

25th August 2009

Subject : **Blue City Company 1 S.A.O.C (" BCC1") – Meeting Request**

Dear Sir,

Blue City Company 1 (BCC1) proposes to call for an informal meeting in London with all anchor Class A Note holders with more than a 10% holding, along with AXIS Insurance, to discuss suggestions regarding preferences related to project restructuring, acceleration/default. We are proposing to meet on Thursday, 3rd September, 2009 at the Intercontinental Hotel London Park Lane for a joint confidential informal meeting in this respect at a time to be communicated shortly. The following is material for you to consider in evaluating your preferences towards restructuring, acceleration/ default:

1. Recent reports and notices from BoNY indicate that there is insufficient funding available in the project accounts for continuing construction.
2. The Sales Tests, as prescribed in the ILA, cannot be met and are a clear error in the funding documentation. This issue has been highlighted in our previous letter dated 18 November 2008 whereby we notified BoNY of our intention to seek consent to modify the Sales Tests criteria. To date, the real estate market continues to go through a challenging environment.
3. Undeveloped property or assets cannot be sold unilaterally by BCC1 as per transaction documents.
4. Even if BCC1 obtains consent to sell undeveloped land from both the disputing shareholders, the insurance company, the Trustee and the Class A Note holders, we have assumed that a market does not exist to purchase the land (pre or post default/ acceleration) on account of:
 - (a) the complicated provisions of the Development Agreement affecting third party developers,
 - (b) security enforcement issues in the Sultanate of Oman,
 - (c) existing problems related to sale of residential units faced by the project due to the continuing share holder dispute and speculation that there will be a default on the senior secured bonds.
 - (d) the Royal Decree No. 59/ 2006 pertaining to the special status and benefits granted solely to ASIT which cannot be assigned or secured in favor of any third party and which will lapse upon liquidation of Al Sawadi Investment and Tourism Company (ASIT).
5. BCC1 have therefore assumed a zero valuation on the land parcel if the land parcel cannot be developed by ASIT (BCC1) itself. Alternatively, a purchaser of ASIT is required to be found with the capability to develop this project, substantial resources to commit, capability to take substantial real estate development risk in this market, can settle with twin disputing shareholders to acquire stake in ASIT (minimum 30% required to be held by Omani shareholders) and can obtain relevant approvals from the Government of Oman. To date, we have not been able to identify any potential purchaser.



6. This zero valuation of land is also validated by reverse calculating the pricing (recovery value expectations) of Class A1 and Class A3 Notes determined through open public auction process done by Essdar Investments Limited recently, where significant majority in number (not amount) of known Class A note holders have tendered their notes to Essdar.
7. BCC1 continues to believe that the land value is significant to recover the entire principal of Class A Note holders, if the land can be developed by ASIT (BCC1) by utilising the current cash reserves (PGCRA, SDSRA, JDSRA) and through new real estate sales (assuming real estate markets recover shortly).
8. Any restructuring proposal will need to consider how cash can be made available for construction purposes; either from the cash reserves (PGCRA, SDSRA, JDSRA) secured for the Note holders or from issuance of fresh debt for cash (probably to the existing Note holders) or release of other reserves to include the insurance premium reserve (by cancellation of insurance policy with settlement compensation) or release of the minimum balance required to be maintained for purchase of the Al Sawadi Hotel.
9. In the current environment, raising equity for the project from existing or new shareholders is not assumed as a probability by BCC1 management. Also raising additional debt from third parties (other than existing note holders) is not assumed by BCC1 management. BCC1 is aware of some rumors circulating in the marketplace related to government intervention, however, these rumors are unfounded.
10. Any restructuring proposal, including debt to equity swaps, will be considered by BCC1 management and promptly informed to the shareholders. However, in our view these options would be complicated on account of the unresolved dispute between the two key shareholders of ASIT, the complicated structure associated with the security package on the assets of the project and the minimum requirement for 30% Omani shareholding.
11. BCC1 management is not in discussions with any party to restructure and intends to continue working within the existing structure of the project to manage the challenges posed by the current real estate development environment.

As you are aware the global real estate market is currently witnessing a down cycle. Even if this situation changes in the near future the current finance structure under the transaction documents for the project is completely detrimental to the success of the project.

We would be pleased to get confirmation of your participation and to hear your views in the proposed meeting to allow us to consider your preferences related to restructuring (the invitees in this informal meeting constitute substantially more than 90% of Class A Note holders). BCC1 will immediately communicate the information discussed to the two disputing shareholders. Alternatively, you may propose to instruct the Trustee to call for acceleration/ default.

Thank you for our attention to this matter.

Yours faithfully,
For and on behalf of Blue City Company 1 SAOC



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

