

4 August 2014

**UPDATE TO ALL CREDITORS AND NOTEHOLDERS
of BABCOCK & BROWN LIMITED
ACN 108 614 955 (IN LIQUIDATION) (“BBL”)**

Dear Sir / Madam,

I refer to my appointment as Liquidator of BBL on 24 August 2009 and all previous correspondence. Please find below an update to the Liquidation.

1) Further update on the Liquidation of BBL

As advised in my previous Liquidator’s Annual Report to Creditors and Noteholders dated 22 November 2013 proceedings were brought against BBL on behalf of 78 shareholders (Applicants), with claims to the value of \$12.9 million, who appealed the decision of the Liquidator in respect of the rejection of their proofs of debt under section 1321 of the Corporations Act 2001 (Cth) (the Act). The proceedings are being funded by a litigation funder, Bookarelli Pty Ltd (the Funder). These shareholders are claiming to be unsecured creditors of BBL which has the effect of increasing their priority, and therefore ranking ahead of noteholders in any future distribution of funds.

I defended their appeal and a hearing was held on 14 to 16, 18 and 22 July 2014. The judgement is yet to be handed down to determine the outcome of these proceedings.

In addition to the 78 Applicants, the Funder on 13 December 2013 commenced another set of proceedings on behalf of 100 new shareholders with claims to the value of \$14.1 million. These proceedings were also appeals against the decision by me as Liquidator in respect of the rejection of their proofs of debt under section 1321 of the Act. The Court adjourned these proceedings until 7 August 2014 to await the outcome of the earlier proceedings.

Furthermore, in 2014, the funder on behalf of shareholders lodged a further 597 proofs of debt, with claims to the value of \$113.1 million. It was agreed between the parties to delay the determination of these proofs of debt until the outcome of the present proceedings are known.

The above proceedings and further claims have had the effect of delaying my previous declaration of dividend to unsecured creditors (this excludes noteholders, who are subrogated to the normal unsecured creditors of BBL, and will be dealt with subsequently). Once judgement has been handed down, and provided the matter is found in our favour and no further proceedings are continued or initiated, I will post an update on our website providing guidance as to the timing and quantum of the first dividend payment to unsecured creditors.


This will then enable me to comment on the value of any surplus funds that will be available for distribution to Subordinated Noteholders. I am required to finalise the above legal proceedings and all unsecured creditor claims prior to quantifying what funds are available for Subordinated Noteholders.

2) Tax declaration to Noteholders

As any future dividends to noteholders are contingent upon the outcome of the court proceeding, I am unable at this juncture to issue a notice declaring that BBL subordinated notes have no value. I will be in a position to issue a tax declaration in relation to the subordinated notes pursuant to the Income Tax Assessment Act after the distribution of net recovery proceeds to unsecured creditors.

Should you have any queries regarding the above, please send your queries to bandbltd@deloitte.com.au, or contact Adam Edmondson of my office on +61 2 9322 5513.

Yours faithfully


D J F Lorne
Liquidator