

To: Blue City Company 1 SAOC
P O Box 3619
Ruwi, P.C.112
Sultanate of Oman

Cc: Bank of New York Mellon
(Issuer Note Trustee) (Phase 1 Offshore Security Trustee)
Attention: Mr. David Kerr/Mr. Anthony Bausa

11 Mar 2011

Our Ref: BC/TABC/1103011

Dear Sirs,

Re: Project Update

In view of the growing uncertainty in relation to the potential outcome of BCC1's efforts to secure additional financing and the continuing lack of transparency in reporting matters relevant to the Project and to the state of Material Project Documents, we reiterate that the Transaction Documents continue to be in effect, together with any and all obligations of the various parties.

Accordingly and as further detailed in section 3 below, we request that you provide update information about the current state of the Project, including matters associated with the Construction Contract and the Engineer's Agreement, parties to which are in Direct Agreements with the Phase 1 Offshore Security Trustee (the "**Trustee**").

1. Background

The last cash payment that BCC1 paid out to the Contractor from funds standing in the balance of the Project Accounts was in December 2008 (relating to works of September 2008, IPC#23). Following that payment, BCC1 did not have sufficient funds to meet the payment that fell due under the Construction Contract in the month of January 2009 (relating to works of October 2008, IPC #24). The then unamortized balance of the Advance Payment ("**AP**") was circa \$121.5 Million. The unamortized balance of the Advance Payment is secured under the Construction Contract by an Advance Payment Security ("**APS**").

Pursuant to the Intercompany Loan Agreement ("**ILA**") the APS forms part of the Construction Security (Material Project Document) and constitutes an integral part of the Security Interests. In case the Finance Parties ever decided to enforce any of their rights post the occurrence of a continuing Event of Default, the APS would be an instrument for additional cash remedies. A continuing non-payment to the Contractor would constitute a continuing Event of Default by virtue of at least 25.6 and/or 25.12 of the ILA and 16.2 (a) of the Construction Contract.

By entering into a number of agreements to amend the Construction Contract (Addenda 3-7, the “**Addenda**”), BCC1 and the Contractor utilized the entire balance of the AP towards funding construction at a time when no cash was available to BCC1 for this purpose and, ultimately, reduced the level of the APS to zero. The Addenda involved also a series of other changes to the Project’s scope, cost and schedule.

Agreeing and/or operating the terms of the Addenda in the absence of requisite consents from the Trustee was in breach of express provisions of the Transaction Documents, including the Intercompany Loan Agreement and the Construction Contract Direct Agreement (Trustee’s Notice to the Noteholders of July 20th 2009 and letters to BCC1 of July 20th 2009 and October 1st 2009).

Indicatively, clause 12.13 of the Construction Contract Direct Agreement provides:

“Each of the Contractor and the Company [BCC1] undertakes to the Phase 1 Offshore Security Trustee not to materially vary or depart from the terms of the Contract without the prior written consent of the Phase 1 Offshore Security Trustee and agrees that any material variation or departures made without such consent shall not be binding on the Phase 1 Offshore Security Trustee, not shall it affect or prejudice the Phase 1 Offshore Security Trustee’s rights hereunder or under the Contract or in any other way”

We are not aware if BCC1’s continuing departure from provisions of the Transaction Documents was related or not to any restructuring/waiver of defaults expectations arising from the fact that a certain entity (Essdar) submitted an offer to purchase a controlling stake of the Class A notes in August 2009 and finally concluded the acquisition of the vast majority of the Class A Notes later on (June 2010). Regardless of any change(s) in the holdings of the Blue City Notes, the Transaction Documents are in effect.

Notwithstanding the above, according to the work schedule that was adopted under the unapproved Addenda, BCC1 used a significant part of the balance of the Advance Payment towards funding design and construction works of the Amphitheatre Hotel, a non-residential, not sold, non revenue-generating for debt service, section of the development. We understand that this was due to a promise of BCC1’s/ASIT’S Chairman to higher Omani officials to have the hotel operational during the Asian Beach Games that were to be held in Oman in December 2010.

Despite depleting the balance of the AP, construction of the Project stopped anyway later on in the absence of additional funding being secured by BCC1. The Contractor suspended works in December 2009, with construction works at the hotel reaching a 26.5% completion stage (according to the Contractor’s progress reports).

2. Current status

Design and construction works on the Blue City Project continue to be suspended due to lack of financing.

We understand that the Contractor has not exercised yet any rights to terminate the Construction Contract and, whilst it has demobilized a large number of its workforce, it holds on to its contract and sustains a management and operations team on site (headcount of 136 in December 2010). Activities currently being carried out by the Contractor’s team reportedly relate to overall administration and the protection of the site and of the works.

The Contractor continues to submit monthly applications for payment. We have not been receiving any of the Engineer’s certificates from BCC1 and have no information as to how the Contractor’s ongoing operations are currently funded.

With regard to the Engineer, we understand that they are currently sustaining a small team assigned on the project and are mainly engaged in carrying out tasks relevant to the administration of the Construction Contract during the suspension period (payments certifications, claims management, support with local authorities regarding building permit matters). It has also come to our attention that BCC1 and the Engineer continue to be in dispute over a number of outstanding payments due under the Engineer's Agreement.

Despite the ongoing suspension of works due to lack of financing and regardless of any change(s) in ownership of the Blue City Notes that may have occurred in the meantime, we understand that the Transaction Documents continue to be in effect.

3. Request for Information

In view of the above, please provide the following:

A. Construction Contract

1. The outcome of SOP 4 discussions between BCC1 and the Contractor and information about any further amendments that BCC1 and the Contractor have made to the Construction Contract post Addendum 7.
2. The level of monthly payments continued to be certified for payment to the Contractor during the suspension period, funding sources and a list of activities currently undertaken by the Contractor.
3. The total amount currently outstanding under the Construction Contract according to the Engineer's certificates.
4. Breakdown of amounts paid to the Contractor by utilization of balance of the AP, by Project Section and Cost Category (Design, Preliminaries, Prime Cost, Fee, etc).
5. Breakdown of amounts paid to the Contractor in relation to work carried out by Subcontractors of Schedule 17 (e.g. Design subcontractors) and copies of the relevant Subcontractor Collateral Agreements per requirements of 4.4 (c) of the Conditions.
6. A signed copy of the Performance Security.

B. Engineer's Agreement:

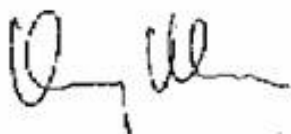
1. Number of staff assigned on the Project, positions maintained and a list of tasks carried out by the Engineer's team.
2. Engineer's monthly running costs.
3. Total amounts outstanding under the Engineer's Agreement.

C. BCC1's Operations

1. Current state of BCC1's efforts to secure additional funding and expected timeframe for conclusion.
2. Number of staff assigned on the Project, positions maintained and a list of tasks carried out by BCC1's team.
3. Level of monthly operating costs and sources of operational funding.

We look forward to receiving the information.

Yours truly

A handwritten signature in black ink, appearing to read 'Renny Borhan', with a stylized flourish at the end.

Renny Borhan

For and on behalf of

Hill International

As the Technical Advisor