors-In-Possession Schedule of Cash Receipts and Disbursements of each Reporting Group contained herein was derived from the books and records of the U.S. Debtors (as defined herein). The amounts reflected in these condensed combined financial statements are unaudited. The accompanying notes and schedules are an integral part of the condensed combined financial statements.

**U.S. BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE**  
In re: Nortel Networks Inc. et al  
Cases No. 09-10138 – 09-10152 (KG) Jointly Administered  
Condensed Combined Debtors-In-Possession Balance Sheet  
As of August 31, 2011  
(Unaudited)  
(In millions of U.S. dollars)

|  | <u>NNI</u>      | <u>All Other</u> |
|--|-----------------|------------------|
| <b>Current assets</b>  |                 |                  |
| Cash and cash equivalents                                    | \$ 1,021        | \$ 50            |
| Restricted cash and cash equivalents                         | 14              | -                |
| Accounts receivable - net                                    | 6               | -                |
| Intercompany accounts receivable                             | 168             | 39               |
| Inventories - net  | 3               | -                |
| Other current assets   | 35              | -                |
| Assets held for sale   | -               | -                |
| Assets of discontinued operations                            | 2               | -                |
| <b>Total current assets</b>                                  | <u>1,249</u>    | <u>89</u>        |
| Investments in non-Debtor subsidiaries                       | 1               | 1                |
| Plant and equipment - net                                    | 32              | -                |
| Other assets   | 110             | -                |
| <b>Total assets</b>  | <u>\$ 1,392</u> | <u>\$ 90</u>     |
| <b>Current liabilities not subject to compromise</b>         |                 |                  |
| Trade and other accounts payable                             | \$ 6            | \$ -             |
| Intercompany accounts payable                                | 11              | 6                |
| Payroll and benefit-related liabilities                      | 29              | -                |
| Contractual liabilities                                      | -               | -                |
| Restructuring liabilities                                    | 2               | -                |
| Other accrued liabilities                                    | 33              | -                |
| Income taxes   | 4               | -                |
| Liabilities held for sale                                    | -               | -                |
| Liabilities of discontinued operations                       | 11              | -                |
| <b>Total current liabilities not subject to compromise</b>   | <u>96</u>       | <u>6</u>         |
| Restructuring  | -               | -                |
| Deferred income and other credits                            | 1               | -                |
| Post-employment benefits                                     | 4               | -                |
| <b>Total liabilities not subject to compromise</b>           | <u>101</u>      | <u>6</u>         |
| Liabilities subject to compromise (note 4)                   | 5,555           | 163              |
| Liabilities subject to compromise of discontinued operations | 93              | -                |
| <b>Total liabilities</b>                                     | <u>5,749</u>    | <u>169</u>       |
| Common shares  | -               | 751              |
| Preferred shares   | -               | 63               |
| Additional paid-in capital                                   | 17,746          | 12,582           |
| Accumulated deficit  | (22,121)        | (13,474)         |
| Accumulated other comprehensive income (loss)                | 18              | (1)              |
| <b>Total U.S. Debtors shareholders' deficit</b>              | <u>(4,357)</u>  | <u>(79)</u>      |
| Noncontrolling interests                                     | -               | -                |
| <b>Total shareholders' deficit</b>                           | <u>(4,357)</u>  | <u>(79)</u>      |
| <b>Total liabilities and shareholders' deficit</b>           | <u>\$ 1,392</u> | <u>\$ 90</u>     |

The Condensed Combined Debtors-In-Possession Balanced Sheet of each Reporting Group contained herein was derived from the books and records of the U.S. Debtors. The amounts reflected in these condensed combined financial statements are unaudited. The accompanying notes and schedules are an integral part of the condensed combined financial statements.

**NORTEL NETWORKS INC. et al**  
**(DEBTORS-IN-POSSESSION)**  
**NOTES TO MONTHLY OPERATING REPORT No. 31 (UNAUDITED)**  
**(In millions of U.S. dollars)**

**1. Reservation of Rights:**

Nothing contained in this Monthly Operating Report shall constitute a waiver of any of the rights of the Debtors (as defined herein) or an admission with respect to their Chapter 11 Proceedings (as defined herein), including, but not limited to, matters involving objections to claims, substantive consolidation, equitable subordination, defenses, ultimate allocation of proceeds from sales among debtor estates, characterization or re-characterization of contracts, assumption or rejection of contracts under the provisions of chapter 3 of title 11 of the United States Code (“Bankruptcy Code”) and/or causes of action under the provisions of chapter 5 of the Bankruptcy Code or any other relevant applicable laws to recover assets or avoid transfers.

**2. Background and Organization:**

Prior to Nortel’s significant business divestitures, Nortel Networks Corporation (“NNC”) and its subsidiaries (collectively “Nortel”), including the U.S. Debtors (as defined below), were a global supplier of end-to-end networking products and solutions serving both service providers and enterprise customers.

**Creditor Protection Proceedings** - On January 14, 2009 (“Petition Date”), Nortel Networks Inc. (“NNI”), Nortel Networks Capital Corporation (“NNCC”) and certain other of Nortel’s U.S. subsidiaries, initiated Creditor Protection Proceedings in the U.S. Bankruptcy Court for the District of Delaware (“U.S. Court”) under the Bankruptcy Code (“Chapter 11 Proceedings”), several of our Canadian affiliates (“Canadian Debtors”), including our ultimate parent company, NNC, initiated Creditor Protection Proceedings in Canada at the Ontario Superior Court of Justice (“Canadian Court”) under the Companies’ Creditors Arrangement Act (“CCAA”), and several of our affiliates in Europe, Middle East and Africa (“EMEA”) (“EMEA Debtors”) initiated Creditor Protection Proceedings in the United Kingdom under the Insolvency Act 1986. Subsequently, creditor protection proceedings were commenced for certain affiliates in other jurisdictions, including Israel and France. On July 14, 2009, Nortel Networks (CALA) Inc. (“NNCI”), an affiliate of NNI, initiated Chapter 11 Proceedings. On July 17, 2009, the U.S. Court entered an order that provided for the joint administration of NNCI’s case with the pre-existing cases of the other U.S. Debtors. As a result, NNCI is included as a Debtor in the financial statements herein. Collectively, all entities under the Creditor Protection Proceedings are referred to as the “Debtors”. Those entities operating in Chapter 11 Proceedings are referred to as the “Debtors in Possession” or the “U.S. Debtors.” During the Creditor Protection Proceedings, the businesses of the Debtors continue to operate under the jurisdictions and orders of the applicable courts and in accordance with applicable legislation.

As of August 31, 2011, the U.S. Debtors consisted of the following entities:

| <u>U.S. Debtors</u>                                    | <u>Case no.</u> |
|--|-----------------|
| Nortel Networks Inc.                                   | 09-10138        |
| Nortel Networks Capital Corporation                    | 09-10139        |
| Nortel Networks International, Inc.                    | 09-10150        |
| Nortel AltSystems, Inc.                                | 09-10140        |
| Nortel AltSystems International, Inc.                  | 09-10141        |
| Architel Systems (U.S.) Corporation                    | 09-10149        |
| CoreTek, Inc.  | 09-10145        |
| Nortel Networks Applications Management Solutions Inc. | 09-10146        |
| Nortel Networks Cable Solutions Inc.                   | 09-10152        |
| Nortel Networks Optical Components Inc.                | 09-10147        |
| Nortel Networks HPOCS Inc.                             | 09-10148        |
| Northern Telecom International Inc.                    | 09-10151        |
| Qtera Corporation                                      | 09-10144        |
| Sonoma Systems   | 09-10143        |
| Xros, Inc.   | 09-10142        |
| Nortel Networks (CALA) Inc.                            | 09-12515        |

Under the Bankruptcy Code, the U.S. Debtors may assume, assume and assign, or reject certain executory contracts including unexpired leases, subject to the approval of the U.S. Court and certain other conditions.

The accompanying unaudited condensed combined Schedule of Cash Receipts and Disbursements and Balance Sheet (“financial statements”) do not include the effects of all current or future claims relating to the Creditor Protection Proceedings. Certain claims filed may have priority over those of the U.S. Debtors’ unsecured creditors. The Debtors are reviewing all claims filed and have commenced the claims reconciliation process. Differences between claim amounts determined by the Debtors and claim amounts filed by creditors will be investigated and resolved pursuant to a claims resolution process approved by the relevant court or, if necessary, the relevant court will make a final determination as to the amount, nature and validity of claims. Certain claims that have been filed may be duplicative (particularly given the multiple jurisdictions involved in the Creditor Protection Proceedings), based on contingencies that have not occurred, or may be otherwise overstated, and would therefore be subject to revision or disallowance. The settlement of claims cannot be finalized until the relevant creditors and courts approve a plan. In light of the number of creditors of the Debtors, the claims resolution process may take considerable time to complete.

For further information on matters preceding the filing of this Monthly Operating Report, users should refer to prior Monthly Operating Reports. Users are also referred to the Bankruptcy Court docket for these Chapter 11 Proceedings.

### **3. Basis of Presentation:**

The financial statements contained herein were not intended to reconcile to any financial statements otherwise prepared or distributed by the U.S. Debtors or any of the U.S. Debtors’ affiliates. Significant efforts have been put forth to attribute the assets and liabilities to the proper legal entity. However, because the Debtors’ accounting systems, policies, and practices were developed with a view to producing consolidated reporting, rather than by legal entity, it is possible that not all assets or liabilities have been recorded at the correct legal entity. Accordingly, the U.S. Debtors reserve all rights to supplement or amend any financial statements contained in this Monthly Operating Report.

The Monthly Operating Report is limited in scope, covers a limited time period, and has been prepared solely for the purpose of complying with the monthly reporting requirements of the Bankruptcy Court and the United States Trustee. The information presented herein has not been subject to all procedures that would typically be applied to financial information presented in accordance with U.S. Generally Accepted Accounting Principles (“U.S. GAAP”). The Statement of Cash Receipts and Disbursements presents a summary of the cash activity for the period and does not include the impact of future cash flows related to assets and accrued liabilities in conformity with U.S. GAAP. Any differences between the ending book balance and bank balances reflected on MOR 4B would generally be attributable to outstanding checks and in-transit items. The U.S. Debtors caution readers not to place undue reliance upon the information contained in this Monthly Operating Report. The results herein are not necessarily indicative of results which may be expected from any other period or for the full year and may not necessarily reflect the combined results and financial position of the U.S. Debtors in the future.

As part of their operations and restructuring efforts, the U.S. Debtors are reviewing their assets and liabilities on an ongoing basis, including without limitation with respect to intercompany claims and obligations, and nothing contained in this Monthly Operating Report shall constitute a waiver of any of the U.S. Debtors’ rights with respect to such assets, liabilities, claims and obligations that may exist.

The financial statements contained herein represent the unaudited condensed combined financial statements for the U.S. Debtors only. The U.S. Debtors have sold all of their operations and business units, and so this Monthly Operating Report does not contain a Statement of Operations or a Statement of Cash Flows as included in previous Monthly Operating Reports. Instead, this Monthly Operating Report includes a Schedule of Cash Receipts and Disbursements. The U.S. Debtors’ non-Debtor subsidiaries are treated as non-consolidated subsidiaries in these financial statements and as such their net assets are included as “Investments in non-Debtor subsidiaries” in the balance sheet. The U.S. Debtors’ financial statements contained herein have been prepared following the guidance in Financial Accounting Standards Board Accounting Standards Codification 852 “Reorganizations”.

The financial statements have been derived from the books and records of the U.S. Debtors. The presentation combines the U.S. Debtors into two Reporting Groups consistent with the companies’ ownership structure with consideration to its status as operating or non-operating and activities as follows:

- **NNI Reporting Group:** Nortel Networks Inc. and its U.S. Debtor subsidiaries Nortel Networks Capital Corporation, Nortel Networks Cable Solutions Inc., Nortel Networks International, Inc., Nortel Networks Optical Components Inc., Nortel Networks HPOCS Inc., Nortel Networks (CALA) Inc., Northern Telecom International Inc. and Qtera Corporation; and
- **All Other Reporting Group:** Nortel AltSystems, Inc., Nortel AltSystems International, Inc., Architel Systems (U.S.) Corporation, CoreTek, Inc., Nortel Networks Applications Management Solutions, Inc., Sonoma Systems and Xros Inc.

#### 4. Liabilities Subject to Compromise:

The following tables set forth the U.S. Debtors' estimated liabilities subject to compromise as of August 31, 2011:

|  | <u>NNI</u>      | <u>All Other</u> |
|--|-----------------|------------------|
| Trade and other accounts payable               | \$ 174          | \$ -             |
| Accounts payable intercompany                  | 351             | 38               |
| Restructuring liabilities                      | 139             | -                |
| Contingent liability for NNI's debt guarantee  | 3,936           | -                |
| Long-term debt                                 | 177             | -                |
| Financial obligations                          | 40              | -                |
| Pension obligations                            | 438             | -                |
| Postretirement obligations other than pensions | 264             | -                |
| Notes and interest payable intercompany        | -               | 125              |
| Other  | 36              | -                |
| Total liabilities subject to compromise        | <u>\$ 5,555</u> | <u>\$ 163</u>    |

#### 5. Cash Receipts and Disbursements:

Other receipts for the month ended August 31, 2011, primarily include \$1 received from retirees for retiree medical premiums.

#### 6. Divestiture Proceeds Held in Escrow Pending Allocation

As of August 31, 2011, approximately \$7,366 of the net proceeds (the "Escrow Funds") generated through the completed sales of businesses and certain other assets are being held in escrow accounts at JPMorgan Chase Bank, N.A. ("JPM"). The Escrow Funds are being held by JPM pending the allocation of such funds among various Nortel entities, including without limitation, one or more of the Canadian Debtors and one or more of the EMEA Debtors. The amount of the Escrow Funds that will be allocated to the U.S. Debtors is not yet known. Below is a list of the escrow accounts held at JPM:

| <u>Business/Asset Sale</u>                    | <u>Escrow Balance</u> |
|---|-----------------------|
| CDMA  | \$ 1,006              |
| Layer 4-7                                     | 18                    |
| Packet Core                                   | 10                    |
| Enterprise Solutions                          | 920                   |
| Optical Networking and Carrier Ethernet (MEN) | 637                   |
| GSM   | 95                    |
| CVAS  | 165                   |
| MSS   | 45                    |
| Patents and Patent Applications               | 4,470                 |

In addition to the Escrow Funds, \$111 are being held in various escrow accounts at JPM, Wells Fargo, N.A. and Citibank, N.A. in the name of certain Nortel entities and the respective purchasers of the businesses, which escrows were established in connection with the closing of the sales of the businesses, as required by the sale agreements for those transactions to secure certain obligations thereunder and ancillary to the sales.

**U.S. BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE**  
**In re: Nortel Networks Inc. et al**  
**Cases No. 09-10138 – 09-10152 (KG) Jointly Administered**  
**Schedule of Cash Disbursements by Petitioning Entity**  
**Reporting Period: August 1, 2011 through August 31, 2011**  
**(Unaudited)**  
**(In millions of U.S. dollars)**

| <b>In re: Nortel Networks Inc. et al</b>                | <b>Case #</b> | <b>Payments</b> |
|---|---------------|-----------------|
| Nortel Networks Inc. <sup>(1)</sup>                     | 09-10138      | \$ 29           |
| Nortel Networks Capital Corporation                     | 09-10139      | -               |
| Nortel AltSystems, Inc.                                 | 09-10140      | -               |
| Nortel AltSystems International, Inc.                   | 09-10141      | -               |
| Xros Inc.   | 09-10142      | -               |
| Sonoma Systems  | 09-10143      | -               |
| Qtera Corporation                                       | 09-10144      | -               |
| Coretek, Inc.   | 09-10145      | -               |
| Nortel Networks Applications Management Solutions, Inc. | 09-10146      | -               |
| Nortel Networks Optical Components Inc.                 | 09-10147      | -               |
| Nortel Networks HPOCS Inc.                              | 09-10148      | -               |
| Architel Systems (U.S.) Corporation                     | 09-10149      | -               |
| Nortel Networks International, Inc.                     | 09-10150      | -               |
| Northern Telecom International Inc.                     | 09-10151      | -               |
| Nortel Networks Cable Solutions Inc.                    | 09-10152      | -               |
| Nortel Networks (CALA) Inc.                             | 09-12515      | -               |
| <b>Total Payments</b>                                   |               | <b>\$ 29</b>    |

(1) NNI is the centralized disbursement entity for multiple U.S. Debtors and non-Debtors and accordingly makes payments, both by wire and checks, for multiple U.S. Debtors and non-Debtors. Individual U.S. Debtor disbursements have been separated from NNI and listed under specific individual U.S. Debtors. However, disbursements made for the benefit of NNI as well as other U.S. Debtors and/or non-Debtors are still consolidated with NNI for financial reporting purposes.

**U.S. BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE**  
In re: Nortel Networks Inc. et al  
Cases No. 09-10138 – 09-10152 (KG) Jointly Administered  
Existing Bank Account Information  
Reporting Period: August 1, 2011 through August 31, 2011  
(Unaudited)  
(In millions of U.S. dollars)

| <u>Legal Entity</u>                | <u>Bank</u>                | <u>Account Type</u>                      | <u>Lockbox/Account</u> | <u>Bank Balance</u> |
|------------------------------------|----------------------------|--|------------------------|---------------------|
| Nortel Networks Inc.               | Bank of America            | Receipts                                 | 3750819519             | \$ -                |
| Nortel Networks Inc.               | Bank of America            | Receipts                                 | 3750886432             | -                   |
| Nortel Networks Inc.               | Bank of America            | Lockbox (Receipts)                       | Box 3985               | -                   |
| Nortel Networks Inc.               | Bank of America            | Payroll                                  | 0101183623             | 1                   |
| Nortel Networks Inc.               | Bank of America            | Health & Welfare Trust                   | 7206010001650          | -                   |
| Nortel Networks Inc.               | Citibank NA                | Main Concentration                       | 30463444               | 27                  |
| Nortel Networks Inc.               | Citibank NA                | Receipts                                 | 30508403               | 1                   |
| Nortel Networks Inc.               | Citibank NA                | Lockbox (Receipts)                       | Box 2937               | -                   |
| Nortel Networks Inc.               | Citibank NA                | Disbursement (EVS)                       | 30509086               | -                   |
| Nortel Networks Inc.               | Citibank NA                | Disbursement (AP)                        | 30580851               | 1                   |
| Nortel Networks Inc.               | Citibank NA                | Receipts (Credit Card)                   | 30509078               | -                   |
| Nortel Networks Inc.               | Citibank NA                | CDMA Good Faith Deposit                  | 40773075               | -                   |
| Nortel Networks Inc.               | Citibank NA                | Flexible Benefits                        | 30614505               | -                   |
| Nortel Networks Inc.               | Citibank NA                | Good Faith Deposits                      | 30810143               | -                   |
| Nortel Networks Inc.               | Citibank NA                | Good Faith Deposits                      | 30812798               | -                   |
| Nortel Networks Inc.               | Citibank NA                | Flextronics Trust                        | 30807059               | -                   |
| Nortel Networks Inc.               | Citibank Delaware          | Disbursement (Sales & Use Tax)           | 38660426               | -                   |
| Nortel Networks Inc.               | Citibank Delaware          | Disbursement (EVS)                       | 38659062               | 1                   |
| Nortel Networks Inc.               | Citibank Delaware          | Checking                                 | 38696453               | -                   |
| Nortel Networks Inc.               | Citibank Delaware          | Benefits-Cigna Travel Well               | 38659097               | 1                   |
| Nortel Networks Inc.               | Citibank Delaware          | Benefits-US-Cigna Expat                  | 38659089               | -                   |
| Nortel Networks Inc.               | Citibank Delaware          | Utilities Order                          | 38794977               | 1                   |
| Nortel Networks Inc.               | Citibank Canada            | Disbursement (AP)                        | 2010621007             | -                   |
| Nortel Networks Inc.               | JP Morgan Chase            | General                                  | 887400521              | -                   |
| Nortel Networks Inc.               | JP Morgan Chase            | Money Market Deposit Acct <sup>(1)</sup> | 887400539              | 847                 |
| Nortel Networks Inc.               | JP Morgan Chase            | Money Market Deposit Acct                | 887400562              | 11                  |
| Nortel Networks Inc.               | JP Morgan Chase            | General                                  | 887400570              | -                   |
| Nortel Networks Inc.               | Deutsche Bank              | Brokerage                                | 400519                 | -                   |
| Nortel Networks Inc.               | Morgan Stanley             | Brokerage                                | 293 058697 502         | -                   |
| Nortel Networks Inc.               | Banc of America Securities | Investment <sup>(1)</sup>                | 275783-22453989        | 40                  |
| Nortel Networks Inc.               | The Reserve                | Investment                               | 703-29-420             | -                   |
| Nortel Networks Inc.               | K&H Bank                   | General                                  | 10201006-50041181      | -                   |
| Nortel Networks Inc.               | K&H Bank                   | General                                  | 10200971-60061049      | -                   |
| Nortel Networks Inc.               | Citibank Egypt             | General                                  | 100827506              | 1                   |
| Nortel Networks Inc.               | Citibank Egypt             | General                                  | 100827018              | -                   |
| Nortel Networks Inc.               | Citibank Tunisia           | General                                  | 150021006              | -                   |
| Nortel Networks Inc.               | Citibank Tunisia           | General                                  | 150021014              | -                   |
| Nortel Networks Inc.               | Citibank Tunisia           | General                                  | 150021022              | -                   |
| Nortel Networks Inc.               | Citibank Tunisia           | General                                  | 100056011              | -                   |
| Nortel Networks Inc.               | JP Morgan Chase            | General                                  | 887401404              | 50                  |
| Nortel Altsystems, Inc.            | JP Morgan Chase            | General                                  | 30508438               | -                   |
| Nortel Networks Capital Corp       | Citibank NA                | General                                  | 383752-22352662        | 2                   |
| Nortel Networks Capital Corp.      | Banc of America Securities | Investment <sup>(1)</sup>                | 6059-60258-010         | -                   |
| Nortel Networks International, Inc | Bank of America            | General                                  | 10100262002            | 5                   |
| Nortel Networks International, Inc | Citibank Dubai             | General                                  | 30635672               | 19                  |
| Nortel Networks (CALA) Inc.        | Citibank NA                | General                                  | 38746828               | -                   |
| Nortel Networks (CALA) Inc.        | Citibank Delaware          | Disbursement (AP)                        | 887400547              | -                   |
| Nortel Networks (CALA) Inc.        | JP Morgan Chase            | General                                  | 887400554              | 58                  |
| Nortel Networks (CALA) Inc.        | JP Morgan Chase            | Money Market Deposit Acct <sup>(2)</sup> | 0055067007             | 1                   |
| Nortel Networks (CALA) Inc.        | Citibank Montevideo        | General                                  | 0055067619             | -                   |
| Nortel Networks (CALA) Inc.        | Citibank Montevideo        | General                                  | 0106586004             | -                   |
| Nortel Networks (CALA) Inc.        | Citibank Port of Spain     | General                                  | 0109869015             | -                   |
| Nortel Networks (CALA) Inc.        | Citibank Trinidad & Tobago | General                                  | 0301085028             | -                   |
| Nortel Networks (CALA) Inc         | Citibank Puerto Rico       | General                                  |                        | -                   |
|                                    |                            |  |                        | \$ 1,067            |

(1) Reflects investments in money market funds via Banc of America Securities brokerage account. As of August 31, U.S. Debtors hold investments in Federated Treasury Obligations 68, Fidelity Treasury 695, BlackRock T Fund 60, JPMorgan U.S. Treasury Plus Mmkt 3918 and Treasury-Agency Cash Management 521. On August 16, 2010, the U.S. Debtors received court approval to deposit funds in money market funds that invest primarily in U.S. Treasury Bills and U.S. Treasury notes owned directly or through repurchase agreements to a maximum aggregate amount of \$75.

(2) Reflects deposits in a JP Morgan account which is collateralized with U.S. Treasury securities up to 115% of the amount deposited. Formal reconciliations between the U.S. Debtors' bank balances and the general ledger are prepared and reviewed quarterly in accordance with the U.S. Debtors' established guidelines.



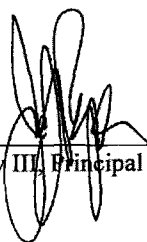
**U.S. BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE**  
**In re: Nortel Networks Inc. et al**  
**Cases No. 09-10138 – 09-10152 (KG) Jointly Administered**  
**Changes in Balances with Debtors and Non-Debtors**  
**Reporting Period: August 1, 2011 through August 31, 2011**  
**(Unaudited)**  
**(In millions of U.S. dollars)**

| <b>In re: Nortel Networks Inc. et al</b>                | <b>Case #</b> | <b>Increase / (Decrease)</b> |
|---|---------------|------------------------------|
| Nortel Networks Inc.                                    | 09-10138      | \$ 5                         |
| Nortel Networks Capital Corporation                     | 09-10139      | (1)                          |
| Nortel AltSystems, Inc.                                 | 09-10140      | -                            |
| Nortel AltSystems International, Inc                    | 09-10141      | -                            |
| Xros, Inc.  | 09-10142      | -                            |
| Sonoma Systems  | 09-10143      | -                            |
| Qtera Corporation                                       | 09-10144      | -                            |
| CoreTek, Inc.   | 09-10145      | -                            |
| Nortel Networks Applications Management Solutions, Inc. | 09-10146      | -                            |
| Nortel Networks Optical Components Inc.                 | 09-10147      | -                            |
| Nortel Networks HPOCS Inc.                              | 09-10148      | -                            |
| Architel Systems (U.S.) Corporation                     | 09-10149      | -                            |
| Nortel Networks International, Inc.                     | 09-10150      | -                            |
| Northern Telecom International Inc.                     | 09-10151      | -                            |
| Nortel Networks Cable Solutions Inc.                    | 09-10152      | -                            |
| Nortel Networks (CALA) Inc.                             | 09-12515      | 4                            |
| Net Intercompany Change <sup>(1)</sup>                  |               | <u>\$ 8</u>                  |

(1) The Changes in Balances with Debtors and Non-Debtors exclude discontinued operations transactions. The amounts are presented gross and exclude provision amounts.

**U.S. BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE  
In re: Nortel Networks Inc. et al  
Cases No. 09-10138 – 09-10152 (KG) Jointly Administered  
Status of Post-Petition Taxes  
Reporting Period: August 31, 2011  
(Unaudited)**

I, John J. Ray III, Principal Officer of each of the U.S. Debtors, attest under penalty of perjury and to the best of my knowledge, information and belief, all post-petition federal, state and local taxes of each of the U.S. Debtors are current as of August 31, 2011 in all material respects.



\_\_\_\_\_  
John J. Ray III, Principal Officer of each of the U.S. Debtors

September 30, 2011

**U.S. BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE  
In re: Nortel Networks Inc. et al  
Cases No. 09-10138 – 09-10152 (KG) Jointly Administered  
Debtor Questionnaire  
Reporting Period: August 1, 2011 through August 31, 2011**

**Must be completed each month**

**1. Have any assets been sold or transferred outside the normal course of business this reporting period? If yes, provide an explanation below.**  
On August 2, 2011, NNI received approximately \$1 million previously held in escrow in exchange for the transfer of the remaining IP numbers sold as part of the May 11, 2011 sale of certain of its IP addresses to Microsoft Corporation.

**2. Have any bank accounts been opened during the reporting period? If yes, provide documentation identifying the opened account(s). If an investment account has been opened provide the required documentation pursuant to the Delaware Local Rule 4001-3.**

**3. Have any funds been disbursed from any account other than a Debtor-In-Possession account this reporting period? If yes, provide an explanation below.**  
On August 19, 2011, in conjunction with the finalization of the purchase price for the sale of the Multi Service Switch businesses globally (the "MSS Sale") with the purchaser, Telefonaktiebolaget LM Ericsson ("Ericsson"), approximately \$2 million was disbursed to Ericsson from an escrow account with JPM that holds the net proceeds of the MSS Sale (the "JPM MSS Escrow"). In addition, approximately \$3 million was disbursed to Ericsson from an escrow account with Wells Fargo Bank, N.A. established in connection with the closing of the MSS Sale (the "Wells Fargo MSS Escrow"). Both the release from the Wells Fargo MSS Escrow and the release from the JPM MSS Escrow related to working capital adjustments to the MSS Sale purchase price.  
  
In addition to the disbursements described above, on August 23, 2011, approximately \$1 million was released from an escrow account with Wells Fargo Bank, N.A. (the "CVAS EMEA Tax Escrow"). The CVAS EMEA Tax Escrow was established in connection with the closing of the sale of the Carrier VOIP and Application Services business (the "CVAS Sale"), to cover certain potential EMEA tax liabilities to the purchaser, GENBAND US LLC ("GENBAND"), for which GENBAND may have become liable in connection with the CVAS Sale. The disbursement was made after reaching certain milestones agreed upon when the respective escrow accounts were established. The funds disbursed from the CVAS EMEA Tax Escrow were deposited into an escrow account with JPM that holds the net proceeds from the CVAS Sale.

**4. Have all post-petition tax returns been timely filed? If no, provide an explanation below.**

**5. Are workers compensation, general liability and other necessary insurance coverages in effect? If no, provide an explanation below.**

**6. Are the Debtors satisfying their undisputed post-petition obligations on a timely basis?**

**7. Has there been any material change in amount or aging of the Debtors' receivables?**

| Yes | No |
|-----|----|
| X   |    |
|     | X  |
| X   |    |
| X   |    |
| X   |    |
|     | X  |