



THE BANK OF NEW YORK MELLON

Default Administration Group
101 Barclay Street – 8W
New York, NY 10286

To: The Directors
Blue City Company 1 S.A.O.C.
P.O. Box 3619
112 Ruwi
Sultanate of Oman
(BCC1)

Copy: ✓Hill International (UK) Limited
1 London Bridge
London SE1 9GB
United Kingdom
(Technical Advisor)

Bayerische Hypo- und Vereinsbank AG
London Branch
Moor House
120 London Wall
London EC2Y 5ET
United Kingdom
(HVB)



July 20, 2009

Dear Sirs,

Blue City – Outstanding Issues

We refer to the \$925,000,000 Intercompany Loan Agreement dated 27 October 2006 (the **ILA**) between, amongst others, Blue City Company 1 S.A.O.C. and The Bank of New York Mellon (under its then name The Bank of New York) and to your letter to Bayerische Hypo- und Vereinsbank AG dated 29 June 2009 (the **Bond Reduction Letter**) which has recently been passed on to us. Terms used herein and not otherwise defined shall have the meaning given to them in the ILA.

Outstanding Issues

We are currently aware of a number of issues affecting the Project which are a cause for concern, namely:

1. The failure by BCC1 to submit its annual audited financial statements and to procure submission by each of the Phase 1 Obligors and Ocean of their respective annual audited financial statements in each case to the Issuer and to the Phase 1 Offshore Security Trustee as required by Clause 17.1 of the ILA.
2. The failure by BCC1 to comply with the Sales Tests set out in "Test 1", "Test 2", "Test 3" and Test 4" of Schedule 8 to the ILA.

3. The likelihood that BCC1 will fail the first Sales Test set out in "Test 5" of Schedule 8 to the ILA in November 2009, and the resulting obligation on BCC1 to make a mandatory prepayment on the loans pursuant to Clause 7.1(a)(ii) of the ILA.
4. The continuing inability of BCC1 to meet all payments due under the Construction Contract and under the Loans in accordance with the Borrower Pre-Enforcement Priority of Payments and the Contractor's suspension and termination rights which arise under the Construction Contract if BCC1 fails to pay the Contractor the amounts owing to it.
5. The agreement between BCC1 and the Contractor by means of various addenda to the Construction Contract (the **Addenda**) to meet payments owing to the Contractor by means of supplemental deductions to the Advance Payment (**AP**).
6. The reduction of the Advance Payment Security (**APS**) otherwise than in accordance with the Transaction Documents.
7. The failure by BCC1 to maintain the Senior Debt Service Reserve Account (**SDSRA**) at its required amount.
8. The failure by BCC1 to submit concrete proposals for resolving the ongoing problems with the Project in a timely manner and to request the consent of the holders to the same (or indeed to any of the abovementioned matters).

We are particularly concerned about the recent developments in relation to the AP and the APS, and the lack of an agreed timetable for submitting proposals for resolving the ongoing problems with the Project.

Supplemental deductions to the AP

It is evident from a letter dated 10 March 2009 from BCC1 to AECO Development LLC that BCC1 have commenced making supplemental deductions to the AP. These supplemental deductions have continued up to and including the most recent Interim Payment Certificate and are not contemplated by the Transaction Documents. We continue to consider the effect of these supplemental deductions, the amendments set out in the Addenda and any breach of the terms of the Transaction Documents caused by such amendments and reserve all our rights in this regard.

Reduction of the APS

It is evident from the Bond Reduction Letter that BCC1 have significantly reduced the Security Amount of the APS. Such a reduction is not in accordance with the terms of the Construction Contract or the APS. We continue to consider the effect of this reduction and any breach of the terms of the Transaction Documents caused by it and reserve all our rights in this regard.

Further Action

In view of the above, we request and require that you:

1. submit the relevant annual audited financial statements of BCC1, each Phase 1 Obligor and Ocean to us;
2. outline the steps BCC1 intends to take in respect of the failed Sales Tests and the upcoming Sales Tests set out in "Test 5" of Schedule 8 to the ILA;

3. immediately withdraw the notice of reduction given pursuant to the Bond Reduction Letter and with the agreement of HVB restore the Security Amount of the APS to the level it was at immediately prior to the date of the Bond Reduction Letter;
4. do not execute any other document which varies, modifies, amends or waives any term of the Construction Contract without our prior written approval;
5. outline the steps BCC1 intends to take to ensure that there are sufficient funds in the Offshore Escrow Account to meet all payments due under the Borrower Pre-Enforcement Priority of Payments on the next Interest Payment Date including the amount required to be paid to the Issuer to increase the amount standing to the credit of the SDSRA to the SDSRA Required Amount;
6. promptly notify the Noteholders (any notice to the Noteholders will be subject to our prior written approval in our capacity as Issuer Note Trustee) of the most significant amendments to the ILA and the other Transaction Documents that will form part of the consent requests on the proposed restructuring of the Project;
7. promptly provide the Noteholders with a timetable for seeking their consent; and
8. as soon as practicable, provide drafts of the documents that will amend and, where applicable, restate the Transaction Documents to effect such restructuring so that such documents can be agreed amongst the parties thereto and then formally put to the Noteholders for their approval at Noteholder meetings.

Notice to Noteholders

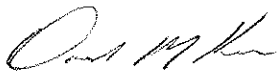
We have today issued a notice to the Noteholders notifying them of the outstanding issues listed above and referring to this letter.

General

In view of the seriousness of the issues raised above, we should be grateful if you would respond to this letter and to our requirements listed above as a matter of urgency.

This letter is sent without prejudice to our rights under the ILA and the other Transaction Documents and we reserve all our rights in that regard. This letter is not a waiver of any breach or potential breach of the ILA or any other Transaction Document or of any Default.

Yours faithfully,



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for and on behalf of **The Bank of New York Mellon**
in its capacity as Phase 1 Offshore Security Trustee