

07 January 2009

To : Blue City Investment 1 Limited
Walker House
P.O. Box 908GT
Mary Street, George Town
Grand Cayman
Cayman Island

Attention : The Directors

To : The Bank of New York (in its capacity as Phase 1 Offshore Security Trustee)
101 Barclay Street
New York, NY 10286
United States of America

Attention : Corporate Trust Administration – Global Structured Finance

To : The Bank of New York (in its capacity as Issuer Note Trustee)
101 Barclay Street
New York, NY 10286
United States of America

Attention : Corporate Trust Administration – Global Structured Finance

To : The Bank of New York (in its capacity as Issuer Security Trustee)
101 Barclay Street
New York, NY 10286
United States of America

Attention : Corporate Trust Administration – Global Structured Finance

To : The Bank of New York (in its capacity as Project Offshore Security Trustee)
101 Barclay Street
New York, NY 10286
United States of America

Attention : Corporate Trust Administration – Global Structured Finance

To : Bank Muscat (in its capacity as Onshore Security Trustee)
PO Box 132
Postal Code 112
Ruwi
Sultanate of Oman

Attention : Mr. Rajashekhar Singh
Mr. S.R. Venkatesh



05 090701 BC. A3.00.05/RR/LTR00237 – BoNY Waiver

Page 1 of 5

المدينة الزرقاء

AL MADINA A'ZARQA

Blue City Company 1 SAOC

PO Box 3619, Postal Code 112, Ruwi, Sultanate of Oman.

T +968 2449 9707, 2449 3299, F +968 2449 0399. C.R. 1/83627/7

شركة المدينة الزرقاء الأولى ش.م.ع.م.

ص ب ٣٦١٩ الرمز البريدي ١١٢، روي، سلطنة عمان

هاتف ٩٧٠٧ ٢٤٤٩ ٢٤٤٩ ٢٤٤٩، فاكس ٩٦٨ ٢٤٤٩ ٣٩٩، ص.ت ١/٨٣٦٢٧/٧



www.almadinaazarqa.com

To : Blue City Company 2 S.A.O.C
PO Box 3619
Postal Code 112, Ruwi
Sultanate of Oman

Attention : The Directors

Cc: Blue City Company 4 S.A.O.C.
Blue City Phase One Investment Company Limited
Blue City Future Phases Investment Company Limited
Blue City Share Investments Limited
Blue City Phase One Land Company Limited
Al Sawadi Investment & Tourism Company LLC
Renny Borhan, Hill International (UK) Limited.

Ref. BC/A.00.05/RR/LTR00237

STRICTLY PRIVATE AND CONFIDENTIAL

Re: Blue City Company 1 S.A.O.C (" BC1") – Waiver Requests

Dear Sir/Madam,

We are writing to request that the Issuer Note Trustee pursuant to Clause 6.2 (*Instructing the Issuer Security Trustee*) of the Note Trust Deed instructs the Issuer Security Trustee, and the Issuer and the Issuer Security Trustee pursuant to Clause 17.6 (e) (*Rights and Discretions of the Phase 1 Security Trustees*) of the Phase 1 Intercreditor Agreement direct the Phase 1 Offshore Security Trustee to give effect to:

- (i) a waiver of the requirement to pay interest on the Facility C Loan and the Facility D Loan due on 7 February 2009 on the condition that such accrued amounts of interest are deferred and will fall due for payment (together with all other accrued amounts in respect thereof) on the Second Legal Final Maturity Date in accordance with the requirements set out in Condition 16 (*Subordination and Deferral of Interest and Principal*) of the Notes; and
- (ii) a waiver of the requirement pursuant to paragraph 2.3(h) of Schedule 6 (*Accounts Procedures*) to the ILA to maintain a minimum balance of US\$20,000,000 standing to the credit of the Offshore Escrow Account until the date of acquisition for a minimum of US\$20,000,000 by the Borrower of the Al Sawadi Hotel or the shares in the company holding the Al Sawadi Hotel.



We are also writing to inform you that, pursuant to paragraph 2.3(g) (*Withdrawals from the Offshore Escrow Account*) of Schedule 6 (*Accounts Procedures*) to the ILA (the "**Accounts Procedures**"), Shortfall Obligations are likely to exist on the Interest Payment Date falling in February 2009 such that BC1 is likely to be required to demand partial repayment of the loan made by it to the Issuer to fund the Mandatory Deposits and that we propose to demand an amount sufficient to enable BC1 to pay interest due on the Facility A Loan and the Facility B Loan.

Terms used herein, where not specifically defined, are as defined in the various Transaction Documents (as defined in the ILA).

Background to the Waiver Request

Condition 16 (*Subordination and Deferral of Interest and Principal*) of the Notes contemplates that if there are insufficient amounts available to the Issuer to pay scheduled interest or scheduled principal on the Class B Notes, the Class C Notes and the Class D Notes, the due date for payment is deferred until 7 November 2016 (the Second Legal Final Maturity Date). Therefore the holders of the Class B Notes, Class C Notes and Class D Notes purchased the Notes in the knowledge that payment of interest and principal may be deferred. However, there is currently no ability for interest or principal due on the Facility B Loan, Facility C Loan or Facility D Loan to be deferred.

Reconfiguration of the Master Plan and Pending Sales Test Proposals

As you will be aware from previous consents and waivers requested from you, BC1 together with its advisers and the other transaction parties has undertaken a significant amount of work to reconfigure the Master Plan. The effect of reconfiguring the Master Plan is to optimise the land usage, densities and sales values and accommodate an enhanced infrastructure plan. As a consequence of the reconfiguring BC1 will shortly be making certain proposals to you in relation to:

- (i) amendments to the Sales Tests and related waivers;
- (ii) updating the Financial Model to reflect the revised cashflow and projected costs which will demonstrate the ability to meet each of the revised Sales Tests and interest and principal on all Classes of Notes on or before the relevant Legal Final Maturity Date; and
- (iii) certain amendments to the Construction Contract in order to give effect to the reconfigured Master Plan and further optimising the programme of Works pursuant to ongoing discussions with the Construction Contractor.




Deferral of interest on the Facility C Loan and the Facility D Loan

The process of reconfiguring the Master Plan, renegotiating the Construction Contract and revising the Financial Model has resulted in short term delays to revenue generation from sales proceeds. Due to the requirement to maintain a minimum balance of US\$20,000,000 in the Offshore Escrow Account until acquisition of the Al Sawadi Hotel, there are insufficient funds available in the Offshore Escrow Account to pay interest on the Facility Loans. Whilst the Second Senior Debt Service Reserve Account (which has been fully drawn) and the Senior Debt Service Reserve Account can be utilised to meet interest due on the Facility A Loan and the Junior Debt Service Reserve Account can be utilised to meet interest due on the Facility B Loan, there are no Mandatory Deposits available to service interest due on Facility C Loan and the Facility D Loan. A failure to pay interest on the Facility C Loan or the Facility D Loan entitles the Offshore Security to take any of the actions specified in Clause 25.21 (*Acceleration*) of the Intercompany Loan Agreement.

Given the progress being made by BC1 and the Construction Contractor in reconfiguring the Master Plan, in our view it would be in the interests of the Issuer and the Class A Noteholders (and ultimately all Classes of Noteholders given expected sales revenues) that (i) accrued interest on the Facility C Loan and the Facility D Loan due on 7 February 2009 is deferred for payment in accordance with the deferral arrangements in the Conditions of the Notes and (ii) the current shortfall in the minimum required balance of the Offshore Escrow Account is waived in each case in order to provide BC1 time to generate sufficient cashflow to meet all obligations due under the Intercompany Loan and the Notes. As outlined above we will shortly be submitting further proposals for your consideration which will include a revised Financial Model in order to evidence how this will be achieved.


Next Steps

We look forward to discussing these issues with you at our meetings planned for 1 p.m. at your offices in New York on 12 January 2009. As you will appreciate these represent serious issues for BC1 in respect of which we are taking extensive legal and financial advice. Our legal advisers, Clifford Chance LLP, will be available to dial in to the meeting if required.

We understand that instructions in respect of these waivers amendments and instructions may be given by the Issuer Note Trustee to the Issuer Security Trustee, the Issuer and the Phase 1 Offshore Security Trustee without a resolution of the Noteholders. We would be grateful if you would confirm at your earliest convenience that separate Noteholder consent will not be required to any of the issues raised in this letter.

Yours faithfully,

For and on behalf of Blue City Company 1. S.A.O.C


Richard P. Russell, P.E.
Managing Director & CEO



By countersigning this letter:

1. The Phase 1 Offshore Security Trustee and the Issuer agree to the waivers contemplated by this letter.
2. The Issuer and the Issuer Security Trustee pursuant to Clause 17.6 (e) (*Rights and Discretions of the Phase 1 Security Trustees*) of the Phase 1 Intercreditor Agreement instruct the Phase 1 Offshore Security Trustee to give the consents, agreements and instructions referred to above.
3. The Issuer Note Trustee pursuant to Clause 6.2 (*Instructing the Issuer Security Trustee*) of the Note Trust Deed instructs the Issuer Security Trustee to give the instruction referred to above.

Bank of New York (in its capacity as Phase 1 Offshore Security Trustee)

By

Bank of New York (in its capacity as Issuer Security Trustee)

By

Bank of New York (in its capacity as Issuer Note Trustee)

By

Bank of New York (in its capacity as Project Offshore Security Trustee)

By

The Issuer

By

05 090701 BC. A3.00.05/RR/LTR00237 – BoNY Waiver

Page 5 of 5



المدينة الزرقاء

AL MADINA A'ZARQA

