

CIRCULAR TO NOTEHOLDERS AND CREDITORS

18 July 2011

Dear Sir / Madam,

BABCOCK & BROWN LIMITED (IN LIQUIDATION) (“BBL”) ACN 108 614 955 (“the Company”)

We refer to our notice to Noteholders and Creditors dated 22 November 2010. The purpose of this notice is to provide Noteholders and creditors with an update to the current status of the BBL liquidation.

Since our last report we have primarily focussed on two areas. They are:

1. Settlement of the US Trust proceedings
2. Potential recovery Actions against the former directors and officers of BBL

1. Settlement of US Trust Proceedings

As stated in previous updates, we appointed Californian lawyers to assist in the potential recovery of funds held by Babcock & Brown Executive Achievement Trust (“the Trust”) which was outlined in our Section 439A report to creditors. The Trust was established by BBL for the benefit of the Babcock & Brown Group’s non Australian based employees and it was our view that BBL was entitled to these funds. The Trust held approximately A\$9m and subsequent to our request for these funds, a competing claim for the monies was also made by Babcock & Brown International Pty Limited (“BBIPL”).

As a result of this dispute, the Liquidators entered into discussions with litigation funders to fund the action. Following these discussions, the BBL Committee of Inspection authorised the Liquidators to conclude a litigation agreement with IMF (Australia) Limited (“IMF”).

As a result of several failed attempts to settle the matter in Australia, a mediation was ordered by a San Francisco court in California and held on 17 February 2011 whereby David Lombe attended the mediation in San Francisco. The mediation was undertaken by a retired Supreme Court Judge and ultimately resulted in a settlement whereby BBL would receive A\$4.0m. On 9 May 2011, BBL received funds totalling A\$3.78m with the remaining A\$220,000 to be held in escrow by the Trustee for a nine month period pending any claims.

The proceeds received were applied as follows:

1. Payment to IMF pursuant to the litigation funding agreement between BBL and IMF
2. Settlement of the outstanding administrators’ remuneration (c.A\$1.0m excluding GST)
3. Settlement of a portion of the outstanding liquidator’s remuneration (c.A\$339k excluding GST)
4. Settlement of a portion of outstanding legal costs (c.\$227k excluding GST)

5. Balance held to continue administration of ongoing legal claims and the potential recovery actions in Australia

2. Potential recovery actions against the former directors and officers of BBL

As previously advised, the Liquidators undertook public examinations in July and August 2010. During the course of the examinations several former directors and officers of BBL together with the auditor were examined.

The key cause of action that the Liquidators focused on subsequent to the public examinations related to the illegal payment of dividends in respect of the 2005-2007 financial years. The total value of the unlawful dividends totalled A\$158m. In order to continue this action, the Liquidators under the authorisation of the Committee of Inspection, finalised a litigation funding agreement with IMF on 11 August 2010 to ensure this cause of action could proceed.

On 16 December 2010, the Liquidators extended an invitation to the relevant parties to attend a formal mediation to discuss and resolve the illegal dividend action. Since this invitation, the Liquidators and their solicitors have finalised a detailed position paper outlining the cause of action which has been provided to the proposed participants of the mediation.

The mediation will take place on 1 and 2 of August 2011.


3. Tax declaration to Note-holders

Due to the anticipated formal mediation, the Liquidators have concluded that they are not in a position to declare that the BBL Subordinated Notes have no value and are unlikely to have any value in the future. Please note this declaration is a very technical process pursuant to the Income Tax Assessment Act. This position will be revisited by the Liquidators for the financial year ended 30 June 2012.

For further information please contact **Billy Wong** of this office.

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Yours faithfully



D J F Lombe
For and on behalf of
DJF Lombe and SJ Cathro
Joint and Several Liquidators