

Confidential to Investors

18 December 2013

DOMINION FINANCE GROUP LIMITED (In Receivership & In Liquidation)

Investors Update Report

Realisations

In our last Investor Update (in addition to the statutory receivers' reports) we emphasised that the nature of the remaining securities, and the inherent risks associated with any litigation, meant that timing of future distributions could not be reliably estimated. In fact, many of the projects that DFG lent on required extensive work to even enable them to be realised.

Since the receivership began, the receivers' strategy has been focused on resolving issues in each asset that potentially compromise value wherever possible. Most of this work has now been done and most assets have been realised.

The remaining assets, whilst difficult to sell, will continue to be progressively realised during 2014 consistent with the strategy that assets would not be subject to "fire sale". The receivers have good professional advice and excellent results are being achieved. However given the nature of these assets realisation will continue to take time.

Similarly the litigation that has been initiated will be equally time-consuming. The only difference is how the litigation is funded. The receivers are acutely aware of the need to balance up the requirements to distribute as much funds to investors as quickly as possible against the need to fund long-run, and sometimes expensive, litigation in order to maximise total realisations over time. You can be assured that all options are being evaluated in order to optimise this balance.

During the last four months, the ground work previously undertaken allowed the receivers to achieve realisations of \$4.5 million by completing four of the seven remaining security asset realisation projects. The remaining security assets continue to present a range of challenges - but realisations

are being achieved. These assets include sections in subdivisions in Taupo and Alexandra and apartments in buildings impacted by weather tightness issues.

As you would be aware from prior updates, the receivers carefully investigated and evaluated the conduct of DFG's historical professional advisers in situations where large loan losses occurred. Litigation was initiated. One claim was settled by negotiation immediately prior to the Court hearing. Another was heard in 2013 but DFG was only partially successful. An appeal has been lodged and the other side have counter-appealed. Another case is set down for a trial in 2014 and significant work is being undertaken to prepare for this, as well as evaluating sensible and commercial settlement options. Another matter is still at an early stage as the receivers canvass litigation funders to assist with progressing these and other difficult and time consuming cases.

Our legal advisors determined that it is more appropriate for the liquidators to bring a claim against the directors and any de facto directors than for the receivers to bring that claim. The receivership has now funded and had considerable input to a claim filed by the liquidators against the directors and former CEO in the High Court.

We received \$296,250 in proceeds of fines against two of the directors following proceedings brought by the Financial Markets Authority and these funds are included as part of the proposed next distribution.

Distributions

The recoveries made since our last report now support a further distribution, however there is one contingency to be resolved before this can be confirmed. Subject to this, it is our intention to distribute 1.5 cents per dollar invested to be mailed during the week commencing 24 March 2014, bringing total distributions to date to 13.5 cents in the dollar. In order to save the cost of issuing a further formal notice of distribution when the contingency has been resolved, this notice constitutes a Trustee notice of distribution to investors required under Clause 8.13 of the debenture trust deed. If the contingency referred to above cannot be cleared within the timeframe currently envisaged this notice of distribution may have to be varied or rescinded.

Estimated Outcome

As we have said previously, the types of issues affecting the remaining securities and the usual risk related to any litigation means that the timing and amount of any further distribution cannot be reliably estimated at this point. Obviously this gets harder to predict as we get to the tail end of the recovery portfolio. Most of the funds supporting the distribution proposed for March have been recovered in the last three to four months.

While we consider a further distribution of a similar amount is potentially available from the remaining assets, having regard for the type of litigation and the nature of securities that this would rely on the timing and amount of any future distribution is far from certain. Court proceedings are time consuming, expensive and inherently difficult to estimate in terms of timing and recovery. Any further distribution will not be before the end of 2014 and is more likely to be at the conclusion of the receivership.

We appreciate the support and patience from investors in the recovery work concluded to date and the further claims currently being pursued.

Further Information

We have previously provided details of the receivership website developed at the time of our appointment (www.deloitte.com/nz/dominion). The Receivers' statutory reports are filed on-line at the Companies Office and can be viewed free at the Companies' Office website www.companies.govt.nz. We will post further updates and matters of relevance to investors on the receivership website as appropriate. In the interim for past reports containing further information please visit the receivership website www.deloitte.com/nz/dominion.

The receivership website also includes a copy of an advertisement regarding an application to the Court by the Trustee for a change of Trustee.

If you have questions about your contact details please call +64 9 306 0407, or facsimile +64 9 306 0404, or email greg@financeservices.co.nz

Confidentiality

This report is confidential to the Trustee and secured debenture holders. It is not to be reproduced or used for any other purpose without our prior written consent in each case. We do not accept any liability whatsoever to any party from any use of, or reliance on, this report.

Yours sincerely

Dominion Finance Group Limited (In Receivership & In Liquidation)

A handwritten signature in black ink, appearing to be 'BJ', with a long horizontal line extending to the right.

Barry Jordan
Receiver and Manager

Personal Liability Excluded