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Michael Jenkins, Esq.
Jenkins & Hogin, LLP
Manhattan Towers
1230 Rosecrans Avenue, Suite 110
Manhattan Beach, CA 90266

Re: *E&B Proposed Oil and Gas Project*

Dear Mr. Jenkins:

I represent E & B Natural Resources Management Corporation in connection with its disputes with the City of Hermosa Beach arising out of the City's breaches of its March 9, 2012 Settlement Agreement with E & B and Macpherson Oil Company. I am not going to recite all of the facts relating to those breaches because they have previously been set-forth in detail in two lengthy briefs provided in an effort to prompt a non-litigation resolution of the dispute. To lay the appropriate context for both the Settlement Agreement and the ensuing dispute, it cannot be refuted that E & B rescued the City from its own self-created economic disaster with Macpherson Oil. Unfortunately, notwithstanding E & B's literal rescue of the City from its own financial ruin by virtue of the Settlement Agreement, E & B has nonetheless been met with various acts of bad faith on the part of the City, including what amounted to a de-facto official opposition by the Council to the ballot initiative, which was to fairly put the question of oil drilling to the City's electorate. Moreover, the City has not, as it is obligated to do under the Settlement Agreement, negotiated and agreed in concert with E&B on the various commercially reasonable terms of repayment and interest for the loan.

In the spirit of good faith, we engaged in the significant effort required to draft the briefs to outline our legal position, which we provided in the hope that this information exchange would prompt the parties to agree to a formal mediation or, at a minimum, a settlement discussion regarding the proper amount of interest owing to E & B. Nevertheless, in the three months since the exchange of our briefs, no such commitment has been reached to mediate or engage in a substantive settlement dialog regarding the dispute. The lack of progress between the parties as to mediation and/or substantive settlement discussions to-date leaves E & B no choice except to demand that the City agree in writing by 5:00 p.m. PDT on October 28, 2015, to participate in a formal mediation of the issue of interest, including the amount and the time at which it should commence.

The mediation must take place in Los Angeles prior to the end of this year before a mutually agreed mediator under the auspices of JAMS. If the parties are not able to agree on a mediator



who is able to conduct the mediation prior to the end of this year, the parties will agree to any available mediator designated by JAMS.

If the City does not agree to mediation by October 28, 2015, E & B will immediately file and serve a complaint against the City. If E & B is forced to file a complaint, it will assert against the City all of its claims arising out of the City's breaches and not just the City's failure to pay sufficient interest from the commencement of the loan. E&B will also put at issue the City's bad faith in undermining the success of the ballot initiative.

E&B believes that it will prevail in that litigation and will recover not only its damages, but also its attorneys' fees and costs, to which it is entitled under the Settlement Agreement. Please confirm to me in writing by the date and time indicated above that the City agrees to mediation as described above.

Sincerely,

A handwritten signature in black ink, appearing to read "Dan Murphy", written over a large, faint circular watermark or stamp.

Daniel G. Murphy
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