



January 6, 2011

Steve Ray
Banning Ranch Conservancy
P.O. Box 16071
Newport Beach, CA 92659-6071

Re: Newport Banning Ranch “Willing Buyer” Letter

Dear Mr. Ray:

The purpose of this letter is to respond to your request for a “willing seller” letter from the owners of the Newport Banning Ranch property (“NBR”) to assist you in your efforts to locate and secure funding for acquisition of NBR as open space. You will recall, before your request for such a letter can be presented to the owners for their consideration, we have asked you to produce a “willing buyer” letter that would outline the various terms that would be pre-requisites to any discussion regarding an acquisition of the property. Although you previously committed to do so in September 2010, we have not received anything from you. You have instead amended your commitment to ask us for an outline of terms that would need to be addressed in any “willing buyer” letter. This letter responds to that request. Once we receive your “willing buyer” letter, we will present that to the owners for their consideration.

As you know, NBR site is a very complex piece of property. The land is heavily impacted by more than 60 years of intensive oil production activity encumbering most of the surface. These operations are governed by an entity separate and apart from the NBR surface ownership group. Any re-use or acquisition discussion will need to deal with the issues related to this diverse reality of surface and mineral ownership and rights thereto.

Nevertheless we understand that, despite the passage of nearly five years since City Council and voter approval of the General Plan Update without any apparent progress thus far in securing public or private funds, you desire to continue to pursue the “open space” alternative. On the other hand, we continue to believe that the second option in the General Plan, a limited, mixed-use residential village to be developed pursuant to a comprehensive development plan, is the only achievable alternative – and one that will clean, restore, and protect more than 60% of the property as permanent open space at no cost to the public.

In order to respond to your request, the following is intended to outline a number of important areas of concern and terms that would have to be definitively addressed in any

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potential “willing buyer” letter to acquire the property pursuant to the open space alternative:

Nothing herein implies the NBR owners are willing sellers and that decision can only be made by the owners and their respective boards who retain the sole and unfettered discretion to accept or reject such a notion.

Identification and Qualification of Proposed Buyer (“Buyer”)

- Evidence that Buyer is a non-profit corporation or similar entity formed for the primary or exclusive purpose of acquiring, preserving and maintaining open space and that has the ability to pay the Purchase Price (see definition below).
- Description of Buyer’s management team and related experience documenting Buyer’s strategy and providing evidence as to Buyer’s capabilities related to oil field clean-up, habitat restoration, and long-term management of the property.

Oil Remediation and Clean-up

- Under the General Plan open space alternative there would be no regulatory requirement or financial incentive for the mineral rights owner to consolidate surface operations. How does the Buyer propose to handle this matter?
- How do you propose to handle the fundamental issue of seller indemnification and release of liability?

Restoration

- Without the economic incentive for consolidation of oil operations or funding necessary for remediation that is directly associated with the limited development alternative in the General Plan (being pursued by the owners of NBR), public access and habitat restoration is likely to be delayed significantly, or could only occur in small areas around and intermixed with the complex network of existing oil roads, un-remediated areas, wells, and other facilities. How does the Buyer propose to handle this matter?

Valuation Issues

- Commitment to methodology for valuation. The Purchase Price shall mean the fair market value of Newport Banning Ranch as determined by an appraisal prepared by an MAI appraiser selected by NBR from a list of MAI appraisers mutually agreed to by the City of Newport Beach and NBR, and shall assume that all costs have been expended by NBR to fully remediate the Newport Banning Ranch for the development alternative purposes. Costs and fees to acquire entitlements shall not be included in the Purchase Price. The appraisal would use the General Plan’s Development Alternative (including 1,375 market rate residential units) as the highest and best use, and shall assume (i) receipt of all requisite governmental entitlements, subdivision maps, approval of engineering plans and other permits (other than building permits) for development on not less than 40% of the NBR, and (ii) that the Development Agreement is in effect.

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- While not endorsing City efforts, it should be noted that a Consultative Pricing Study independently performed by the City in 2009 derived a value for the property in excess of \$200,000,000.

No Partial Acquisitions

- Acknowledgement that Buyer intends to purchase entire property at close of escrow and that there are no proposed partial acquisitions.

Funding Issues

- Detailed identification of Buyer's non-contingent funding sources and evidence of commitments.

Other

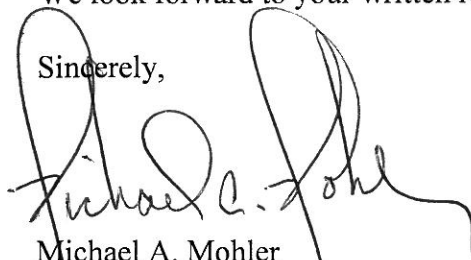
- Acknowledgement that NBR will continue to process the applications necessary to develop the limited, mixed-use residential village, as authorized by the General Plan.
- Acknowledgement that Buyer would work with the City of Newport to resolve public roadway and parks needs.
- Acknowledgement that NBR, if acquired, be deed restricted in perpetuity for open space

In closing, we would like to reiterate our many prior solicitations to you and the Banning Ranch Conservancy, that you consider working with us to create a consensus plan for Newport Banning Ranch – a plan that:

- Includes an appropriate development component that can help accomplish all of the challenges outlined in this letter – at no cost to the public;
- Includes a major natural open space element that can serve as a centerpiece for the future Orange Coast River Park;
- Includes a role for Banning Ranch Conservancy in planning, restoring and managing the natural open space element.

We look forward to your written response to the issues raised in this letter. Thank you.

Sincerely,



Michael A. Mohler
Newport Banning Ranch LLC