

RESOLUTION NO. 15-51

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LANCASTER APPROVING A DISPOSITION AND DEVELOPMENT AGREEMENT BY AND BETWEEN THE CITY OF LANCASTER, POTENTIAL INVESTMENTS, A CALIFORNIA LIMITED LIABILITY COMPANY, AND JULIAN BAY

WHEREAS, the City of Lancaster (“City”) is a chartered city organized and operating under its city charter (the “Charter”) and the laws of the State of California; and

WHEREAS, Potential Investments, a California limited liability company (“Potential”) has proposed to the City an agreement substantially in the form submitted herewith, entitled Disposition and Development Agreement (the “DDA”); and

WHEREAS, a copy of the DDA, together with a report describing the proposed transaction, has been on file with the City Clerk as a public record; and

WHEREAS, notice of a public hearing to consider the DDA, and which specifically referenced Government Code Section 53083, was published in a newspaper of general circulation serving the City and its inhabitants; and

WHEREAS, under the DDA, the City would convey certain property consisting of approximately 14 acres of designated land referenced in the DDA as the “Project Site”, which Project Site is located on the south west corner of Avenue H and Trevor Avenue, to Potential whereupon Potential, and its principals (together, the “Related Persons”), would be obligated to establish and operate a brewery and event space on the Project Site, which will be an expansion over existing restaurant and micro-brewery located within the corporate limits of the City, and to continue to operate on such other property within Lancaster BLVD as owned by one or more of the Related Persons for a period of twenty (20) years (the “Operating Covenant Period”); and

WHEREAS, Potential would not establish expanded brewery facilities within the City but for the approval of the DDA; and

WHEREAS, by the establishment of new brewery facilities as well as retention of other facilities operated by the Related Persons within the corporate limits of the City during the Operating Covenant Period, the City will continue to be the beneficiary of substantial sales tax revenues and jobs over a significant period of time, all as more particularly set forth in the DDA; and

WHEREAS, particularly in light of the elimination of redevelopment agencies as effected by enactments of the California Legislature in 2011 and 2012, including the former Lancaster Redevelopment Agency, the generation of tax revenues available to the City is important in preserving the ability of the City to provide an acceptable level of core municipal services to its inhabitants; and

WHEREAS, the consideration to be paid by Potential for the Project Site under the DDA is not less than the fair market value; and

WHEREAS, a public meeting of the City Council on the proposed DDA was duly noticed; and

WHEREAS, the proposed DDA, and a staff report have been available for public inspection prior to the public meeting; and

WHEREAS, all actions required by all applicable law with respect to the proposed DDA have been taken in an appropriate and timely manner; and

WHEREAS, the City Council has duly considered all of the terms and conditions of the proposed DDA and believes that the DDA is important to make available to the City for the benefit of its inhabitants an additional source of sales tax revenues, jobs, and is in the best interests of the City and the health, safety, and welfare of its residents, and in accord with the public purposes and provisions of applicable state and local laws and requirements.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF LANCASTER DOES RESOLVE AS FOLLOWS:

Section 1. The City Council hereby finds and determines that: (i) each statement made in the recitals is true and correct; (ii) by generating additional revenues to the City, the DDA will benefit the City and its inhabitants; (iii) the consideration to be paid by Potential for the Project Site under the DDA is not less than the fair market value; and (iv) the assistance provided by the City under the Agreement, in the form of off-site street improvements, is necessary for the economic feasibility of the development and the assistance cannot be obtained on economically feasible terms in the private market.

Section 2. The City Council hereby approves the DDA in substantially the form presented to the City Council, subject to such revisions as may be made by the City Manager or his designee. The City Manager is hereby authorized to execute the DDA (including without limitation all attachments thereto) on behalf of the City. A copy of the DDA when executed by the City shall be placed on file in the office of the City Clerk.

Section 3. The City Manager is hereby authorized, on behalf of the City, to make revisions to the DDA which do not increase any amounts to be paid by the City or materially or substantially increase the City's obligations thereunder, to sign all documents, to make all approvals and take all actions necessary or appropriate to carry out and implement the DDA and to administer the City's obligations, responsibilities and duties to be performed under the DDA and related documents.

PASSED, APPROVED and ADOPTED this _____ day of _____, 2015, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

ATTEST:

APPROVED:

BRITT AVRIT, CMC
City Clerk
City of Lancaster

R. REX PARRIS
Mayor
City of Lancaster

STATE OF CALIFORNIA }
COUNTY OF LOS ANGELES }ss
CITY OF LANCASTER }

CERTIFICATION OF RESOLUTION
CITY OF LANCASTER

I, _____, _____ City of Lancaster, CA, do hereby certify that this is a true and correct copy of the original Resolution No. 15-51, for which the original is on file in my office.

WITNESS MY HAND AND THE SEAL OF THE CITY OF LANCASTER, on this _____ day of _____, _____.

(seal)

DISPOSITION AND DEVELOPMENT AGREEMENT

By and Among

THE CITY OF LANCASTER

and

JULIAN BAY

and

POTENTIAL INVESTMENTS, LLC

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DISPOSITION AND DEVELOPMENT AGREEMENT

THIS DISPOSITION AND DEVELOPMENT AGREEMENT (this “Agreement”) is entered into and effective as of September 8, 2015, by and among the **CITY OF LANCASTER**, a charter city and California municipal corporation (the “City”), **POTENTIAL INVESTMENTS, LLC**, a California limited liability company (“Potential”), and **JULIAN BAY**, an individual (“Bay”), with reference to the following facts, intentions and understandings.

RECITALS

The renaissance of downtown Lancaster has catalyzed the creation of a number of successful small businesses, founded and operated by Antelope Valley residents. In 2011, the Lancaster City Council initiated a program to assist such startups in launching their operations. Called the Downtown Commercial Property Improvement Program, it provided matching grant funding of up to \$40,000 for such activities as renovating facades and capitalizing on the BLVD’s pedestrian-friendly design to build outdoor dining spaces.

B. Kinetic Brewing Company was among the beneficiaries of this grant program. Since opening for business in December 2011, Kinetic has taken the microbrewery world by storm. Under the leadership of co-owner Myrle McLernon and co-owner/master brewer Steve Kinsey, Kinetic has won top awards at national and international competitions such as the Great American Beer Festival, Los Angeles International Beer Competition, and Bistro Double IPA Festival. The Los Angeles Times named the microbrewery/brewpub one of “Five Standout” brewers at 2013’s L.A. Beer Week, while L.A. Weekly ranked it one of the top five “Best Brewpub Happy Hours in Los Angeles” in 2014. With continuous critical acclaim and media attention, Kinetic has quickly grown from a fledgling startup to the premier microbrewery in northern Los Angeles County.

C. With growing notoriety has come expanded reach. Kinetic is now making four times as many barrels of its specialty microbrews as it did in its first year of operation. Currently, these brews can be found in a variety of gastropubs and microbreweries throughout Los Angeles and San Diego Counties – and demand is steadily increasing.

D. To satisfy this demand, Kinetic would like to expand beyond its current status as a brewpub to a large-scale production brewery. To this end they will create a new subsidiary called Potential Investments, which will develop the brewery. The City has worked with Potential to identify an ideal site, located at Avenue H and Trevor Avenue, for construction of the new facility. This approximately 14-acre site will enable them to immediately quadruple production capacity to 4,500 barrels a year, with production ramping up to 15,000 annually by its third year of operation. This exponential growth will enable the brewery to broaden distribution to counties throughout central and southern California, establishing a presence in boutique supermarkets such as Whole Foods in addition to gastropubs. Once production nears 20,000 barrels a year, it is anticipated that they will outgrow this new space and begin construction on phase two of the brewery. Phase two will double its size and capacity yet again, allowing the firm to expand distribution of its award-winning brews statewide. The facility is expected to employ approximately 100 workers at full build-out.

E. While Kinetic’s location on the BLVD is already considered a must-visit destination for microbrew enthusiasts, the new facility will increase the company’s tourism cachet still further. The brewery will feature a tasting room and outdoor space suitable for lounging and outdoor games,

as well as event space capable of accommodating up to 500 people. The space is designed as an ideal venue for such events as weddings and small festivals. In a nod to the firm's sustainability initiatives, it will be irrigated with water recycled on-site from the brewing process.

F. A majority of the proposed project site is currently owned by the City; the eastern portion of the proposed project site, which fronts on Trevor Avenue, is currently part of a parcel owned by private property owner Julian Bay. Because this portion of the property – located across Trevor from the bulk of Mr. Bay's parcel – is of little use to Mr. Bay and inhibits access to the primary project site, the City has negotiated to acquire, on a voluntary basis, this portion of Mr. Bay's parcel in exchange for the City constructing street improvements along Trevor Avenue. Once Mr. Bay conveys to the City that portion of his parcel needed for the proposed project site, the City will effect a subdivision to align the proposed project site's property line with the street. The fully assembled and subdivided lot constituting the proposed project site will then be sold to Potential for development.

G. The Trevor Avenue street improvements that the City will construct as consideration for Mr. Bay's conveyance will be funded by existing funds from the City's Capital Improvement Program and will further the City's efforts to establish an optimal street network for this vital industrial corridor. Furthermore, this effort is essential to development of Potential's proposed facility, and will also mold Mr. Bay's property into a shovel-ready site that is primed for job-creating development.

NOW, THEREFORE, in consideration of the mutual covenants and conditions hereinafter set forth, the parties hereto agree as follows:

100. DEFINITIONS

"Agreement" means this Disposition and Development Agreement by and among the City, Potential and Bay.

"Acquisition Property" means that certain portion of the Bay Parcel that is to be conveyed by the Acquisition Property Grant Deed to the City pursuant to Section 201. The Acquisition Property is generally located at the southwest corner of West Avenue H and Trevor Avenue in the City of Lancaster, California. The Acquisition Property is legally described in the Acquisition Property Legal Description attached hereto as Exhibit "D" and incorporated herein. Once it is conveyed to the City pursuant to Section 201 and the subdivision described in Section 202 is complete, the Acquisition Property will constitute a portion of the Project Site.

"Acquisition Property Grant Deed" means the Grant Deed by which Bay shall convey the Acquisition Property to the City pursuant to Section 201, substantially in the form attached hereto as Exhibit "H" and incorporated herein.

"Bay Parcel" means that certain parcel of real property owned by Bay and generally located along West Avenue H between Trevor Avenue and Division Street in the City of Lancaster, California (Assessor's Parcel Number 3137-010-032). The Bay Parcel is legally described in the Bay Parcel Legal Description attached as Exhibit "E" and incorporated herein. A portion of the Bay Parcel constitutes the Acquisition Property.

"City" means the City of Lancaster, a charter city and California municipal corporation.

“City Manager” means the City Manager of the City, or his or her designee.

“City Parcels” means those certain parcels of real property owned by the City and generally located along West Avenue H between Trevor Avenue and Sierra Highway in the City of Lancaster, California (Assessor’s Parcel Numbers 3137-010-900 and 3137-010-905). The City Parcels are legally described in the City Parcels Legal Description attached hereto as Exhibit “F” and incorporated herein.

“City’s Conditions Precedent” is defined in Section 306.1.

“Closing” is defined in Section 303.4.

“Closing Date” is defined in Section 303.4.

“Deed of Trust” means the Deed of Trust to be executed by Potential for the benefit of the City as security for payment of amount due under the Promissory Note, substantially in the form attached hereto as Exhibit “K” and incorporated herein.

“Down Payment” is defined in Section 301.

“Effective Date” means the date the City’s governing body adopts a resolution approving this Agreement.

“Environmental Consultant” is defined in Section 309.2.

“Escrow” is defined in Section 303.

“Escrow Agent” is defined in Section 303.

“Exceptions” is defined in Section 304.

“Governmental Requirement(s)” means all laws, ordinances, statutes, codes, rules, regulations, orders and decrees of the United States, the State of California, the County of Los Angeles, the City or any other political subdivision in which the Project Site is located, and of any other political subdivision, agency or instrumentality exercising jurisdiction over the City, Potential or the Project Site.

“Hazardous Materials” means any substance, material or waste which is or becomes, prior to the Closing, regulated by any local governmental authority, the State of California or the United States Government, including, but not limited to, any material or substance which is (i) defined as a “hazardous waste,” “extremely hazardous waste,” or “restricted hazardous waste” under Sections 25115, 25117 or 25122.7, or listed pursuant to Section 25140 of the California Health and Safety Code, Division 20, Chapter 6.5 (Hazardous Waste Control Law), (ii) defined as a “hazardous substance” under Section 25316 of the California Health and Safety Code, Division 20, Chapter 6.8 (Carpenter-Presley-Tanner Hazardous Substance Account Act), (iii) defined as a “hazardous material,” “hazardous substance,” or “hazardous waste” under Section 25501 of the California Health and Safety Code, Division 20, Chapter 6.95 (Hazardous Materials Release Response Plans and Inventory), (iv) defined as a “hazardous substance” under Section 25281 of the California Health and Safety Code, Division 20, Chapter 6.7 (Underground Storage of Hazardous Substances), (v) petroleum, (vi) friable asbestos, (vii) polychlorinated biphenyls, (viii) listed under Article 9 or

defined as “hazardous” or “extremely hazardous” pursuant to Article 11 of Title 22 of the California Administrative Code, Division 4, Chapter 20, (ix) designated as “hazardous substances” pursuant to Section 311 of the Clean Water Act (33 U.S.C. Section 1317), (x) defined as a “hazardous waste” pursuant to Section 1004 of the Resource Conservation and Recovery Act, 42 U.S.C. Sections 6901 *et seq.* (42 U.S.C. Section 6903) or (xi) defined as “hazardous substances” pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Sections 6901, *et seq.*

“Memorandum of Agreement” means the Memorandum of Agreement to be recorded as an encumbrance against the Project Site, substantially in the form attached hereto as Exhibit “M” and incorporated herein.

“Outside Date” is defined in Section 303.4.

“Potential’s Conditions Precedent” is defined in Section 306.2.

“Project Site” means that portion of the Site that is to be created subsequent to Bay’s conveyance of the Acquisition Property to the City pursuant to Section 201 and the City’s subdivision pursuant to Section 202. The Project Site is legally described in the Project Site Legal Description attached hereto as Exhibit “G” and incorporated herein.

“Project Site Grant Deed” means the Grant Deed by which the City shall convey the Project Site to Potential pursuant to Section 301, substantially in the form attached hereto as Exhibit “I” and incorporated herein.

“Promissory Note” means the Promissory Note to be executed by Potential in favor of the City for payment of the Purchase Price, less the Down Payment, substantially in the form attached hereto as Exhibit “J” and incorporated herein. The Promissory Note is secured by the Deed of Trust.

“Public Improvements” means the public improvements the City is obligated to construct pursuant to Section 203, which are further described in the Description of Public Improvements attached hereto as Exhibit “L” and incorporated herein.

“Purchase Price” is defined in Section 301.

“Release of Construction Covenants” means the Release of Construction Covenants attached hereto as Exhibit “N” and incorporated herein, as described further in Section 412.

“Report” is defined in Section 304.

“Right of Entry Agreement” is defined in Section 307.

“Schedule of Performance” means that certain Schedule of Performance attached hereto as Exhibit “A” and incorporated herein, setting out the dates and/or time periods by which certain obligations set forth in this Agreement must be accomplished. The Schedule of Performance is subject to revision from time to time as mutually agreed upon in writing between Potential and the City, and the City Manager is authorized to make such revisions as he or she deems reasonably necessary.

“Scope of Development” means that certain Scope of Development attached hereto as Exhibit “B” and incorporated herein, which describes the scope, amount and quality of development of the improvements to be constructed by Potential pursuant to the terms and conditions of this Agreement.

“Site” means the City Parcels and Acquisition Property, which will the City will assemble, reconfigure and subdivide pursuant to Section 203 in order to create the Project Site.

“Site Map” means the Site Map attached hereto as Exhibit “C” and incorporated herein, which visually depicts the Site, including the City Parcels, Bay Parcel, Acquisition Property and Project Site.

“Title Company” is defined in Section 304.

“Title Policy” is defined in Section 305.

200. ACQUISITION AND SUBDIVISION OF PROJECT SITE

201. Conveyance of Acquisition Property. Subject to the terms and conditions of this Agreement, Bay agrees to and shall convey to the City and the City agrees to and shall acquire from Bay the Acquisition Property. Within fifteen (15) days of the Effective Date of this Agreement, Bay shall deliver to the City the fully executed and acknowledged Acquisition Property Grant Deed. The City shall be responsible for recording the Acquisition Property Grant Deed in the Office of the Los Angeles County Recorder and for the cost associated with the conveyance.

202. Subdivision of Project Site. Upon conveyance of the Acquisition Property to the City as set forth in Section 201, and after title to the Acquisition Property has vested in the City, the City shall work with reasonable diligence to reconfigure and subdivide the City Property and Acquisition Property such that the City may transfer the Project Site to Potential as a single, separate and distinct lot. The City shall be responsible for and have absolute discretion in effectuating the subdivision required by this Section 202, and may elect to utilize applicable provisions of the Subdivision Map Act (Cal. Gov’t Code § 66410 *et seq.*) or any other legal or administrative process that provides an equivalent result. The City shall be responsible for the cost of subdividing and creating the Project Site lot as set forth in this Section 202.

203. Construction of Certain Public Improvements. As consideration for (i) Bay’s conveyance of the Acquisition Property to the City and (ii) Potential’s Operating Covenant, the City agrees to and shall construct the Public Improvements. The City’s obligation to construct the Public Improvements as provided in this Section 203 shall be and is subject to the following conditions: (i) the City shall have no obligation to construct the Public Improvements unless and until the disposition of the Project Site described in Section 300 closes and the Project Site is actually conveyed to Potential; (ii) the City’s construction of the Public Improvements shall be subject to all applicable federal, state and local laws and regulations; (iii) the City shall commence construction of the Public Improvements only if, when and to the extent required as a condition of a development approval and/or land use entitlement obtained by Potential (with respect to the Project Site) or Bay (with respect to the Bay Parcel). The City shall have sole and absolute discretion in constructing the Public Improvements (including, without limitation, the materials used, contractor(s) used and manner of construction) and shall be solely responsible for the cost of constructing the Public Improvements.

300. DISPOSITION OF PROJECT SITE

301. Disposition of Project Site to Potential. Potential agrees to purchase the Project Site from the City and the City agrees to sell the Project Site to Potential, in accordance with and subject to all of the terms, covenants, and conditions of this Agreement, for the all-inclusive price of _____ (calculated at Two Dollars (\$2.00) per square foot) (the "Purchase Price"). The parties have determined, based upon an appraisal conducted by a state-certified appraiser, that the Purchase Price is equal to the fair market value of the Project Site, determined at its highest and best use. The conveyance shall be made by the Project Site Grant Deed.

302. Payment of the Purchase Price. Potential shall pay the Purchase Price as follows: (i) a cash payment in the amount of Five Hundred Thousand Dollars (\$500,000.00) (the "Down Payment") shall be deposited into the Escrow prior and as a condition to the Closing; and (ii) the Promissory Note and Deed of Trust (which provides for payment of the Purchase Price less the Down Payment) shall be deposited into the Escrow prior and as a condition to the Closing.

303. Escrow. Within ten (10) days after the Effective Date of this Agreement, the parties shall open escrow (the "Escrow") with First American Title Company of Los Angeles or another escrow company mutually satisfactory to both parties (the "Escrow Agent").

303.1 Costs of Escrow. The City and Potential shall pay their respective portions of the premium for the Title Policy as set forth in Section 305, the City shall pay the documentary transfer taxes, if any, due with respect to the conveyance of the Project Site, and the City and Potential each agree to pay one half of all other usual fees, charges, and costs which arise from the Escrow.

303.2 Escrow Instructions. This Agreement constitutes the joint escrow instructions of the City and Potential, and the Escrow Agent to whom these instructions are delivered is hereby empowered to act under this Agreement. The parties hereto agree to do all acts reasonably necessary to close the Escrow in the shortest possible time. Insurance policies for fire or casualty are not to be transferred, and the City will cancel its own policies after the Closing. All funds received in the Escrow shall be deposited with other escrow funds in a general escrow account(s) and may be transferred to any other such escrow trust account in any State or National Bank doing business in the State of California. All disbursements shall be made by check from such account.

If in the opinion of either party it is necessary or convenient in order to accomplish the Closing, such party may require that the parties sign supplemental escrow instructions; provided that if there is any inconsistency between this Agreement and the supplemental escrow instructions, then the provisions of this Agreement shall control. The parties agree to execute such other and further documents as may be reasonably necessary, helpful or appropriate to effectuate the provisions of this Agreement. The Closing shall take place when both the City's Conditions Precedent and Potential's Conditions Precedent as set forth in Section 306 have been satisfied. The Escrow Agent is instructed to release City's escrow closing and Potential's escrow closing statements to the respective parties.

303.3 Authority of Escrow Agent. The Escrow Agent is authorized to, and shall:

(a) Pay and charge the City for the premium of the Title Policy as set forth in Section 305 and any amount necessary to place title to the Project Site in the condition necessary to satisfy Section 304.

(b) Pay and charge the City and Potential for their respective shares of any escrow fees, charges, and costs payable under Section 303.1.

(c) Pay and charge Potential for the cost of an ALTA policy (if any) and for any endorsements to the Title Policy which are requested by Potential as set forth in Section 305 and which are in excess of the premium for the Title Policy payable by the City pursuant to Section 305.

(d) Disburse funds and deliver and record the Project Site Grant Deed and Memorandum of Agreement when both the City's Conditions Precedent and Potential's Conditions Precedent have been fulfilled or waived by the City and Potential.

(e) Do such other actions as necessary, including obtaining the Title Policy, to fulfill its obligations with respect to the Project Site under this Agreement.

(f) Within the discretion of the Escrow Agent and, if necessary, direct the City and Potential to execute and deliver any instrument, affidavit, and statement, and to perform any act reasonably necessary to comply with the provisions of FIRPTA and any similar state act and regulation promulgated thereunder. The City agrees to execute a Certificate of Non-Foreign Status and/or a Certification of Compliance with Real Estate Reporting Requirement of the 1986 Tax Reform Act as may be required by the Escrow Agent, on a form or forms to be supplied by the Escrow Agent.

(g) Prepare and file with all appropriate governmental or taxing authorities a uniform settlement statement, closing statement, tax withholding forms including an IRS 1099-S form, and be responsible for withholding taxes, if any such forms are provided for or required by law.

(h) Verify that this Agreement has been properly executed by the parties prior to the Closing.

303.4 Closing. The conveyance of the Project Site shall close (the "Closing") within thirty (30) days after the satisfaction of all of the City's and Potential's Conditions Precedent as set forth in Section 306 and in no event later than one hundred eighty (180) days after the opening of Escrow (the "Outside Date"). The "Closing" shall mean the time and day the Project Site Grant Deed is filed for record with the Los Angeles County Recorder. The "Closing Date" shall mean the day on which the Closing occurs.

303.5 Termination. If the Escrow is not in condition to close by the Outside Date, then either party which has fully performed under this Agreement may, in writing, demand the return of money or property and terminate this Agreement. If either party makes a written demand for return of documents or properties, this Agreement shall not terminate until five (5) days after the Escrow Agent shall have delivered copies of such demand to all other parties at the respective addresses shown in this Agreement. If any objections are raised within said five (5) day period, the Escrow Agent is authorized to hold all papers and documents until instructed by a court of competent

jurisdiction or by mutual written instructions of the parties. Termination of this Agreement shall be without prejudice as to whatever legal rights either party may have against the other arising from this Agreement. If no demands are made, the Escrow Agent shall proceed with the Closing as soon as possible.

303.6 Closing Procedure. The Escrow Agent shall close the Escrow for the Project Site as follows:

- (a) Verify execution of this Agreement by the parties;
- (b) Record the Project Site Grant Deed, with instructions for the Recorder of Los Angeles County, California to deliver the Project Site Grant Deed to Potential;
- (c) Record the Deed of Trust, with instructions for the Recorder of Los Angeles County, California to deliver the Deed of Trust to the City;
- (d) Record the Memorandum of Agreement, with instructions for the Recorder of Los Angeles County, California to deliver the Memorandum of Agreement to the City;
- (e) Instruct the Title Company to deliver the Title Policy to Potential;
- (f) File any informational reports required by Internal Revenue Code Section 6045(e), as amended, and any other applicable requirements;
- (g) Deliver the FIRPTA Certificate, if any, to Potential;
- (h) Forward to both the City and Potential a separate accounting of all funds received and disbursed for each party and copies of all executed and recorded or filed documents deposited into the Escrow, with such recording and filing date and information endorsed thereon; and
- (i) Record documents requested by Potential subsequent to the recordation of the Project Site Grant Deed and the Memorandum of Agreement.

304. Review of Title. Within the time set forth in the Schedule of Performance, the City shall cause Old Republic Title Company (the "Title Company"), to deliver to Potential an ALTA preliminary title report (the "Report") with respect to the title to the Project Site, together with legible copies of the documents underlying the exceptions ("Exceptions") set forth in the Report. Potential shall have the right to reasonably approve or disapprove the Exceptions.

Within the time set forth in the Schedule of Performance, Potential shall give written notice to the City and the Escrow Agent of Potential's approval or disapproval of any of such Exceptions. Potential's failure to give written disapproval of the Report within such time limit shall be deemed approval of the Report and the Exceptions set forth therein. If Potential notifies the City of its disapproval of any Exceptions in the Report, the City shall have the right, but not the obligation, to remove any disapproved Exceptions within five (5) days after receiving written notice of Potential's disapproval or provide assurances reasonably satisfactory to Potential that such Exception(s) will be removed on or before the Closing. If the City cannot or does not elect to

remove any of the disapproved Exceptions within that period, the City shall provide written notice of such election to Potential within such five (5) day period. Potential shall then have ten (10) business days after the expiration of such five (5) business day period to either give the City written notice that Potential elects to proceed with the purchase of the Project Site subject to the disapproved Exceptions or to give the City written notice that Potential elects to terminate this Agreement. Potential shall have the right to approve or disapprove any Exceptions reported by the Title Company after Potential has approved the Report for the Site (which are not created by Potential). The City shall not voluntarily create any new exceptions to title following the Effective Date of this Agreement.

305. Title Insurance. Concurrently with recordation of the Project Site Grant Deed conveying title to the Project Site to Potential, there shall be issued to Potential a CLTA owner's policy of title insurance (the "Title Policy"), together with such endorsements as are reasonably requested by Potential, issued by the Title Company insuring that the title to the Project Site is vested in Potential in the condition required by Section 304. The Title Company shall provide the City with a copy of the Title Policy. The Title Policy shall be in the amount of the Purchase Price. The City shall pay that portion of the premium for the Title Policy equal to the cost of a CLTA standard coverage title policy in the amount of the Purchase Price. Any additional costs, including the cost of an ALTA policy or any endorsements requested by Potential, shall be borne by Potential.

306. Conditions of Closing. The Closing is conditioned upon the satisfaction of the following terms and conditions within the times designated below:

306.1 City's Conditions of Closing. The City's obligation to proceed with the Closing of the conveyance of the Project Site is subject to the fulfillment, or waiver by the City in writing, of each and all of the conditions precedent (a) through (l), inclusive, described below (the "City's Conditions Precedent"), which are solely for the benefit of the City, and which shall be fulfilled or waived in writing by the City by the time periods provided for herein, or if no time period is provided, prior to the Closing:

(a) *No Default.* Prior to the Close of Escrow, Potential is not in default in any of its obligations under the terms of this Agreement and all representations and warranties of Potential contained herein shall be true and correct in all material respects.

(b) *Execution of Documents.* Potential shall have executed and delivered into Escrow this Agreement, the Promissory Note, Deed of Trust and Memorandum of Agreement and any other documents required pursuant to the terms of this Agreement.

(c) *Payment of Down Payment and Closing Costs.* Not later than three (3) business days prior to the Close of Escrow, Potential shall have delivered to Escrow the Down Payment in accordance with Section 302 and all costs of Closing which are Potential's obligation in accordance with Section 303.1.

(d) *Title Policy.* The Title Company shall, upon payment of Title Company's regularly scheduled premium, have agreed to provide the Title Policy for the Project Site upon the Close of Escrow, in accordance with Section 305.

(e) *Condition of Site.* Potential shall have approved of the physical and environmental condition of the Site.

(f) *Land Use Approvals.* Potential shall have received all land use approvals for the Improvements required pursuant to Section 403 hereof.

(g) *Plans and Permits.* Potential shall have obtained approval of its final building plans for the Improvements and grading, building and other required permits, as applicable, shall be ready to be issued (upon payment of requisite fees, posting of security and similar items).

(h) *Financing.* Potential shall have provided proof satisfactory to the City that Potential has sufficient internal funds and/or has obtained a loan or other financing for acquisition of the Project Site and construction and operation of the Improvements pursuant to Section 409 hereof, and such financing shall close and fund and shall be available to Potential upon the Closing.

(i) *Proof of Insurance.* Potential shall have provided, for the City's review and approval, proof of insurance reasonably satisfactory to the City in accordance with Section 407.

(j) *Approval of Preliminary Title Report.* Potential shall have approved the Report.

(k) *Conveyance of Fee Interest in Acquisition Property.* Bay shall have conveyed the Acquisition Property to the City pursuant to Section 201 and the City shall hold fee simple title to the Acquisition Property.

(l) *Subdivision.* The City shall have completed the subdivision pursuant to Section 202 and the Project Site shall consist of a single and distinct subdivided lot.

306.2 Potential's Conditions of Closing. Potential's obligation to accept conveyance of the Project Site is subject to the fulfillment or waiver by Potential in writing of each and all of the conditions precedent (a) through (k), inclusive, described below ("Potential's Conditions Precedent"), which are solely for the benefit of Potential, and which shall be fulfilled or waived in writing by Potential by the time periods provided for herein:

(a) *No Default.* The City is not in default in any of its obligations under the terms of this Agreement and all representations and warranties of the City contained herein shall be true and correct and not misleading in all material respects.

(b) *Execution of Documents.* The City shall have executed and delivered into Escrow this Agreement, the Project Site Grant Deed, the Memorandum of Agreement and any other documents required pursuant to the terms of this Agreement.

(c) *Payment of Closing Costs.* Prior to the Close of Escrow, the City has paid or submitted into Escrow all costs of Closing which are the City's obligation in accordance with Section 303.1.

(d) *Title Policy.* The Title Company shall, upon payment of Title Company's regularly scheduled premium, have agreed to provide the Title Policy for the Project Site upon the Close of Escrow, in accordance with Section 305.

(e) *Environmental Condition of Site.* Potential shall have approved of the environmental condition of the Project Site.

(f) *Land Use Approvals.* Potential shall have received all land use approvals for the Improvements required pursuant to Section 403.

(g) *Plans and Permits.* Potential shall have obtained approval of its final building plans for the Improvements and grading, building and other required permits, as applicable, shall be ready to be issued (upon payment of requisite fees, posting of security and similar items).

(h) *Financing.* Potential shall have provided proof satisfactory to the City that Potential has sufficient internal funds and/or has obtained a loan or other financing for acquisition of the Project Site and construction and operation of the Improvements pursuant to Section 406 hereof, and such financing shall close and fund and shall be available to Potential upon the Closing.

(i) *Approval of Preliminary Title Report.* Potential shall have approved the Report.

(j) *Conveyance of Fee Interest in Acquisition Property.* Bay shall have conveyed the Acquisition Property to the City pursuant to Section 201 and the City shall hold fee simple title to the Acquisition Property.

(k) *Subdivision.* The City shall have completed the subdivision pursuant to Section 202 and the Project Site shall consist of a single and distinct subdivided lot.

307. Studies and Reports. Prior to the Closing and upon Potential's execution of a right of entry agreement to be provided by the City (the "Right of Entry Agreement"), representatives of Potential shall have the right of access to all portions of the Project Site owned by the City for the purpose of obtaining data and making surveys and tests necessary to carry out this Agreement. Any preliminary work undertaken on the Project Site by Potential prior to the Closing shall be done at the sole expense of Potential and Potential shall defend, indemnify and hold the City harmless from any claims resulting from all preliminary work, access or use of the Project Site undertaken pursuant to this Section 307. Any preliminary work shall be undertaken only after securing any necessary permits from the appropriate governmental agencies.

308. Taxes and Assessments. Ad valorem taxes and assessments, if any, on the Project Site levied, assessed, or imposed for any period prior to the Closing, shall be borne by the City. All ad valorem taxes and assessments levied or imposed for any period after the Closing shall be paid by Potential.

309. Condition of the Site.

309.1 As-Is Condition. Notwithstanding any provisions of this Agreement to the contrary (except as set forth in Section 725.2(d) of this Agreement), the Project Site shall be conveyed in an "as is" condition, with no warranty, express or implied by the City, as to the condition of improvements on the Project Site, the soil, its geology, the presence of known or unknown faults or Hazardous Materials or toxic substances, and Potential agrees to and shall

indemnify and hold the City harmless from and against all liability, loss, damages, costs, or expenses (including reasonable attorneys' fees and court costs) arising from or as a result of the existence of such faults or substances. Notwithstanding the foregoing, Potential shall not be responsible for matters related to any environmental contamination which existed prior to the Close of Escrow. It shall be the sole responsibility of Potential at its expense to investigate and determine the soil and improvement conditions for the development to be constructed. If the soil and environmental condition is not in all respects entirely suitable for the use or uses to which the Project Site will be put, then it is the sole responsibility and obligation of Potential to take such action as may be necessary to place the soil and environmental conditions of the Project Site in a condition entirely suitable for its development. The City agrees to provide copies of all reports, studies or other information in its possession relating to the Project Site.

309.2 Investigation of Site. Potential, upon execution of the Right of Entry Agreement, shall have the right, at its sole cost and expense, to engage its own environmental consultant (the "Environmental Consultant") to make such investigations as Potential deems necessary, including any "Phase I" or "Phase II" investigations of the Project Site. Potential shall provide the City with a copy of any and all studies and reports provided to Potential by the Environmental Consultant, or such other consultant engaged by Potential.

309.3 Approval of Environmental Condition of Site. Potential shall have the right to approve the environmental condition of the Project Site prior to Potential's obligation to acquire the Project Site. Potential shall approve or disapprove of the environmental condition of the Project Site within the time set forth in the Schedule of Performance. Potential's approval of the environmental condition of the Project Site shall be Potential's Condition Precedent to Closing, as set forth in Section 306.2 hereof. If Potential, based upon the above environmental reports, disapproves the environmental condition of the Project Site, then Potential may terminate this Agreement by written Notice to the City pursuant to Section 701.

309.4 Potential's Precautions After Closing. Upon the Closing, Potential shall take all necessary precautions to prevent the release into the environment of any Hazardous Materials which are located in, on or under the Project Site. Such precautions shall include compliance with all Governmental Requirements with respect to Hazardous Materials. In addition, Potential shall install and utilize such equipment and implement and adhere to such procedures as are consistent with commercially reasonable standards as respects the disclosure, storage, use, removal and disposal of Hazardous Materials in, on or under the Project Site.

309.5 Required Disclosures After Closing. After the Closing, Potential shall notify the City, and provide to the City a copy or copies, of all notices of violation, notices to comply, citations, inquiries, clean up or abatement orders, cease and desist orders, reports filed pursuant to self-reporting requirements and reports filed or applications made pursuant to any Governmental Requirement relating to Hazardous Materials and underground tanks. Potential shall report to the City, as soon as possible after each incident, any known Hazardous Materials release or known circumstances which would potentially lead to such a release.

309.6 Potential Indemnity - Hazardous Materials. Upon the Closing, Potential agrees to indemnify, defend and hold the City, and its respective officers, employees, agents, representatives and volunteers, harmless from and against any claim, action, suit, proceeding, loss, cost, damage, liability, deficiency, fine, penalty, punitive damage, or expense (including, without limitation, attorneys' fees), resulting from, arising out of, or based upon the following occurring

subsequent to the Closing (i) the presence, release, use, generation, discharge, storage or disposal of any Hazardous Materials on, under, in or about, or the transportation of any such Hazardous Materials to or from, the Project Site, or (ii) the violation, or alleged violation, of any statute, ordinance, order, rule, regulation, permit, judgment or license relating to the use, generation, release, discharge, storage, disposal or transportation of Hazardous Materials on, under, in or about, to or from, the Project Site. This indemnity shall include, without limitation, any damage, liability, fine, penalty, parallel indemnity after closing cost or expense arising from or out of any claim, action, suit or proceeding for personal injury (including sickness, disease or death), tangible or intangible property damage, compensation for lost wages, business income, profits or other economic loss, damage to the natural resource or the environment, nuisance, contamination, leak, spill, release or other adverse effect on the environment.

400. DEVELOPMENT OF PROJECT SITE

401. Scope of Development. Potential shall within the time set forth in the Schedule of Performance develop or cause the development of the Improvements in accordance with the Scope of Development, the City's Municipal Code, all entitlements and approvals for the Project Site, and the plans, drawings and documents submitted by Potential and approved by the City as set forth herein.

402. Construction Drawings and Related Documents. Prior to commencement of construction, Potential shall prepare and submit to the City, construction drawings, landscape plans, and related documents required for the development of the Project Site and the construction of the Improvements (the "Construction Drawings"). The City shall have the right of review of all Construction Drawings, including any proposed changes therein.

403. Land Use Approvals. Prior to commencement of construction of the Improvements or other works of improvement upon the Project Site by Potential, Potential shall, at its own expense, secure or cause to be secured any and all land use and other entitlements, and approvals, including environmental approvals, which may be required by the City and/or any other governmental agency affected by such construction or work for the Improvements. Potential shall, without limitation, apply for and secure all permits required by the City, the County and other governmental agencies with jurisdiction over the Improvements.

404. Schedule of Performance. Potential shall submit the Construction Drawings, commence and complete all construction of the Improvements, and satisfy all other obligations and conditions of this Agreement within the times established therefore in the Schedule of Performance. The Schedule of Performance is subject to revision from time-to-time as mutually agreed upon in writing by Potential and the City and the City is authorized to make such revisions as it deems reasonably necessary.

405. Cost of Construction. All of the cost of planning, designing, developing and constructing the Improvements shall be borne solely by Potential.

406. Financing of the Improvements.

406.1 Approval of Financing. As required herein and as one of the City's Conditions Precedent, Potential shall submit evidence that Potential has or has obtained sufficient equity capital and/or has obtained firm and binding commitments for construction financing necessary to undertake the acquisition and development of the Project Site and the construction and

operation of the Improvements in accordance with this Agreement, to the City for review and approval. Such review and approval or disapproval of financing commitments shall be made within fifteen (15) days of receipt of a complete submission. Approval shall not be unreasonably withheld, delayed or conditioned. If the City shall disapprove any such evidence of financing, it shall do so by notice to Potential stating the reasons for such disapproval, in which event Potential shall use commercially reasonable efforts to promptly obtain and submit new evidence of financing. The City shall approve or disapprove such new evidence of financing in the same manner and within the same times established in this Section 406.1 for the approval or disapproval of the evidence of financing as initially submitted. Potential shall close any approved construction financing prior to or concurrently with the Closing.

Such evidence of financing shall include the following: (a) a copy of an enforceable loan commitment(s) obtained by Potential from one or more financial institutions for the mortgage loan or loans for construction financing for the Improvements, subject to such lenders' reasonable, customary and normal conditions and terms, and/or (b) evidence reasonably acceptable to the City that Potential has sufficient funds for such construction, and that such funds have been committed to such construction, and/or other documentation satisfactory to the City as evidence of other sources of capital sufficient to demonstrate that Potential has adequate funds to cover the difference between the total cost of the acquisition of the Site and construction and completion of the Improvements, less financing authorized by those loans set forth in subparagraph (a) above, and (c) evidence of sufficient capital to operate the Improvements in accordance with the Scope of Development.

City agrees to and shall subordinate its Deed of Trust to a deed of trust or other form of security required by the lender(s) providing construction or permanent financing and approved by City pursuant to this Section 406.1. Such subordination shall be in writing and in a form reasonably acceptable to City and its legal counsel.

406.2 Holder Not Obligated to Construct Improvements. The holder of any mortgage or deed of trust authorized by this Agreement shall not be obligated by the provisions of this Agreement to construct or complete the Improvements or any portion thereof, or to guarantee such construction or completion; nor shall any covenant or any other provision in this Agreement be construed so to obligate such holder. Nothing in this Agreement shall be deemed to construe, permit or authorize any such holder to devote the Project Site to any uses or to construct any improvements thereon, other than those uses or improvements provided for or authorized by this Agreement. Notwithstanding the foregoing, the City shall reasonably cooperate with Potential's construction and permanent lenders in connection with the permitted use or uses to which such lender may devote the Project Site following a foreclosure or deed in lieu of foreclosure.

406.3 Notice of Default to Mortgagee or Deed of Trust Holders; Right to Cure. With respect to any mortgage or deed of trust granted by Potential as provided herein, whenever the City may deliver any notice or demand to Potential with respect to any breach or default by Potential in completion of construction of the Improvements, the City shall at the same time deliver to each holder of record of any mortgage or deed of trust a copy of such notice or demand. Each such holder shall (insofar as the rights granted by the City are concerned) have the right, at its option, within sixty (60) days after the receipt of the notice, to cure or remedy or commence to cure or remedy and thereafter to pursue with due diligence the cure or remedy of any such default and to add the cost thereof to the mortgage debt and the lien of its mortgage. Nothing contained in this Agreement shall be deemed to permit or authorize such holder to undertake or continue the construction or completion of the Improvements, or any portion thereof (beyond the extent necessary to conserve or protect the

improvements or construction already made) without first having expressly assumed Potential's obligations to the City by written agreement reasonably satisfactory to the City. The holder, in that event, must agree to complete, in the manner provided in this Agreement, the improvements to which the lien or title of such holder relates. Any such holder properly completing such improvement shall be entitled, upon compliance with the requirements of Section 412, to a Release of Construction Covenants.

407. Insurance Requirements. Potential shall take out and maintain or shall cause its contractor to take out and maintain until the issuance of the Release of Construction Covenants pursuant to Section 412, a comprehensive general liability policy in the amount of Two Million Dollars (\$2,000,000.00) combined single limit policy, and a comprehensive automobile liability policy in the amount of Five Hundred Thousand Dollars (\$500,000.00), combined single limit, or such other policy limits as the City may approve at its discretion, including contractual liability, as shall protect Potential and the City from claims for such damages. Such policy or policies shall be written on an occurrence form. Potential shall also furnish or cause to be furnished to the City evidence satisfactory to the City that Potential and any contractor with whom it has contracted for the performance of work on the Site or otherwise pursuant to this Agreement carries workers' compensation insurance as required by law. Potential shall furnish a notarized certificate of insurance countersigned by an authorized agent of the insurance carrier on a form approved by the City setting forth the general provisions of the insurance coverage. This countersigned certificate shall name the City and its respective officers, agents, and employees as additionally insured parties under the policy, and the certificate shall be accompanied by a duly executed endorsement evidencing such additional insured status. The certificate and endorsement by the insurance carrier shall contain a statement of obligation on the part of the carrier to notify the City of any material change, cancellation or termination of the coverage at least thirty (30) days in advance of the effective date of any such material change, cancellation or termination. Coverage provided hereunder by Potential shall be primary insurance and not be contributing with any insurance maintained by the City, and the policy shall contain such an endorsement. The insurance policy or the endorsement shall contain a waiver of subrogation for the benefit of the City. The required certificate shall be furnished by Potential prior to the commencement of construction of the Improvements.

408. Indemnities.

408.1 Potential's Indemnity. Potential shall defend, indemnify, assume all responsibility for, and hold harmless the City, and its representatives, volunteers, officers, employees and agents, from and against all claims, demands, damages, defense costs or liability of any kind or nature relating to the subject matter of this Agreement or the implementation hereof and for any damages to property or injuries to persons, including accidental death (including attorneys' fees and costs), which are legally caused by any acts or omissions of Potential under this Agreement, whether such activities or performance thereof be by Potential or by anyone directly or indirectly employed or contracted with by Potential and whether such damage shall accrue or be discovered before or after termination of this Agreement.

408.2 City's Indemnity. The City shall defend, indemnify, assume all responsibility for, and hold harmless Potential, and its representatives, volunteers, officers, employees and agents, from and against all claims, demands, damages, defense costs or liability of any kind or nature relating to the subject matter of this Agreement or the implementation hereof and for any damages to property or injuries to persons, including accidental death (including attorneys' fees and costs), which

are legally caused by any acts or omissions of the City under this Agreement, whether such activities or performance thereof be by the City or by anyone directly or indirectly employed or contracted with by the City and whether such damage shall accrue or be discovered before or after termination of this Agreement.

409. Rights of Access. Representatives of the City shall have the right of access to the Project Site, without charges or fees, at normal construction hours during the period of construction for the purposes of this Agreement, including but not limited to, the inspection of the work being performed in constructing the Improvements so long as City representatives comply with all generally applicable safety rules.

410. Compliance With Laws. Potential shall carry out the design and construction of the Improvements in conformity with all applicable laws, including all applicable state labor standards, City zoning and development standards, building, plumbing, mechanical and electrical codes, and all other provisions of the City's Municipal Code, and all applicable disabled and handicapped access requirements, including without limitation the Americans With Disabilities Act, 42 U.S.C. Sections 12101, et seq., California Government Code Sections 4450, et seq., California Government Code Sections 11135, et seq., and the Unruh Civil Rights Act, California Civil Code Sections 51, et seq.

410.1 Nondiscrimination in Employment. Potential certifies and agrees that, to the extent applicable to it, all persons employed or applying for employment by it, its affiliates, subsidiaries, or holding companies, and all subcontractors, bidders and vendors, are and will be treated equally by it without regard to, or because of race, color, religion, ancestry, national origin, sex, age, pregnancy, childbirth or related medical condition, medical condition (cancer related) or physical or mental disability, and in compliance with Title VII of the Civil Rights Act of 1964, 42 U.S.C. Sections 2000, et seq., the Federal Equal Pay Act of 1963, 29 U.S.C. Section 206(d), the Age Discrimination in Employment Act of 1967, 29 U.S.C. Sections 621, et seq., the Immigration Reform and Control Act of 1986, 8 U.S.C. Sections 1324b, et seq., 42 U.S.C. Section 1981, the California Fair Employment and Housing Act, California Government Code Sections 12900, et seq., the California Equal Pay Law, California Labor Code Sections 1197.5, California Government Code Section 11135, the Americans with Disabilities Act, 42 U.S.C. Sections 12101, et seq., and all other anti-discrimination laws and regulations of the United States and the State of California as they now exist or may hereafter be amended. Potential shall allow representatives of the City access to its employment records related to this Agreement during regular business hours to verify compliance with these provisions when so requested by the City.

410.2 Public Works Requirements. Potential shall carry out the construction of the Improvements and the development of the Site in conformity with all applicable federal and state labor laws (including, without limitation, if applicable, the requirement under California law to pay prevailing wages and to hire apprentices). Although the parties believe that the Improvements are not considered to be a "public work" under California law because the Project Site is being sold for a price not less than the appraised fair market value of the Project Site, Potential shall be solely responsible for determining and effectuating compliance with such laws, and the City makes no representation as to the applicability or non-applicability of any of such laws to the Improvements or any part thereof. Potential hereby expressly acknowledges and agrees that the City has not previously affirmatively represented to Potential or its contractor(s) for the construction or development of the Improvements, in writing or otherwise, in a call for bids or otherwise, that the work to be covered by this Agreement is not a "public work," as defined in Section 1720 of the Labor Code. Potential hereby agrees that Potential shall have the obligation to provide any and all

disclosures or identifications required by Labor Code Section 1781, as the same may be amended from time to time, or any other similar law. Potential shall indemnify, protect, defend and hold harmless the City and its officers, employees, contractors and agents, with counsel reasonably acceptable to the City, from and against any and all loss, liability, damage, claim, cost, expense and/or "increased costs" (including reasonable attorneys' fees, court and litigation costs, and fees of expert witnesses) which, in connection with the development, construction (as defined by applicable law) and/or operation of the Improvements, including, without limitation, any and all public works (as defined by applicable law), results or arises in any way from any of the following: (1) the noncompliance by Potential of any applicable local, state and/or federal law, including, without limitation, any applicable federal and/or state labor laws (including, without limitation, if applicable, the requirement to pay state prevailing wages and to hire apprentices); (2) the implementation of Section 1781 of the Labor Code, as the same may be amended from time to time, or any other similar law; and/or (3) failure by Potential to provide any required disclosure or identification as required by Labor Code Section 1781, as the same may be amended from time to time, or any other similar law. It is agreed by the parties that, in connection with the development and construction (as defined by applicable law) of the Improvements, including, without limitation, any and all public works (as defined by applicable law), Potential shall bear all risks of payment or non-payment of prevailing wages and hiring of apprentices under California law and/or the implementation of Labor Code Section 1781, as the same may be amended from time to time, and/or any other similar law. "Increased costs," as used in this Section 309.2, shall have the meaning ascribed to it in Labor Code Section 1781, as the same may be amended from time to time. The foregoing indemnity shall survive termination of this Agreement and shall continue after completion of the construction and development of the Improvements by Potential.

411. Taxes and Assessments. Potential shall pay prior to delinquency all ad valorem real estate taxes and assessments on the Project Site incurred after the Closing. Potential shall remove or have removed any levy or attachment for any taxes and assessments incurred after the Closing, made on the Project Site, or any part thereof, or assure the satisfaction thereof within a reasonable time.

412. Release of Construction Covenants. Promptly after completion of the Improvements in conformity with this Agreement, the City shall furnish Potential with the Release of Construction Covenants. The City shall not unreasonably withhold such Release of Construction Covenants. The Release of Construction Covenants shall be a conclusive determination of satisfactory completion of the Improvements and the Release of Construction Covenants shall so state. Any party then owning or thereafter purchasing, leasing or otherwise acquiring any interest in the Project Site shall not (because of such ownership, purchase, lease or acquisition) incur any obligation or liability under this Agreement except for those continuing covenants set forth herein, including, without limitation, the covenants set forth in Section 500. If the City refuses or fails to furnish the Release of Construction Covenants for the Project Site after written request from Potential, the City shall, within thirty (30) working days of such written request, provide Potential with a written statement setting forth the reasons the City has refused or failed to furnish the Release of Construction Covenants for the Site. The statement shall also contain a list of the actions Potential must take to obtain a Release of Construction Covenants.

Such Release of Construction Covenants shall not constitute evidence of compliance with or satisfaction of any obligation of Potential to any holder of any mortgage, or any insurer of a mortgage securing money loaned to finance the improvements, or any part thereof. Such Release of Construction Covenants is not a notice of completion as referred to in the California Civil Code, Section 3093.

500. COVENANTS AND RESTRICTIONS

501. Operating Covenant. Potential hereby covenants and agrees that the Improvements will be complete and it will open the Project Site for business to the general public on or before July, 2018, and will continuously operate, or cause to be operated on the Project Site, a large scale-production brewery during normal business hours, as permitted by the City, (“Operate” or “Operation”) for a period of twenty (20) years (the “Operating Period”). Such continuous Operation shall be subject to the Force Majeure provisions of Section 702, and temporary interruptions for commercially reasonable periods of time for casualty losses, repairs and the like.

502. Maintenance Covenants. Potential covenants and agrees for itself, its successors and assigns and any successor in interest to the Project Site or part thereof to maintain the Project Site and all improvements thereon in compliance with all applicable provisions of the City of Lancaster Municipal Code.

503. Nondiscrimination Covenants. Potential covenants by and for itself and any successors in interest that there shall be no discrimination against or segregation of, any person or group of persons on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code, in the sale, lease, sublease, transfer, use, occupancy, tenure, or enjoyment of the Project Site, nor shall the grantee or any person claiming under or through him or her, establish or permit any practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy of tenants, lessees, subtenants, sublessees, or vendees in the Project Site. The foregoing covenants shall run with the land.

Potential shall refrain from restricting the rental, sale or lease of the Project Site on any of the bases listed above in this Section 503. All such deeds, leases or contracts shall contain or be subject to substantially the following nondiscrimination or nonsegregation clauses:

(a) In deeds. “The grantee herein covenants by and for himself or herself, his or her heirs, executors, administrators, and assigns, and all persons claiming under or through them, that there shall be no discrimination against or segregation of, any person or group of persons on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code, in the sale, lease, sublease, transfer, use, occupancy, tenure, or enjoyment of the premises herein conveyed, nor shall the grantee or any person claiming under or through him or her, establish or permit any practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy of tenants, lessees, subtenants, sublessees, or vendees in the premises herein conveyed. The foregoing covenants shall run with the land.”

(b) In leases. “The lessee herein covenants by and for himself or herself, his or her heirs, executors, administrators, and assigns, and all persons claiming under or through him or her, and this lease is made and accepted upon and subject to the following conditions:

“That there shall be no discrimination against or segregation of any person or group of persons, on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and

paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code, in the leasing, subleasing, transferring, use, occupancy, tenure, or enjoyment of the premises herein leased nor shall the lessee himself or herself, or any person claiming under or through him or her, establish or permit any such practice or practices of discrimination or segregation with reference to the selection, location, number, use, or occupancy, of tenants, lessees, sublessees, subtenants, or vendees in the premises herein leased.”

(c) In contracts. “There shall be no discrimination against or segregation of, any person or group of persons on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code, in the sale, lease, sublease, transfer, use, occupancy, tenure, or enjoyment of the premises which are the subject of this Agreement, nor shall the grantee or any person claiming under or through him or her, establish or permit any practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy of tenants, lessees, subtenants, sublessees, or vendees in the premises herein conveyed. The foregoing covenants shall run with the land.”

504. Effect of Violation of the Terms and Provisions of this Agreement. The City is deemed the beneficiary of the terms and provisions of this Agreement and of the covenants running with the land, for and in its own right and for the purposes of protecting the interests of the community and other parties, public or private, in whose favor and for whose benefit this Agreement and the covenants running with the land have been provided, without regard to whether the City has been, remains or is an owner of any land or interest therein in the Project Site. The City shall have the right, if the Agreement or covenants are breached, to exercise all rights and remedies, and to maintain any actions or suits at law or in equity or other proper proceedings to enforce the curing of such breaches to which it or any other beneficiaries of this Agreement and covenants may be entitled. The covenants contained in this Agreement shall remain in effect for a period of twenty (20) years following the date of the Release of Construction Covenants provided by the City pursuant to Section 412; provided however, that notwithstanding the foregoing, the covenants against discrimination, as set forth in Section 503, shall remain in effect in perpetuity.

600. DEFAULTS AND REMEDIES

601. Default Remedies. Subject to the extensions of time set forth in Section 702 of this Agreement, failure by either party to perform any action or covenant required by this Agreement within the time periods provided herein following notice and failure to cure as described hereafter, constitutes a “Default” under this Agreement. A party claiming a Default (the “Claimant”) shall give written notice to the other party specifying the alleged grounds for the Default (the “Default Notice”). Except as otherwise expressly provided in this Agreement, the Claimant shall not institute any proceeding against any other party and the other party shall not be in Default if such party within forty-five (45) days from receipt of the notice required by this Section 601 immediately, with due diligence, commences to cure, correct or remedy such failure or delay and shall complete such cure, correction or remedy with diligence.

602. Institution of Legal Actions. In addition to any other rights or remedies and subject to the restrictions otherwise set forth in this Agreement, either party may institute an action at law or equity to seek specific performance of the terms of this Agreement, or to cure, correct or remedy any Default, to recover damages for any Default, or to obtain any other remedy consistent with the purpose of this Agreement. Such legal actions must be instituted in the Superior Court of the County

of Los Angeles, State of California, in an appropriate municipal court in that county, or in the United States District Court for the Central District of California.

603. Termination by Potential. In the event of any Default of the City, which is not cured within the time set forth in Section 601 hereof, and provided that Potential is not in Default of this Agreement, this Agreement may, at the option of Potential, be terminated by notice thereof to the City. From the date of the notice of termination of this Agreement by Potential to the City and thereafter this Agreement shall be deemed terminated and there shall be no further rights or obligations between the parties.

604. Termination by City. In the event of any Default of Potential, which is not cured within the time set forth in Section 601 hereof, and provided that the City is not in Default of this Agreement, this Agreement may, at the option of the City, be terminated by notice thereof to Potential. From the date of the notice of termination of this Agreement by the City to Potential and thereafter this Agreement shall be deemed terminated and there shall be no further rights or obligations between the parties.

605. Reentry and Revesting of Title in the City After the Closing and Prior to Completion of Construction. The City has the right, at its election, to reenter and take possession of the Project Site, with all improvements thereon, and terminate and revest in the City the estate conveyed to Potential if after the Closing and prior to the issuance of the Release of Construction Covenants, Potential (or its successors in interest) shall:

(a) fail to start the construction of the Improvements as required by this Agreement for a period of thirty (30) days after written notice thereof from the City; or

(b) abandon or substantially suspend construction of the Improvements required by this Agreement for a period of thirty (30) days after written notice thereof from the City;

(c) fail to complete the Improvements required by this Agreement within the time frame set forth in the Schedule of Performance; or

(d) transfer or suffer any involuntary transfer of the Project Site or any part thereof in violation of Section 726 of this Agreement.

Such right to reenter, terminate and revest shall be subject to and be limited by and shall not defeat, render invalid or limit: (i) any mortgage or deed of trust permitted by this Agreement; or (ii) any rights or interests provided in this Agreement for the protection of the holders of such mortgages or deeds of trust.

The Project Site Grant Deed shall contain appropriate reference and provision to give effect to the City's right as set forth in this Section 605, under specified circumstances prior to recordation of the Release of Construction Covenants, to reenter and take possession of the Project Site, with all improvements thereon, and to terminate and revest in the City the estate conveyed to Potential. Upon the revesting in the City of title to the Project Site as provided in this Section 605, the City shall, pursuant to its responsibilities under state law, use its reasonable efforts to resell the Project Site as soon and in such manner as the City shall find feasible, to a qualified and responsible party or parties (as determined by the City) who will assume the obligation of making or completing the Improvements, or such improvements in their stead as shall be satisfactory to the City. Upon such

resale of the Project Site, the net proceeds thereof after repayment of any mortgage or deed of trust encumbering the Project Site which is permitted by this Agreement, shall be applied:

(i) First, to reimburse the City, on its own behalf or on behalf of the City, all costs and expenses incurred by the City, excluding City staff costs, but specifically, including, but not limited to, any expenditures by the City in connection with the recapture, management and resale of the Project Site or part thereof (but less any income derived by the City from the Project Site or part thereof in connection with such management); all taxes, assessments and water or sewer charges with respect to the Project Site or part thereof which Potential has not paid (or, in the event that the Project Site is exempt from taxation or assessment of such charges during the period of ownership thereof by the City, an amount, if paid, equal to such taxes, assessments, or charges as would have been payable if the Project Site were not so exempt); any payments made or necessary to be made to discharge any encumbrances or liens existing on the Project Site or part thereof at the time of reversion of title thereto in the City, or to discharge or prevent from attaching or being made any subsequent encumbrances or liens due to obligations, defaults or acts of Potential, its successors or transferees; any expenditures made or obligations incurred with respect to the making or completion of the Improvements or any part thereof; and any amounts otherwise owing the City, and in the event additional proceeds are thereafter available, then

(ii) Second, to reimburse Potential, its successor or transferee, up to the amount equal to the sum of (a) the costs incurred for the acquisition and development of the Project Site and for the improvements existing on the Project Site at the time of the reentry and possession, less (b) any gains or income withdrawn or made by Potential from the Project Site or the improvements thereon.

Any balance remaining after such reimbursements shall be retained by the City as its property. The rights established in this Section 605 are not intended to be exclusive of any other right, power or remedy, but each and every such right, power, and remedy shall be cumulative and concurrent and shall be in addition to any other right, power and remedy authorized herein or now or hereafter existing at law or in equity. These rights are to be interpreted in light of the fact that the City will have conveyed the Project Site to Potential for economic development purposes, and not for speculation in undeveloped land.

606. Acceptance of Service of Process. In the event that any legal action is commenced by Potential against the City, service of process on the City shall be made by personal service upon the City Manager or in such other manner as may be provided by law. In the event that any legal action is commenced by the City against Potential, service of process on Potential shall be made by personal service upon Potential or in such other manner as may be provided by law.

607. Rights and Remedies Are Cumulative. Except as otherwise expressly stated in this Agreement, the rights and remedies of the parties are cumulative, and the exercise by either party of one or more of such rights or remedies shall not preclude the exercise by it, at the same or different times, of any other rights or remedies for the same default or any other default by the other party.

608. Inaction Not a Waiver of Default. Any failures or delays by either party in asserting any of its rights and remedies as to any Default shall not operate as a waiver of any Default or of any such rights or remedies, or deprive either such party of its right to institute and maintain any actions or proceedings which it may deem necessary to protect, assert or enforce any such rights or remedies.

609. Applicable Law. The laws of the State of California shall govern the interpretation and enforcement of this Agreement.

700. GENERAL PROVISIONS

701. Notices, Demands and Communications Between the Parties. Any approval, disapproval, demand, document or other notice (“Notice”) required or permitted under this Agreement must be in writing and shall be sufficiently given if delivered by hand (and a receipt therefore is obtained or is refused to be given) or dispatched by registered or certified mail, postage prepaid, return receipt requested, or delivered by telecopy or overnight delivery service to:

To City: City of Lancaster
44933 North Fern Avenue
Lancaster, California 93534
Attention: City Manager

To Bay: Julian Bay
3205 Ocean Park Boulevard, Suite 135
Santa Monica, California 90405

To Potential: Potential Investments, LLC
735 West Lancaster Boulevard
Lancaster, California 93534
Attention: Myrle McLernon

Such written notices, demands and communications may be sent in the same manner to such other addresses as either party may from time to time designate by mail as provided in this Section 701.

702. Enforced Delay; Extension of Times of Performance. In addition to specific provisions of this Agreement, performance by either party hereunder shall not be deemed to be in Default, and all performance and other dates specified in this Agreement shall be extended, where delays or Defaults are due to: litigation challenging the validity of this transaction or any element thereof or the right of either party to engage in the acts and transactions contemplated by this Agreement; inability to secure necessary labor materials or tools; delays of any contractor, sub-contractor or supplier; or withdrawal of financing not caused by any act or omission of Potential; war; insurrection; strikes; lockouts; riots; floods; earthquakes; fires; casualties; acts of God; acts of the public enemy; epidemics; quarantine restrictions; freight embargoes; lack of transportation; governmental restrictions or priority; unusually severe weather; acts or omissions of the other party; acts or failures to act of the City or any other public or governmental agency or entity (other than the acts or failures to act of the City which shall not excuse performance by the City); or any other causes beyond the control or without the fault of the party claiming an extension of time to perform. Notwithstanding anything to the contrary in this Agreement, an extension of time for any such cause shall be for the period of the enforced delay and shall commence to run from the time of the commencement of the cause, if notice by the party claiming such extension is sent to the other party within forty-five (45) days of the commencement of the cause. Times of performance under this Agreement may also be extended in writing by the mutual agreement of the City and Potential. Notwithstanding any provision of this Agreement to the contrary, the lack of funding to complete the Improvements shall not constitute valid grounds of enforced delay pursuant to this Section 702.

703. Non Liability of Officials and Employees of City. No member, official or employee of the City shall be personally liable to Bay or Potential, or any successor in interest, in the event of any Default or breach by the City or for any amount which may become due under the terms of this Agreement.

704. Relationship Between Parties. It is hereby acknowledged that the relationship between the parties is not that of a partnership or joint venture and that no party shall be deemed or construed for any purpose to be the agent of any other party. Accordingly, except as expressly provided herein or in the Exhibits hereto, the City shall have no rights, powers, duties or obligations with respect to the development, operation, maintenance or management of the Project Site. Potential agrees to indemnify, hold harmless and defend the City from any claim made against the City arising from a claimed relationship of partnership or joint venture between the City and Potential with respect to the development, operation, maintenance or management of the Project Site.

705. City Approvals and Actions. Whenever a reference is made herein to an action or approval to be undertaken by the City, the City Manager is authorized to act on behalf of the City unless specifically provided otherwise or the context should require otherwise.

706. Commencement of City Review Period. The time periods set forth herein for the City's approval of agreements, plans, drawings, or other information submitted to the City by Potential and for any other City consideration and approval hereunder which is contingent upon documentation required to be submitted by Potential shall only apply and commence upon Potential's complete submittal of all the required information. In no event shall an incomplete submittal by Potential trigger any of the City's obligations of review and/or approval hereunder; provided, however, that the City shall notify Potential of an incomplete submittal as soon as is practicable and in no event later than the applicable time set forth for the City's action on the particular item in question.

707. Counterparts. This Agreement may be signed in multiple counterparts which, when signed by all parties, shall constitute a binding agreement. This Agreement is executed in three (3) originals, each of which is deemed to be an original.

708. Integration. This Agreement contains the entire understanding between the parties relating to the transaction contemplated by this Agreement. All prior or contemporaneous agreements, understandings, representations and statements, oral or written, are merged in this Agreement and shall be of no further force or effect. Each party is entering this Agreement based solely upon the representations set forth herein and upon each party's own independent investigation of any and all facts such party deems material.

709. Attorneys' Fees. In any action between the parties to interpret, enforce, reform, modify, rescind or otherwise in connection with any of the terms or provisions of this Agreement, the prevailing party in the action shall be entitled, in addition to damages, injunctive relief or any other relief to which it might be entitled, reasonable costs and expenses including, without limitation, litigation costs and reasonable attorneys' fees. Costs recoverable for enforcement of any judgment shall be deemed to include reasonable attorneys' fees.

710. Real Estate Brokerage Commission. As of the date of this Agreement, the only real estate broker involved with this project is Harvey Holloway of Coldwell Banker Commercial Valley Realty. Potential agrees to indemnify, defend, and hold harmless the City and its officials,

employees, agents and representatives from and against any real estate broker or finder's commissions or fees or claims thereto alleged to be owed in connection with the Project Site, which may be the responsibility of Potential.

711. [Intentionally Omitted.]

712. Administration. This Agreement shall be administered and executed by the City Manager, or his or her designated representative, following approval of this Agreement by the City. The City shall maintain authority of this Agreement through the City Manager (or his or her authorized representative). The City Manager shall have the authority to issue interpretations, waive provisions and enter into amendments of this Agreement on behalf of the City so long as such actions do not substantially change the uses or development permitted on the Project Site, or add to the costs to the City as specified herein as agreed to by the City Council, and such amendments may include extensions of time specified in the Schedule of Performance. All other waivers or amendments shall require the written consent of the City Council.

713. Amendments of Agreement. The parties agree to mutually consider reasonable requests for amendments to this Agreement. Potential shall be responsible for the costs incurred by the City, including without limitation attorneys' fees (the "Potential Costs"), in connection with any amendments to this Agreement which are requested by Potential (the "Potential Request"). Potential shall be responsible for payment of Potential Costs as provided in this Section 713 regardless of the outcome of Potential Request.

714. Titles and Captions. Titles and captions are for convenience of reference only and do not define, describe or limit the scope or the intent of this Agreement or of any of its terms. Reference to section numbers are to sections in this Agreement, unless expressly stated otherwise.

715. Interpretation. As used in this Agreement, masculine, feminine or neuter gender and the singular or plural number shall each be deemed to include the others where and when the context so dictates. The word "including" shall be construed as if followed by the words "without limitation." This Agreement shall be interpreted as though prepared jointly by the parties.

716. No Waiver. A waiver by any party of a breach of any of the covenants, conditions or agreements under this Agreement to be performed by the other party shall not be construed as a waiver of any succeeding breach of the same or other covenants, agreements, restrictions or conditions of this Agreement.

717. Modifications. Any alteration, change or modification of or to this Agreement, in order to become effective, shall be made in writing and in each instance signed on behalf of each party.

718. Severability. If any term, provision, condition or covenant of this Agreement or its application to any party or circumstances shall be held, to any extent, invalid or unenforceable, the remainder of this Agreement, or the application of the term, provision, condition or covenant to persons or circumstances other than those as to whom or which it is held invalid or unenforceable, shall not be affected, and shall be valid and enforceable to the fullest extent permitted by law.

719. Computation of Time. The time in which any act is to be done under this Agreement is computed by excluding the first day (such as the day escrow opens) and including the

last day, unless the last day is a holiday or Saturday or Sunday, and then that day is also excluded. The term "holiday" shall mean all holidays as specified in Section 6700 and 6701 of the California Government Code. If any act is to be done by a particular time during a day, that time shall be Pacific Time Zone time.

720. Legal Advice. Each party represents and warrants to the other the following: they have carefully read this Agreement, and in signing this Agreement, they do so with full knowledge of any right which they may have; they have received independent legal advice from their respective legal counsel as to the matters set forth in this Agreement, or have knowingly chosen not to consult legal counsel as to the matters set forth in this Agreement; and, they have freely signed this Agreement without any reliance upon any agreement, promise, statement or representation by or on behalf of the other party, or their respective agents, employees or attorneys, except as specifically set forth in this Agreement, and without duress or coercion, whether economic or otherwise.

721. Time of Essence. Time is expressly made of the essence with respect to the performance of each and every obligation and condition of this Agreement.

722. Cooperation. Each party agrees to cooperate with the other in this transaction and, in that regard, to sign any and all documents which may be reasonably necessary, helpful or appropriate to carry out the purposes and intent of this Agreement including, but not limited to, releases or additional agreements.

723. Conflicts of Interest. No member, official or employee of City shall have any personal interest, direct or indirect, in this Agreement, nor shall any such member, official or employee participate in any decision relating to the Agreement which affects his personal interests or the interests of any corporation, partnership or association in which he is directly or indirectly interested.

724. Time for Acceptance of Agreement by City. This Agreement, when executed by Bay and Potential and delivered to City, must be authorized, executed and delivered by City within forty five (45) days or this Agreement shall be void, except to the extent that the parties shall consent in writing to a further extension of time for the authorization, execution and delivery of this Agreement.

725. Representations and Warranties.

725.1 Potential's Representations and Warranties. Potential hereby makes the representations and warranties contained below in this Section 725.1. All of the representations and warranties set forth in this Section 725.1 are effective as of the Effective Date of this Agreement. All of the representations and warranties set forth in this Section 725.1 are made with the acknowledgment that they are material, and with the intention that the City shall rely upon them as inducements to enter into this Agreement and to perform its obligations hereunder and to close the transactions contemplated herein. The representations and warranties contained in this Section 725.1 shall each survive the execution of this Agreement without limitation as to time.

(a) **Authority.** Potential is a California limited liability company. Potential has full right, power and lawful authority to undertake all obligations as provided herein.

(b) No Conflict. Potential's execution, delivery and performance of its obligations under this Agreement will not constitute a default or a breach under any contract, agreement or order to which Potential is a party or by which it is bound.

(c) No Bankruptcy. Potential is not the subject of a bankruptcy proceeding.

(d) Deliveries. All documents, instruments and other information delivered by Potential to the City pursuant to this Agreement are true, correct and complete.

Each of the foregoing items (a) to (d), inclusive shall be deemed to be an ongoing representation and warranty. Potential shall advise the City in writing if there is any change pertaining to any matters set forth or referenced in the foregoing items (a) to (d), inclusive.

725.2 City's Representations and Warranties. The City hereby makes the representations and warranties contained below in this Section 725.2. All of the representations and warranties set forth in this Section 725.2 are effective as of the Effective Date of this Agreement. All of the representations and warranties set forth in this Section 725.2 are made with the acknowledgment that they are material, and with the intention that Potential shall rely upon them as inducements to enter into this Agreement and to perform its obligations hereunder and to close the transactions contemplated herein. The representations and warranties contained in this Section 725.2 shall each survive the execution of this Agreement without limitation as to time.

(a) Authority. The City has full right, power and lawful authority to undertake all obligations as provided herein.

(b) No Conflict. The City's execution, delivery and performance of its obligations under this Agreement will not constitute a default or a breach under any contract, agreement or order to which the City is a party or by which it is bound.

(c) Deliveries. All documents, instruments and other information delivered by the City to Potential pursuant to this Agreement are true, correct and complete.

(d) Knowledge. The City is not aware of any existing state or condition of the property, including, but not limited to the presence of Hazardous Materials or toxic substances, that may preclude Potential from carrying out the Improvements as contemplated in this Agreement.

Each of the foregoing items (a) to (d), inclusive shall be deemed to be an ongoing representation and warranty. The City shall advise Potential in writing if there is any change pertaining to any matters set forth or referenced in the foregoing items (a) to (d), inclusive.

726. Transfers of Interest in Project Site or Agreement.

726.1 Prohibition. The qualifications and identity of Potential are of particular concern to the City. It is because of those qualifications and identity that the City has entered into this Agreement with Potential. For the period commencing upon the Effective Date of this Agreement and until the issuance of the Release of Construction Covenants, no voluntary or involuntary successor in interest of Potential shall acquire any rights or powers under this Agreement, nor shall Potential make any total or partial sale, grant, transfer, conveyance, assignment,

subdivision or lease of the whole or any part of the Project Site or the Improvements thereon without prior written approval of the City, except as expressly set forth herein.

726.2 Permitted Transfers. Notwithstanding any other provision of this Agreement to the contrary, City approval of an assignment of this Agreement or conveyance of the Project Site or the Improvements, or any part thereof, shall not be required in connection with any of the following:

(a) The conveyance or dedication of any portion of the Project Site to the City or other appropriate governmental agency, or the granting of easements or permits necessary in order to facilitate construction of the Improvements.

(b) Any transfer to an entity or entities in which Potential retains a minimum of fifty-one percent (51%) of the ownership or beneficial interest and retains management and control of the transferee entity or entities.

726.3 City Consideration of Requested Transfer. The City agrees that it will not unreasonably withhold approval of a request made pursuant to this Section 726, provided Potential delivers written notice to the City requesting such approval. Such notice shall be accompanied by sufficient evidence regarding the proposed assignee's or purchaser's development and/or operational qualifications and experience, and its financial commitments and resources, in sufficient detail to enable the City to evaluate the proposed assignee or purchaser pursuant to the criteria set forth in this Section 726 and as reasonably determined by the City. The City shall evaluate each proposed transferee or assignee on the basis of its development and/or operational qualifications and experience and its financial commitments and resources, and may reasonably disapprove any proposed transferee or assignee, during the period for which this Section 726 applies, which the City determines does not possess equal or better qualifications than Potential. An assignment and assumption agreement in a form satisfactory to City's legal counsel shall also be required for all proposed assignments. Within thirty (30) days after the receipt of Potential's written notice requesting City approval of an assignment or transfer pursuant to this Section 726, the City shall either approve or disapprove such proposed assignment or shall respond in writing by stating what further information, if any, the City requires in order to determine the request complete and determine whether or not to grant the requested approval. Upon receipt of such a response, Potential shall promptly furnish to the City such further information as may be reasonably requested.

726.4 Successors and Assigns. All of the terms, covenants and conditions of this Agreement shall be binding upon Potential and its permitted and/or approved successors and assigns. Whenever the term "Potential" is used in this Agreement, such term shall include any other permitted and/or approved successors and assigns as herein provided.

726.5 Assignment by City. The City may assign or transfer any of its rights or obligations under this Agreement at its sole discretion.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year first written above.

CITY:

CITY OF LANCASTER, a charter city and California municipal corporation

By: _____
Its: _____

ATTEST:

City Clerk

APPROVED AS TO FORM:

City Attorney

POTENTIAL:

POTENTIAL INVESTMENTS, LLC, a California limited liability company

By: _____
Its: _____

BAY:

By: _____
Julian Bay

EXHIBIT A

SCHEDULE OF PERFORMANCE

1	Council Meeting – Authorization to Approve Disposition and Development Agreement to Create a Site for Potential’s Brewing Facility	September 8, 2015
2	Potential submits to City Development Plans and Related Documents for the Project Site	About 90 days following the execution of the Agreement or as soon as feasibly possible
3	Potential submits to City Construction Drawings for Brewing Facility	About 120 days following the approval of the development plans or as soon as feasibly possible
4	City approval of Construction Drawings for Brewing Facility	So much as it depends on the City, about 60 days after submittal or as soon as feasibly possible
5	Potential commences Construction of Brewing Facility	About 60 days after issuance of all permits necessary to begin or as soon as feasibly possible
4	City commences Construction of Offsite Infrastructure Improvements	Per Description of Public Improvements
6	Potential completes Construction of Brewing Facility	About twenty (20) months after start of construction of Potential Brewery or as soon as feasibly possible
5	City completes Construction of Offsite Infrastructure Improvements	Per Description of Public Improvements
7	Potential to Use Best Effort to Have 25 Employees at Brewing Facility	Within a Two-Year Period from Beginning of Operations of Brewing Facility
8	Potential to Use Best Effort to Have 50 Employees at Brewing Facility	Within a Five-Year Period from Beginning of Operations of Brewing Facility
9	Potential to Use Best Effort to Have 100 Employees at Brewing Facility	Within a Twenty-Year Period from Beginning of Operations of Brewing Facility

EXHIBIT B

SCOPE OF DEVELOPMENT

Potential shall construct an approximately 15,000-square-foot large-scale brewing facility and outdoor event space with parking adequate to accommodate customers, employees, and truck loading. The facility shall include a building for brewing, a tasting room, a beer garden, and an outdoor event center. The building is to be constructed on the 14-acre site on the southwest corner of Trevor Avenue and Avenue H in the City of Lancaster that will be created through a subdivision to be accomplished by the City of Lancaster.

EXHIBIT C

SITE MAP

Illustrative Parcelization Map Before Development:



Illustrative Parcelization Map After Development:



EXHIBIT D

ACQUISITION PROPERTY LEGAL DESCRIPTION

The Northerly 659.80 Feet of that portion of the Northeast Quarter of Section 10, Township 7 North, Range 12 West, San Bernardino Meridian, in the City of Lancaster, County of Los Angeles, State of California, according to the official plat of said land approved by the Surveyor General on June 19, 1856, which lies Easterly of a line bearing S0°00'30"E from a point on the Northerly line of said Section which is distant thereon S89°59'30"W 1215.47 feet from the Northeasterly corner of said Section.

EXCEPT therefrom the property belonging to the Southern Pacific Railroad Company described as Parcel 2 in Document No. 1333 recorded September 14, 1954 in Official Records of said County, described as follows:

Commencing at a point in the South line of the Northeast quarter of said Section, distant thereon N89°59'50"E 436.96 feet from the Southwest corner of the Northeast quarter of said Section, said point also being at the intersection of said South line with the Easterly line of land (200 feet wide) of the Southern Pacific Railroad company; thence N7°27'02"W, along said Easterly line parallel with and distant 100 feet Easterly measured at right angles, from the original located center line of the Southern Pacific Railroad company's main tract, a distance of 1768.86 feet to the True Point of Beginning of the parcel of land to be described; thence continuing N7°27'02"W along said Easterly line, a distance of 82.49 feet; thence Northeasterly and Easterly along a curve to the right, having a radius of 407.25 feet (the chord of said curve bears N62°18'32 1/2"E 378.32 feet) an arc distance of 393.44 feet to a point; thence N89°59'08"E, tangent to last described curve at last said point, a distance of 2074.55 feet to a point in a line parallel with and distant 40 feet Westerly, measured at right angles from the East line of said Section; thence S00°40'15"E along said parallel line, a distance of 50.00 feet; thence S89°59'08"W 2075.12 feet to a point; thence Westerly and Southwesterly along a curve to the left having a radius of 357.25 feet (tangent to said curve at last mentioned point is the last described course and chord bears S57°22'31 1/2"W 385.06 feet), an arc distance of 406.66 feet to the True Point of Beginning.

Also EXCEPT therefrom all that portion of said Northerly 659.80 Feet lying within the Sidelines of Trevor Avenue as described as Parcel A and Parcel B in Instrument No. 94-1858180 recorded on October 12, 1984 in the office of the County Recorder of said County more particularly described as follows:

Parcel A: that portion of said Northeast Quarter, which lies within a strip of land 80' wide, lying 40' on each side of the following described centerline:
Beginning at the Northeast corner of said Section; thence along the North line of said Section S89°59'54"W 969.63'; thence S0°00'06"E 113.01' to the true point of beginning; thence S0°00'06"E 150.25' to the beginning of a curve concave Westerly, having a radius of

1800.00' and central angle of $4^{\circ}18'25''$; thence Southerly along said curve 135.31' to the end of said curve; thence $S4^{\circ}18'19''W$ 903.17'.

Parcel B: that portion of said Northeast Quarter, described as follows:

Beginning at the Northeast corner of Parcel A described above: thence $N0^{\circ}00'06''W$ 11.00' to the beginning of a curve concave Southeasterly having a radius of 42.00' and central angle of $82^{\circ}19'32''$; thence Northeasterly along said curve 60.35' to the end of said curve; thence $S86^{\circ}09'40''W$ 158.75' to the beginning of a curve concave Southwesterly having a radius of 42.00' and central angle of $90^{\circ}00'00''$; a radial line to said beginning of curve bears $N0^{\circ}00'06''W$, thence Southeasterly along said curve 65.97' to the end of said curve; thence $N89^{\circ}59'54''E$ 80.00' to the Point of Beginning.

Also EXCEPT therefrom that portion of said Northerly 659.80 Feet lying Northerly of the Southerly Sideline of Avenue "H" as described in Instrument No. 94-1954647 recorded on August 9, 1984 in the office of the County Recorder of said County more particularly described as follows:

Beginning at the Northeast corner of said Section; thence $S89^{\circ}59'54''W$ along the Northerly line of said Section, 40.00 feet, to a point on a line 40.00 feet West of and parallel with the East line of said Section; thence $S00^{\circ}40'14''E$ along said East line 50.00 feet, to the True Point of Beginning; thence $S89^{\circ}59'54''W$ 1175.47 feet; thence $N00^{\circ}40'14''W$ 50.00 feet to the North line of said Section; thence $S89^{\circ}59'54''W$ 1326.83 feet along said North line to the East line of the Southern Pacific Transportation company Right of Way; thence $S07^{\circ}26'50''E$ along said last mentioned Right of Way 40.35 feet; thence $N89^{\circ}59'54''E$ 525.00 feet; thence $S00^{\circ}00'06''E$ 59.99 feet; thence $S86^{\circ}56'07''E$ 280.40 feet; thence $N84^{\circ}17'16''E$ 150.75 feet; thence $N87^{\circ}53'08''E$ 406.88 feet; thence $N00^{\circ}00'06''W$ 13.99 feet; thence $N89^{\circ}59'54''E$ 123.84 feet to the Westerly terminus of a line in the above mentioned Parcel B portion of Trevor Avenue, said line having a bearing of $S86^{\circ}09'40''W$ 158.75'; thence $N86^{\circ}09'40''E$ 158.75 feet along last said line to the beginning of a non-tangent curve, concave Southerly having a radius of 42.00 feet and central angle of $7^{\circ}40'28''$; thence Easterly, along said curve 5.63 feet to the end of said curve; thence $N89^{\circ}59'54''E$ 487.09 feet; thence $S85^{\circ}14'07''E$ 120.26 feet; thence $N89^{\circ}59'54''E$ 200.00 feet to the beginning of a curve concave Southwesterly having a radius of 42.00 feet and central angle of $89^{\circ}19'52''$ and being tangent to said line 40 feet West and parallel with the East line of said Section; thence Southeasterly along said curve 65.48 feet to the end of said curve; thence $N00^{\circ}40'14''W$ along said parallel line 61.51 feet to the True Point of Beginning.

Also EXCEPT therefrom all that portion of said Northerly 659.80 Feet lying Easterly of said Trevor Avenue.

EXHIBIT E

BAY PARCEL LEGAL DESCRIPTION

The Northerly 659.80 Feet of that portion of the Northeast Quarter of Section 10, Township 7 North, Range 12 West, San Bernardino Meridian, in the City of Lancaster, County of Los Angeles, State of California, according to the official plat of said land approved by the Surveyor General on June 19, 1856, which lies Easterly of a line bearing S0°00'30"E from a point on the Northerly line of said Section which is distant thereon S89°59'30"W 1215.47 feet from the Northeasterly corner of said Section.

EXCEPT therefrom that portion of said Northerly 659.80 Feet within the following described lines:

Commencing at a point in the South line of the Northeast quarter of said Section, distant thereon N89°59'50"E 436.96 feet from the Southwest corner of the Northeast quarter of said Section, said point also being at the intersection of said South line with the Easterly line of land (200 feet wide) of the Southern Pacific Railroad company; thence N7°27'02"W, along said Easterly line parallel with and distant 100 feet Easterly measured at right angles, from the original located center line of the Southern Pacific Railroad company's main tract, a distance of 1768.86 feet to the True Point of Beginning of the parcel of land to be described; thence continuing N7°27'02"W along said Easterly line, a distance of 82.49 feet; thence Northeasterly and Easterly along a curve to the right, having a radius of 407.25 feet (the chord of said curve bears N62°18'32 1/2"E 378.32 feet) an arc distance of 393.44 feet to a point; thence N89°59'08"E, tangent to last described curve at last said point, a distance of 2074.55 feet to a point in a line parallel with and distant 40 feet Westerly, measured at right angles from the East line of said Section; thence S00°40'15"E along said parallel line, a distance of 50.00 feet; thence S89°59'08"W 2075.12 feet to a point; thence Westerly and Southwesterly along a curve to the left having a radius of 357.25 feet (tangent to said curve at last mentioned point is the last described course and chord bears S57°22'31 1/2"W 385.06 feet), an arc distance of 406.66 feet to the True Point of Beginning.

Also EXCEPT therefrom all that portion of said Northerly 659.80 Feet lying within the Sidelines of Trevor Avenue as described as Parcel A and Parcel B in Instrument No. 94-1858180 recorded on October 12, 1984 in the office of the County Recorder of said County more particularly described as follows:

Parcel A: that portion of said Northeast Quarter, which lies within a strip of land 80' wide, lying 40' on each side of the following described centerline:
Beginning at the Northeast corner of said Section; thence along the North line of said Section S89°59'54"W 969.63'; thence S0°00'06"E 113.01' to the true point of beginning; thence S0°00'06"E 150.25' to the beginning of a curve concave Westerly, having a radius of

1800.00' and central angle of $4^{\circ}18'25''$; thence Southerly along said curve 135.31' to the end of said curve; thence $S4^{\circ}18'19''W$ 903.17'.

Parcel B: that portion of said Northeast Quarter, described as follows:

Beginning at the Northeast corner of Parcel A described above: thence $N0^{\circ}00'06''W$ 11.00' to the beginning of a curve concave Southeasterly having a radius of 42.00' and central angle of $82^{\circ}19'32''$; thence Northeasterly along said curve 60.35' to the end of said curve; thence $S86^{\circ}09'40''W$ 158.75' to the beginning of a curve concave Southwesterly having a radius of 42.00' and central angle of $90^{\circ}00'00''$; a radial line to said beginning of curve bears $N0^{\circ}00'06''W$, thence Southeasterly along said curve 65.97' to the end of said curve; thence $N89^{\circ}59'54''E$ 80.00' to the Point of Beginning.

Also EXCEPT therefrom that portion of said Northerly 659.80 Feet lying Northerly of the Southerly Sideline of Avenue "H" as described in Instrument No. 94-1954647 recorded on August 9, 1984 in the office of the County Recorder of said County more particularly described as follows:

Beginning at the Northeast corner of said Section; thence $S89^{\circ}59'54''W$ along the Northerly line of said Section, 40.00 feet, to a point on a line 40.00 feet West of and parallel with the East line of said Section; thence $S00^{\circ}40'14''E$ along said East line 50.00 feet, to the True Point of Beginning; thence $S89^{\circ}59'54''W$ 1175.47 feet; thence $N00^{\circ}40'14''W$ 50.00 feet to the North line of said Section; thence $S89^{\circ}59'54''W$ 1326.83 feet along said North line to the East line of the Southern Pacific Transportation company Right of Way; thence $S07^{\circ}26'50''E$ along said last mentioned Right of Way 40.35 feet; thence $N89^{\circ}59'54''E$ 525.00 feet; thence $S00^{\circ}00'06''E$ 59.99 feet; thence $S86^{\circ}56'07''E$ 280.40 feet; thence $N84^{\circ}17'16''E$ 150.75 feet; thence $N87^{\circ}53'08''E$ 406.88 feet; thence $N00^{\circ}00'06''W$ 13.99 feet; thence $N89^{\circ}59'54''E$ 123.84 feet to the Westerly terminus of a line in the above mentioned Parcel B portion of Trevor Avenue, said line having a bearing of $S86^{\circ}09'40''W$ 158.75'; thence $N86^{\circ}09'40''E$ 158.75 feet along last said line to the beginning of a non-tangent curve, concave Southerly having a radius of 42.00 feet and central angle of $7^{\circ}40'28''$; thence Easterly, along said curve 5.63 feet to the end of said curve; thence $N89^{\circ}59'54''E$ 487.09 feet; thence $S85^{\circ}14'07''E$ 120.26 feet; thence $N89^{\circ}59'54''E$ 200.00 feet to the beginning of a curve concave Southwesterly having a radius of 42.00 feet and central angle of $89^{\circ}19'52''$ and being tangent to said line 40 feet West and parallel with the East line of said Section; thence Southeasterly along said curve 65.48 feet to the end of said curve; thence $N00^{\circ}40'14''W$ along said parallel line 61.51 feet to the True Point of Beginning.

EXHIBIT F

CITY PARCELS LEGAL DESCRIPTION

The Northerly 659.80 Feet of that portion of the Northeast Quarter of Section 10, Township 7 North, Range 12 West, San Bernardino Meridian, in the City of Lancaster, County of Los Angeles, State of California, according to the official plat of said land approved by the Surveyor General on June 19, 1856, which lies Easterly of the Easterly line of the 200 foot Southern Pacific Railway company right of way.

EXCEPT therefrom that portion of said land which lies Easterly of a line bearing $S0^{\circ}00'30''E$ from a point on the Northerly line of said Section which is distant thereon $S89^{\circ}59'30''W$ 1215.47 feet from the Northeasterly corner of said Section.

EXCEPT therefrom the property belonging to the Southern Pacific Railroad Company described as Parcel 2 in Document No. 1333 recorded September 14, 1954 in Official Records of said County, described as follows:

Commencing at a point in the South line of the Northeast quarter of said Section, distant thereon $N89^{\circ}59'50''E$ 436.96 feet from the Southwest corner of the Northeast quarter of said Section, said point also being at the intersection of said South line with the Easterly line of land (200 feet wide) of the Southern Pacific Railroad company; thence $N7^{\circ}27'02''W$, along said Easterly line parallel with and distant 100 feet Easterly measured at right angles, from the original located center line of the Southern Pacific Railroad company's main tract, a distance of 1768.86 feet to the True Point of Beginning of the parcel of land to be described; thence continuing $N7^{\circ}27'02''W$ along said Easterly line, a distance of 82.49 feet; thence Northeasterly and Easterly along a curve to the right, having a radius of 407.25 feet (the chord of said curve bears $N62^{\circ}18'32\frac{1}{2}''E$ 378.32 feet) an arc distance of 393.44 feet to a point; thence $N89^{\circ}59'08''E$, tangent to last described curve at last said point, a distance of 2074.55 feet to a point in a line parallel with and distant 40 feet Westerly, measured at right angles from the East line of said Section; thence $S00^{\circ}40'15''E$ along said parallel line, a distance of 50.00 feet; thence $S89^{\circ}59'08''W$ 2075.12 feet to a point; thence Westerly and Southwesterly along a curve to the left having a radius of 357.25 feet (tangent to said curve at last mentioned point is the last described course and chord bears $S57^{\circ}22'31\frac{1}{2}''W$ 385.06 feet), an arc distance of 406.66 feet to the True Point of Beginning.

Also EXCEPT therefrom that portion of said Northerly 659.80 Feet lying Northerly of the Southerly Sideline of Avenue "H" as described in Instrument No. 94-1954647 recorded on August 9, 1984 in the office of the County Recorder of said County more particularly described as follows:

Beginning at the Northeast corner of said Section; thence $S89^{\circ}59'54''W$ along the Northerly line of said Section, 40.00 feet, to a point on a line 40.00 feet West of and parallel with the East line of said Section; thence $S00^{\circ}40'14''E$ along said East line 50.00

EXHIBIT G

PROJECT SITE LEGAL DESCRIPTION

The Northerly 659.80 Feet of that portion of the Northeast Quarter of Section 10, Township 7 North, Range 12 West, San Bernardino Meridian, in the City of Lancaster, County of Los Angeles, State of California, according to the official plat of said land approved by the Surveyor General on June 19, 1856, which lies Easterly of the Easterly line of the 200 foot Southern Pacific Railway company right of way.

EXCEPT therefrom the property belonging to the Southern Pacific Railroad Company described as Parcel 2 in Document No. 1333 recorded September 14, 1954 in Official Records of said County, described as follows:

Commencing at a point in the South line of the Northeast quarter of said Section, distant thereon N89°59'50"E 436.96 feet from the Southwest corner of the Northeast quarter of said Section, said point also being at the intersection of said South line with the Easterly line of land (200 feet wide) of the Southern Pacific Railroad company; thence N7°27'02"W, along said Easterly line parallel with and distant 100 feet Easterly measured at right angles, from the original located center line of the Southern Pacific Railroad company's main tract, a distance of 1768.86 feet to the True Point of Beginning of the parcel of land to be described; thence continuing N7°27'02"W along said Easterly line, a distance of 82.49 feet; thence Northeasterly and Easterly along a curve to the right, having a radius of 407.25 feet (the chord of said curve bears N62°18'32 1/2"E 378.32 feet) an arc distance of 393.44 feet to a point; thence N89°59'08"E, tangent to last described curve at last said point, a distance of 2074.55 feet to a point in a line parallel with and distant 40 feet Westerly, measured at right angles from the East line of said Section; thence S00°40'15"E along said parallel line, a distance of 50.00 feet; thence S89°59'08"W 2075.12 feet to a point; thence Westerly and Southwesterly along a curve to the left having a radius of 357.25 feet (tangent to said curve at last mentioned point is the last described course and chord bears S57°22'31 1/2"W 385.06 feet), an arc distance of 406.66 feet to the True Point of Beginning.

Also EXCEPT therefrom all that portion of said Northerly 659.80 Feet lying within the Sidelines of Trevor Avenue as described as Parcel A and Parcel B in Instrument No. 94-1858180 recorded on October 12, 1984 in the office of the County Recorder of said County more particularly described as follows:

Parcel A: that portion of said Northeast Quarter, which lies within a strip of land 80' wide, lying 40' on each side of the following described centerline:

Beginning at the Northeast corner of said Section; thence along the North line of said Section S89°59'54"W 969.63'; thence S0°00'06"E 113.01' to the true point of beginning; thence S0°00'06"E 150.25' to the beginning of a curve concave Westerly, having a radius of 1800.00' and central angle of 4°18'25"; thence Southerly along said curve 135.31' to the end of said curve; thence S4°18'19"W 903.17'.

Parcel B: that portion of said Northeast Quarter, described as follows:

Beginning at the Northeast corner of Parcel A described above: thence $N0^{\circ}00'06''W$ 11.00' to the beginning of a curve concave Southeasterly having a radius of 42.00' and central angle of $82^{\circ}19'32''$; thence Northeasterly along said curve 60.35' to the end of said curve; thence $S86^{\circ}09'40''W$ 158.75' to the beginning of a curve concave Southwesterly having a radius of 42.00' and central angle of $90^{\circ}00'00''$; a radial line to said beginning of curve bears $N0^{\circ}00'06''W$, thence Southeasterly along said curve 65.97' to the end of said curve; thence $N89^{\circ}59'54''E$ 80.00' to the Point of Beginning.

Also EXCEPT therefrom that portion of said Northerly 659.80 Feet lying Northerly of the Southerly Sideline of Avenue "H" as described in Instrument No. 94-1954647 recorded on August 9, 1984 in the office of the County Recorder of said County more particularly described as follows:

Beginning at the Northeast corner of said Section; thence $S89^{\circ}59'54''W$ along the Northerly line of said Section, 40.00 feet, to a point on a line 40.00 feet West of and parallel with the East line of said Section; thence $S00^{\circ}40'14''E$ along said East line 50.00 feet, to the True Point of Beginning; thence $S89^{\circ}59'54''W$ 1175.47 feet; thence $N00^{\circ}40'14''W$ 50.00 feet to the North line of said Section; thence $S89^{\circ}59'54''W$ 1326.83 feet along said North line to the East line of the Southern Pacific Transportation company Right of Way; thence $S07^{\circ}26'50''E$ along said last mentioned Right of Way 40.35 feet; thence $N89^{\circ}59'54''E$ 525.00 feet; thence $S00^{\circ}00'06''E$ 59.99 feet; thence $S86^{\circ}56'07''E$ 280.40 feet; thence $N84^{\circ}17'16''E$ 150.75 feet; thence $N87^{\circ}53'08''E$ 406.88 feet; thence $N00^{\circ}00'06''W$ 13.99 feet; thence $N89^{\circ}59'54''E$ 123.84 feet to the Westerly terminus of a line in the above mentioned Parcel B portion of Trevor Avenue, said line having a bearing of $S86^{\circ}09'40''W$ 158.75'; thence $N86^{\circ}09'40''E$ 158.75 feet along last said line to the beginning of a non-tangent curve, concave Southerly having a radius of 42.00 feet and central angle of $7^{\circ}40'28''$; thence Easterly, along said curve 5.63 feet to the end of said curve; thence $N89^{\circ}59'54''E$ 487.09 feet; thence $S85^{\circ}14'07''E$ 120.26 feet; thence $N89^{\circ}59'54''E$ 200.00 feet to the beginning of a curve concave Southwesterly having a radius of 42.00 feet and central angle of $89^{\circ}19'52''$ and being tangent to said line 40 feet West and parallel with the East line of said Section; thence Southeasterly along said curve 65.48 feet to the end of said curve; thence $N00^{\circ}40'14''W$ along said parallel line 61.51 feet to the True Point of Beginning.

Also EXCEPT therefrom that portion of said Northerly 659.80 Feet lying Westerly of the following described line:

Commencing at the intersection of the Easterly line of said Southern Pacific Railway company right of way, 200 feet wide, with a line that is parallel with the North line of said Section, and that is distant 40.00 feet, measured at right angles, Southerly from said North line; thence $N89^{\circ}59'54''E$ along said parallel line 405 feet to the True Point of Beginning; thence leaving said parallel line $S00^{\circ}00'06''E$ 619.80 feet to the Southerly line of said Northerly 659.80.

Also EXCEPT therefrom all that portion of said Northerly 659.80 Feet lying Easterly of said Trevor Avenue.

Illustrative Parcelization Map:



EXHIBIT H

ACQUISITION PROPERTY GRANT DEED

**RECORDING REQUESTED BY AND
WHEN RECORDED MAIL TO:**

City of Lancaster
44933 Fern Avenue
Lancaster, California 93534
Attn: City Manager

[Space above for recorder.]

GRANT DEED

For valuable consideration, receipt of which is hereby acknowledged, **JULIAN BAY**, an individual (“Grantor”), as grantor, hereby grants to the **CITY OF LANCASTER**, a charter city and California municipal corporation (“City”), as grantee, the real property hereinafter referred to as the “Acquisition Property,” described in Attachment No. 1 attached hereto and incorporated herein, subject to the existing easements, restrictions and covenants of record.

GRANTOR:

Julian Bay

ATTACHMENT NO. 1

ACQUISITION PROPERTY LEGAL DESCRIPTION

The Northerly 659.80 Feet of that portion of the Northeast Quarter of Section 10, Township 7 North, Range 12 West, San Bernardino Meridian, in the City of Lancaster, County of Los Angeles, State of California, according to the official plat of said land approved by the Surveyor General on June 19, 1856, which lies Easterly of a line bearing $S0^{\circ}00'30''E$ from a point on the Northerly line of said Section which is distant thereon $S89^{\circ}59'30''W$ 1215.47 feet from the Northeasterly corner of said Section.

EXCEPT therefrom the property belonging to the Southern Pacific Railroad Company described as Parcel 2 in Document No. 1333 recorded September 14, 1954 in Official Records of said County, described as follows:

Commencing at a point in the South line of the Northeast quarter of said Section, distant thereon $N89^{\circ}59'50''E$ 436.96 feet from the Southwest corner of the Northeast quarter of said Section, said point also being at the intersection of said South line with the Easterly line of land (200 feet wide) of the Southern Pacific Railroad company; thence $N7^{\circ}27'02''W$, along said Easterly line parallel with and distant 100 feet Easterly measured at right angles, from the original located center line of the Southern Pacific Railroad company's main tract, a distance of 1768.86 feet to the True Point of Beginning of the parcel of land to be described; thence continuing $N7^{\circ}27'02''W$ along said Easterly line, a distance of 82.49 feet; thence Northeasterly and Easterly along a curve to the right, having a radius of 407.25 feet (the chord of said curve bears $N62^{\circ}18'32\frac{1}{2}''E$ 378.32 feet) an arc distance of 393.44 feet to a point; thence $N89^{\circ}59'08''E$, tangent to last described curve at last said point, a distance of 2074.55 feet to a point in a line parallel with and distant 40 feet Westerly, measured at right angles from the East line of said Section; thence $S00^{\circ}40'15''E$ along said parallel line, a distance of 50.00 feet; thence $S89^{\circ}59'08''W$ 2075.12 feet to a point; thence Westerly and Southwesterly along a curve to the left having a radius of 357.25 feet (tangent to said curve at last mentioned point is the last described course and chord bears $S57^{\circ}22'31\frac{1}{2}''W$ 385.06 feet), an arc distance of 406.66 feet to the True Point of Beginning.

Also EXCEPT therefrom all that portion of said Northerly 659.80 Feet lying within the Sidelines of Trevor Avenue as described as Parcel A and Parcel B in Instrument No. 94-1858180 recorded on October 12, 1984 in the office of the County Recorder of said County more particularly described as follows:

Parcel A: that portion of said Northeast Quarter, which lies within a strip of land 80' wide, lying 40' on each side of the following described centerline:
Beginning at the Northeast corner of said Section; thence along the North line of said Section $S89^{\circ}59'54''W$ 969.63'; thence $S0^{\circ}00'06''E$ 113.01' to the true point of beginning; thence $S0^{\circ}00'06''E$ 150.25' to the beginning of a curve concave Westerly, having a radius of

1800.00' and central angle of $4^{\circ}18'25''$; thence Southerly along said curve 135.31' to the end of said curve; thence $S4^{\circ}18'19''W$ 903.17'.

Parcel B: that portion of said Northeast Quarter, described as follows:

Beginning at the Northeast corner of Parcel A described above: thence $N0^{\circ}00'06''W$ 11.00' to the beginning of a curve concave Southeasterly having a radius of 42.00' and central angle of $82^{\circ}19'32''$; thence Northeasterly along said curve 60.35' to the end of said curve; thence $S86^{\circ}09'40''W$ 158.75' to the beginning of a curve concave Southwesterly having a radius of 42.00' and central angle of $90^{\circ}00'00''$; a radial line to said beginning of curve bears $N0^{\circ}00'06''W$, thence Southeasterly along said curve 65.97' to the end of said curve; thence $N89^{\circ}59'54''E$ 80.00' to the Point of Beginning.

Also EXCEPT therefrom that portion of said Northerly 659.80 Feet lying Northerly of the Southerly Sideline of Avenue "H" as described in Instrument No. 94-1954647 recorded on August 9, 1984 in the office of the County Recorder of said County more particularly described as follows:

Beginning at the Northeast corner of said Section; thence $S89^{\circ}59'54''W$ along the Northerly line of said Section, 40.00 feet, to a point on a line 40.00 feet West of and parallel with the East line of said Section; thence $S00^{\circ}40'14''E$ along said East line 50.00 feet, to the True Point of Beginning; thence $S89^{\circ}59'54''W$ 1175.47 feet; thence $N00^{\circ}40'14''W$ 50.00 feet to the North line of said Section; thence $S89^{\circ}59'54''W$ 1326.83 feet along said North line to the East line of the Southern Pacific Transportation company Right of Way; thence $S07^{\circ}26'50''E$ along said last mentioned Right of Way 40.35 feet; thence $N89^{\circ}59'54''E$ 525.00 feet; thence $S00^{\circ}00'06''E$ 59.99 feet; thence $S86^{\circ}56'07''E$ 280.40 feet; thence $N84^{\circ}17'16''E$ 150.75 feet; thence $N87^{\circ}53'08''E$ 406.88 feet; thence $N00^{\circ}00'06''W$ 13.99 feet; thence $N89^{\circ}59'54''E$ 123.84 feet to the Westerly terminus of a line in the above mentioned Parcel B portion of Trevor Avenue, said line having a bearing of $S86^{\circ}09'40''W$ 158.75'; thence $N86^{\circ}09'40''E$ 158.75 feet along last said line to the beginning of a non-tangent curve, concave Southerly having a radius of 42.00 feet and central angle of $7^{\circ}40'28''$; thence Easterly, along said curve 5.63 feet to the end of said curve; thence $N89^{\circ}59'54''E$ 487.09 feet; thence $S85^{\circ}14'07''E$ 120.26 feet; thence $N89^{\circ}59'54''E$ 200.00 feet to the beginning of a curve concave Southwesterly having a radius of 42.00 feet and central angle of $89^{\circ}19'52''$ and being tangent to said line 40 feet West and parallel with the East line of said Section; thence Southeasterly along said curve 65.48 feet to the end of said curve; thence $N00^{\circ}40'14''W$ along said parallel line 61.51 feet to the True Point of Beginning.

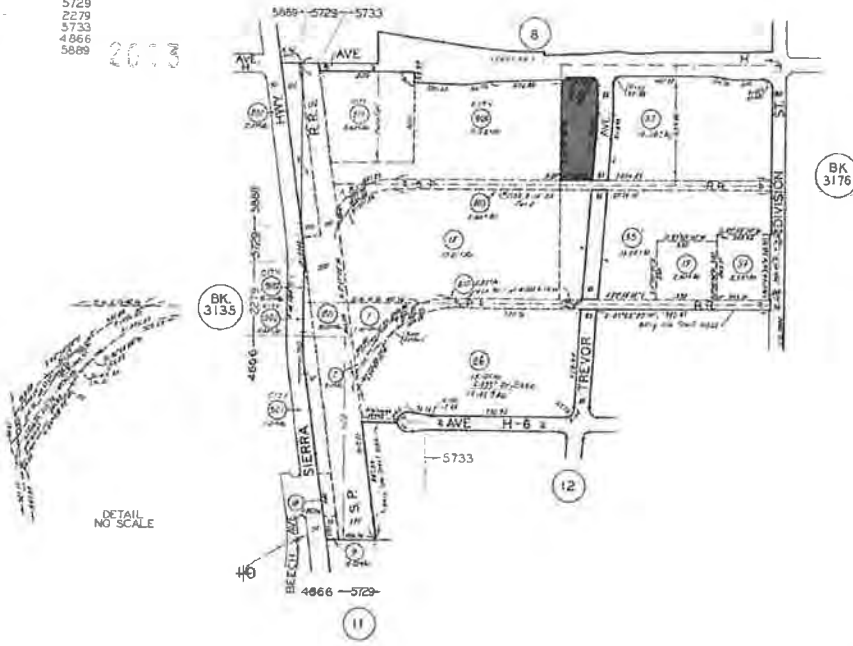
Also EXCEPT therefrom all that portion of said Northerly 659.80 Feet lying Easterly of said Trevor Avenue.

Los Angeles County Assessor's Map: Portion APN 3137-010-032

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DETAIL
NO SCALE

Distances shown in brackets are per Township Plat.

T. 7N, R. 12W.

888-320
3137-8

CERTIFICATE OF ACCEPTANCE

This is to certify that the fee interest in real property conveyed under the foregoing Grant Deed by **JULIAN BAY**, an individual, to the **CITY OF LANCASTER**, a charter city and California municipal corporation ("City"), is hereby accepted by the City Council of the City pursuant to authority conferred by action of said Council on September 8, 2015 and the City consents to recordation thereof.

Dated: _____

CITY:

CITY OF LANCASTER, a charter city and
California municipal corporation

By: _____

Its: _____

EXHIBIT I

PROJECT SITE GRANT DEED

**RECORDING REQUESTED BY AND
WHEN RECORDED MAIL TO:**

Potential Investments, LLC
735 West Lancaster Boulevard
Lancaster, California 93534

[Space above for recorder.]

GRANT DEED

For valuable consideration, receipt of which is hereby acknowledged, the **CITY OF LANCASTER**, a charter city and California municipal corporation (the "Grantor"), hereby grants to **POTENTIAL INVESTMENTS, LLC**, a California limited liability company (the "Grantee"), the real property hereinafter referred to as the "Project Site," described in Attachment No. 1 attached hereto and incorporated herein, subject to the existing easements, restrictions and covenants of record described there.

1. Grantor excepts and reserves from the conveyance herein described all interest of Grantor in oil, gas, hydrocarbon substances and minerals of every kind and character lying more than five hundred (500) feet below the surface, together with the right to drill into, through and to use and occupy all parts of the Project Site lying more than five hundred (500) feet below the surface thereof for any and all purposes incidental to the exploration for and production of oil, gas, hydrocarbon substances or minerals from said Project Site or other lands, but without, however, any right to use either the surface of the Project Site or any portion thereof within five hundred (500) feet of the surface for any purpose or purposes whatsoever, or to use the Project Site in such a manner as to create a disturbance to the use or enjoyment of the Project Site.

2. The Project Site is conveyed in accordance with and subject to the Disposition and Development Agreement entered into between Grantor and Grantee dated September 8, 2015 (the "DDA"), a copy of which is on file with Grantor at its offices as a public record and which is incorporated herein by reference. All terms used herein shall have the same meaning as those used in the DDA

3. Grantor has the right, at its election, to reenter and take possession of the Project Site, with all improvements thereon, and terminate and revest in Grantor the estate conveyed to Grantee if after the Closing but prior to the issuance and recordation of the Release of Construction Covenants, Grantee (or its successors in interest) shall:

- a. Fail to start the construction of the Improvements as required by the DDA for a period of thirty (30) days after written notice thereof from City; or

- b. Abandon or substantially suspend construction of the Improvements required by the DDA for a period of thirty (30) days after written notice thereof from City; or
- c. Fail to complete construction of the Improvements required by the DDA within the time frame set forth in the Schedule of Performance contained therein; or
- d. Transfer or suffer any involuntary transfer of the Project Site or any part thereof in violation of Section 726 of the DDA.

Such right to reenter, terminate and revest shall be subject to and be limited by and shall not defeat, render invalid or limit: (i) any mortgage or deed of trust permitted by the DDA; or (ii) any rights or interests provided in the DDA for the protection of the holders of such mortgages or deeds of trust.

Upon the revesting in Grantor of title to the Project Site as provided in this Section 3, Grantor shall, pursuant to its responsibilities under state law, use its reasonable efforts to resell the Project Site for fair market value as soon and in such manner as Grantor shall find feasible to a qualified and responsible party or parties (as determined by Grantor) who will assume the obligation of making or completing the Improvements, or such improvements in their stead as shall be satisfactory to Grantor. Upon such resale of the Project Site, the net proceeds thereof after repayment of any mortgage or deed of trust encumbering the Project Site which is permitted by this Agreement, shall be applied:

- i. First, to reimburse Grantor all costs and expenses reasonably incurred by Grantor, excluding City staff costs, but specifically, including, but not limited to, any expenditures by Grantor in connection with the recapture, management and resale of the Project Site or part thereof (but less any income derived by Grantor from the Project Site or part thereof in connection with such management); all taxes, assessments and water or sewer charges with respect to the Project Site or part thereof which Grantee has not paid (or, in the event that Project Site is exempt from taxation or assessment of such charges during the period of ownership thereof by Grantor, an amount, if paid, equal to such taxes, assessments or charges as would have been payable if the Project Site were not so exempt); any payments made or necessary to be made to discharge any encumbrances or liens existing on the Project Site or part thereof at the time of revesting of title thereto in Grantor, or to discharge or prevent from attaching or being made any subsequent encumbrances or liens due to obligations, defaults or acts of Grantee, its successors or transferees; any expenditures made or obligations incurred with respect to the making or completion of the improvements or any part thereof on the Project Site, or part thereof; and any amounts otherwise owing Grantor, and in the event additional proceeds are thereafter available, then
- ii. Second, to reimburse Grantee, its successor or transferee, up to the amount equal to the sum of (a) the costs incurred for the acquisition and development of the Project Site and for the improvements existing on the Project Site at the

time of the reentry and possession, less (b) any gains or income withdrawn or made by Grantee from the Project Site or the improvements thereon.

Any balance remaining after such reimbursements shall be retained by Grantor as its property. The rights established in this Section 3 are not intended to be exclusive of any other right, power or remedy, but each and every such right, power and remedy shall be cumulative and concurrent and shall be in addition to any other right, power and remedy authorized herein or now or hereafter existing at law or in equity. These rights are to be interpreted in light of the fact that Grantor will have conveyed the Project Site to Grantee for economic development purposes, and not for speculation in undeveloped land.

4. Grantee covenants by and for itself and any successors in interest that there shall be no discrimination against or segregation of, any person or group of persons on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code, in the sale, lease, sublease, transfer, use, occupancy, tenure, or enjoyment of the Project Site, nor shall the grantee or any person claiming under or through him or her, establish or permit any practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy of tenants, lessees, subtenants, sublessees, or vendees in the Project Site. The foregoing covenants shall run with the land.

Grantee shall refrain from restricting the rental, sale or lease of the Project Site on any of the bases listed above in this Section 4. All such deeds, leases or contracts shall contain or be subject to substantially the following nondiscrimination or nonsegregation clauses:

(a) In deeds. "The grantee herein covenants by and for himself or herself, his or her heirs, executors, administrators, and assigns, and all persons claiming under or through them, that there shall be no discrimination against or segregation of, any person or group of persons on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code, in the sale, lease, sublease, transfer, use, occupancy, tenure, or enjoyment of the premises herein conveyed, nor shall the grantee or any person claiming under or through him or her, establish or permit any practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy of tenants, lessees, subtenants, sublessees, or vendees in the premises herein conveyed. The foregoing covenants shall run with the land."

(b) In leases. "The lessee herein covenants by and for himself or herself, his or her heirs, executors, administrators, and assigns, and all persons claiming under or through him or her, and this lease is made and accepted upon and subject to the following conditions:

“That there shall be no discrimination against or segregation of any person or group of persons, on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code, in the leasing, subleasing, transferring, use, occupancy, tenure, or enjoyment of the premises herein leased nor shall the lessee himself or herself, or any person claiming under or through him or her, establish or permit any such practice or practices of discrimination or segregation with reference to the selection, location, number, use, or occupancy, of tenants, lessees, sublessees, subtenants, or vendees in the premises herein leased.”

(c) In contracts. “There shall be no discrimination against or segregation of, any person or group of persons on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code, in the sale, lease, sublease, transfer, use, occupancy, tenure, or enjoyment of the premises which are the subject of this Agreement, nor shall the grantee or any person claiming under or through him or her, establish or permit any practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy of tenants, lessees, subtenants, sublessees, or vendees in the premises herein conveyed. The foregoing covenants shall run with the land.”

GRANTOR:

CITY OF LANCASTER, a charter city and
California municipal corporation

By: _____
Its: _____

GRANTEE:

POTENTIAL INVESTMENTS, LLC,
a California limited liability company

By: _____
Its: _____

ATTACHMENT NO. 1

PROJECT SITE LEGAL DESCRIPTION

The Northerly 659.80 Feet of that portion of the Northeast Quarter of Section 10, Township 7 North, Range 12 West, San Bernardino Meridian, in the City of Lancaster, County of Los Angeles, State of California, according to the official plat of said land approved by the Surveyor General on June 19, 1856, which lies Easterly of the Easterly line of the 200 foot Southern Pacific Railway company right of way.

EXCEPT therefrom the property belonging to the Southern Pacific Railroad Company described as Parcel 2 in Document No. 1333 recorded September 14, 1954 in Official Records of said County, described as follows:

Commencing at a point in the South line of the Northeast quarter of said Section, distant thereon N89°59'50"E 436.96 feet from the Southwest corner of the Northeast quarter of said Section, said point also being at the intersection of said South line with the Easterly line of land (200 feet wide) of the Southern Pacific Railroad company; thence N7°27'02"W, along said Easterly line parallel with and distant 100 feet Easterly measured at right angles, from the original located center line of the Southern Pacific Railroad company's main tract, a distance of 1768.86 feet to the True Point of Beginning of the parcel of land to be described; thence continuing N7°27'02"W along said Easterly line, a distance of 82.49 feet; thence Northeasterly and Easterly along a curve to the right, having a radius of 407.25 feet (the chord of said curve bears N62°18'32 1/2"E 378.32 feet) an arc distance of 393.44 feet to a point; thence N89°59'08"E, tangent to last described curve at last said point, a distance of 2074.55 feet to a point in a line parallel with and distant 40 feet Westerly, measured at right angles from the East line of said Section; thence S00°40'15"E along said parallel line, a distance of 50.00 feet; thence S89°59'08"W 2075.12 feet to a point; thence Westerly and Southwesterly along a curve to the left having a radius of 357.25 feet (tangent to said curve at last mentioned point is the last described course and chord bears S57°22'31 1/2"W 385.06 feet), an arc distance of 406.66 feet to the True Point of Beginning.

Also EXCEPT therefrom all that portion of said Northerly 659.80 Feet lying within the Sidelines of Trevor Avenue as described as Parcel A and Parcel B in Instrument No. 94-1858180 recorded on October 12, 1984 in the office of the County Recorder of said County more particularly described as follows:

Parcel A: that portion of said Northeast Quarter, which lies within a strip of land 80' wide, lying 40' on each side of the following described centerline:

Beginning at the Northeast corner of said Section; thence along the North line of said Section S89°59'54"W 969.63'; thence S0°00'06"E 113.01' to the true point of beginning; thence S0°00'06"E 150.25' to the beginning of a curve concave Westerly, having a radius of 1800.00' and central angle of 4°18'25"; thence Southerly along said curve 135.31' to the end of said curve; thence S4°18'19"W 903.17'.

Parcel B: that portion of said Northeast Quarter, described as follows:

Beginning at the Northeast corner of Parcel A described above: thence N0°00'06"W 11.00' to the beginning of a curve concave Southeasterly having a radius of 42.00' and central angle of 82°19'32"; thence Northeasterly along said curve 60.35' to the end of said curve; thence S86°09'40"W 158.75' to the beginning of a curve concave Southwesterly having a radius of 42.00' and central angle of 90°00'00"; a radial line to said beginning of curve bears N0°00'06"W, thence Southeasterly along said curve 65.97' to the end of said curve; thence N89°59'54"E 80.00' to the Point of Beginning.

Also EXCEPT therefrom that portion of said Northerly 659.80 Feet lying Northerly of the Southerly Sideline of Avenue "H" as described in Instrument No. 94-1954647 recorded on August 9, 1984 in the office of the County Recorder of said County more particularly described as follows:

Beginning at the Northeast corner of said Section; thence S89°59'54"W along the Northerly line of said Section, 40.00 feet, to a point on a line 40.00 feet West of and parallel with the East line of said Section; thence S00°40'14"E along said East line 50.00 feet, to the True Point of Beginning; thence S89°59' 54"W 1175.47 feet; thence N00°40'14"W 50.00 feet to the North line of said Section; thence S89°59'54"W 1326.83 feet along said North line to the East line of the Southern Pacific Transportation company Right of Way; thence S07°26' 50"E along said last mentioned Right of Way 40.35 feet; thence N89°59'54"E 525.00 feet; thence S00°00'06"E 59.99 feet; thence S86°56'07"E 280.40 feet; thence N84°17'16"E 150.75 feet; thence N87°53'08"E 406.88 feet; thence N00°00'06"W 13.99 feet; thence N89°59'54"E 123.84 feet to the Westerly terminus of a line in the above mentioned Parcel B portion of Trevor Avenue, said line having a bearing of S86°09'40"W 158.75'; thence N86°09'40"E 158.75 feet along last said line to the beginning of a non-tangent curve, concave Southerly having a radius of 42.00 feet and central angle of 7°40'28"; thence Easterly, along said curve 5.63 feet to the end of said curve; thence N89°59'54"E 487.09 feet; thence S85°14'07"E 120.26 feet; thence N89°59'54"E 200.00 feet to the beginning of a curve concave Southwesterly having a radius of 42.00 feet and central angle of 89°19'52" and being tangent to said line 40 feet West and parallel with the East line of said Section; thence Southeasterly along said curve 65.48 feet to the end of said curve; thence N00°40'14"W along said parallel line 61.51 feet to the True Point of Beginning.

Also EXCEPT therefrom that portion of said Northerly 659.80 Feet lying Westerly of the following described line:

Commencing at the intersection of the Easterly line of said Southern Pacific Railway company right of way, 200 feet wide, with a line that is parallel with the North line of said Section, and that is distant 40.00 feet, measured at right angles, Southerly from said North line; thence N89°59'54"E along said parallel line 405 feet to the True Point of Beginning; thence leaving said parallel line S00°00'06"E 619.80 feet to the Southerly line of said Northerly 659.80.

Also EXCEPT therefrom all that portion of said Northerly 659.80 Feet lying Easterly of said Trevor Avenue.

Illustrative Parcelization Map:



EXHIBIT J

**PROMISSORY NOTE
(Secured by Deed of Trust)**

\$ _____,
_____, 2015

Lancaster, California

FOR VALUE RECEIVED, on or before _____, 2018 (the Maturity Date”), **POTENTIAL INVESTMENTS, LLC**, a California limited liability company (“Borrower”), as maker and obligor, promises to pay to the **CITY OF LANCASTER**, a charter city and California municipal corporation (“City”), as holder and beneficiary, or order, at City’s office at 44933 Fern Avenue, Lancaster, California 93534, or such other place as City may designate in writing, the sum of (a) _____ Dollars (\$ _____) (“Note Amount”), and (b) all costs and expenses payable hereunder, in currency of the United States of America, which at the time of payment is lawful for the payment of public and private debts.

1. Agreement. This Promissory Note (“Note”) is given in accordance with that certain Disposition and Development Agreement executed by City and Borrower, dated as of September 8, 2015 (“Agreement”). The rights and obligations of Borrower and City under this Note shall be governed by the Agreement and by the additional terms set forth in this Note. In the event of any conflict or inconsistencies between the terms of this Note and the terms of the Agreement or any other document related to the Note Amount, the terms of this Note shall prevail. Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Agreement. A default by Potential under any of the provisions of the Agreement, including any and all exhibits executed, attested and/or recorded in implementation of the Agreement (together, “Transaction Documents”) shall, after the expiration of any cure period under the respective agreement or document, be a default under this Note, and a default under this Note, after the expiration of any applicable cure period, shall be a default under the Transaction Documents.

2. Interest. The Note Amount shall bear simple interest at two percent (2%) per annum, which shall begin to accrue upon the Closing.

3. Repayment of Note Amount. Quarterly interest only payments on the outstanding Note Amount shall be paid in arrears on January 1st, April 1st, July 1st and October 1st of each year (each, a “Quarterly Interest Due Date”). Quarterly interest only payments shall begin on the first Quarterly Interest Due Date following the Closing.

4. Security. This Note and all amounts payable hereunder are secured by that certain Deed of Trust and Assignment of Rents, a deed of trust, of even date herewith executed by Borrower in favor of City (“Deed of Trust”), which Deed of Trust shall only be subordinate to encumbrances approved by City in writing. The terms of the Deed of Trust are incorporated herein and made a part hereof to the same extent and with the same force and effect as if fully set forth herein. A default under any of the provisions of the Deed of Trust, after the expiration of any applicable cure period, shall be a default hereunder, and a default hereunder, after the expiration of any applicable cure period, shall be a default under the Deed of Trust.

5. Application of Payments. All payments shall be applied (i) first, to costs and fees owing under this Note, (ii) second, to the payment of unpaid accrued interest owing under this Note, (iii) third, to payment of principal.

6. Waivers.

(a) Borrower expressly agrees that this Note or any payment hereunder may be extended from time to time at City's sole discretion and that City may accept security in consideration for any such extension or release any security for this Note at its sole discretion all without in any way affecting the liability of Borrower.

(b) No extension of time for payment of this Note made by agreement by City with any person now or hereafter liable for the payment of this Note shall operate to release, discharge, modify, change or affect the original liability of Borrower under this Note, either in whole or in part.

(c) The obligations of Borrower under this Note shall be absolute and Borrower waives any and all rights to offset, deduct or withhold any payments or charges due under this Note for any reasons whatsoever.

(d) Borrower waives presentment, demand, notice of protest and nonpayment, notice of default or delinquency, notice of acceleration, notice of costs, expenses or leases or interest thereon, notice of dishonor, diligence in collection or in proceeding against any of the rights or interests in or to properties securing this Note, and the benefit of any exemption under any homestead exemption laws, if applicable.

(e) No previous waiver and no failure or delay by City in acting with respect to the terms of this Note or the Deed of Trust shall constitute a waiver of any breach, default, or failure or condition under this Note, the Deed of Trust or the obligations secured thereby. A waiver of any term of this Note, the Deed of Trust or of any of the obligations secured thereby must be made in writing and shall be limited to the express written terms of such waiver.

7. Attorneys' Fees and Costs. Borrower agrees that if any amounts due under this Note are not paid when due, Borrower will pay all costs and expenses of collection and reasonable attorneys' fees paid or incurred in connection with the collection or enforcement of this Note, whether or not suit is filed.

8. Joint and Several Obligation. This Note is the joint and several obligation of all makers, sureties, guarantors and endorsers, and shall be binding upon them and their heirs, successors and assigns.

9. Amendments and Modifications. This Note may not be changed orally, but only by an amendment approved by City and evidenced in a writing signed by Borrower and by City.

10. City May Assign. City may, at its option, assign its right to receive payment under this Note without necessity of obtaining the consent of the Borrower.

11. Borrower Assignment Prohibited. In no event shall Borrower assign or transfer any portion of this Note without the prior express written consent of City, which consent shall not

unreasonably be withheld, except pursuant to a transfer which is a permitted by or approved under the Agreement.

12. Acceleration and Other Remedies. Upon the occurrence of a Default as defined in the Agreement, City may, at City's option, declare the outstanding principal amount of this Note, together with the then accrued and unpaid interest thereon and other charges hereunder, and all other sums secured by the Deed of Trust, to be due and payable immediately, and upon such declaration, such principal and interest and other sums shall immediately become and be due and payable without demand or notice. All costs of collection, including, but not limited to, reasonable attorneys' fees and all expenses incurred in connection with protection of, or realization on, the security for this Note, may be added to the principal hereunder, and shall accrue interest as provided herein. City shall at all times have the right to proceed against any portion of the security for this Note in such order and in such manner as such City may consider appropriate, without waiving any rights with respect to any of the security. Any delay or omission on the part of City in exercising any right hereunder, under the Agreement or under the Deed of Trust shall not operate as a waiver of such right, or of any other right. No single or partial exercise of any right or remedy hereunder or under the Agreement or any other document or agreement shall preclude other or further exercises thereof, or the exercise of any other right or remedy. The acceptance of payment of any sum payable hereunder, or part thereof, after the due date of such payment shall not be a waiver of City's right to either require prompt payment when due of all other sums payable hereunder or to declare Default for failure to make prompt or complete payment.

13. Alternate Rate. Upon the occurrence and during the continuance of any Default, or upon the maturity hereof (by acceleration or otherwise), the entire unpaid principal sum, at the option of City, shall bear interest, from the date of occurrence of such Default or maturity and after judgment and until collection, at the "Alternate Rate", such rate being the highest interest rate then permitted by law. Interest calculated at the Alternate Rate, when and if applicable, shall be due and payable immediately without notice or demand. Borrower agrees that in the event of any Default, City will incur additional expense in servicing the loan evidenced by this Note and will suffer damage and loss resulting from such Default. Borrower agrees that in such event City shall be entitled to damages for the detriment caused thereby, which damages are extremely difficult and impractical to ascertain. Therefore, Borrower agrees that the Alternate Rate (as applied to the unpaid principal balance, accrued interest, fees, costs and expenses incurred) is a reasonable estimate of such damages to City, and Borrower agrees to pay such sum on demand.

14. Consents. Borrower hereby consents to: (a) any extension (whether one or more) of the time of payment under this Note, (b) the release or surrender or exchange or substitution of all or any part of the security, whether real or personal, or direct or indirect, for the payment hereof, (c) the granting of any other indulgences to Borrower, and (d) the taking or releasing of other or additional parties primarily or contingently liable hereunder. Any such extension, release, surrender, exchange or substitution may be made without notice to Borrower or to any endorser, guarantor or surety hereof, and without affecting the liability of said parties hereunder.

15. Usury. It is the intention of Borrower and City to conform strictly to the Interest Law, as defined below, applicable to this loan transaction. Accordingly, it is agreed that notwithstanding any provision to the contrary in this Note, or in any of the documents securing payment hereof or otherwise relating hereto, the aggregate of all interest and any other charges or consideration constituting interest under the applicable Interest Law that is taken, reserved, contracted for, charged or received under this Note, or under any of the other aforesaid agreements or

otherwise in connection with this loan transaction, shall under no circumstances exceed the maximum amount of interest allowed by the Interest Law applicable to this loan transaction. If any excess of interest in such respect is provided for in this Note, or in any of the documents securing payment hereof or otherwise relating hereto, then, in such event:

(a) the provisions of this paragraph shall govern and control;

(b) neither Borrower nor Borrower's heirs, legal representatives, successors or assigns shall be obligated to pay the amount of such interest to the extent that it is in excess of the maximum amount of interest allowed by the Interest Law applicable to this loan transaction;

(c) any excess shall be deemed canceled automatically and, if theretofore paid, shall be credited on this Note by City or, if this Note shall have been paid in full, refunded to Borrower; and

(d) the effective rate of interest shall be automatically subject to reduction to the Maximum Legal Rate of Interest (as defined below), allowed under such Interest Law, as now or hereafter construed by courts of appropriate jurisdiction. To the extent permitted by the Interest Law applicable to this loan transaction, all sums paid or agreed to be paid to City for the use, forbearance or detention of the indebtedness evidenced hereby shall be amortized, prorated, allocated and spread throughout the full term of this Note. For purposes of this Note, "Interest Law" shall mean any present or future law of the State of California, the United States of America, or any other jurisdiction which has application to the interest and other charges under this Note. The "Maximum Legal Rate of Interest" shall mean the maximum rate of interest that City may from time to time charge Borrower and under which Borrower would have no claim or defense of usury under the Interest Law.

16. Successors and Assigns. Whenever "City" is referred to in this Note, such reference shall be deemed to include the City of Lancaster and its successors and assigns, including, without limitation, any subsequent assignee or holder of this Note. All covenants, provisions and agreements by or on behalf of Borrower, and on behalf of any makers, endorsers, guarantors and sureties hereof which are contained herein shall inure to the benefit of City and City's successors and assigns.

BORROWER:

POTENTIAL INVESTMENTS, LLC, a California limited liability company

By: _____
Its: _____

EXHIBIT K
DEED OF TRUST

**RECORDING REQUESTED BY AND
WHEN RECORDED MAIL TO:**

City of Lancaster
44933 Fern Avenue
Lancaster, California 93534
Attn: City Manager

[Space above for recorder.]

**DEED OF TRUST WITH ASSIGNMENT OF RENTS
(SHORT FORM)**

THIS DEED OF TRUST, dated as of _____, 2015, between **POTENTIAL INVESTMENTS, LLC**, herein called TRUSTOR, whose address is 735 West Lancaster Boulevard, Lancaster, California 93534, **FIDELITY NATIONAL TITLE CO.**, a California corporation, herein called TRUSTEE, and the **CITY OF LANCASTER**, a charter city and California municipal corporation, herein called BENEFICIARY,

WITNESSETH: That Trustor grants to Trustee in trust, with power of sale, that property in the City of Lancaster, County of Los Angeles, State of California, described as:

See Attachment No. 1 attached hereto.

together with the rents, issues and profits thereof, subject, however, to the right, power and authority hereinafter given to and conferred upon Beneficiary to collect and apply such rents, issues and profits for the purpose of securing (1) payment of the sum of \$ _____ with interest thereon according to the terms of a promissory note or notes dated as of _____, 2015, made by Trustor, payable to order of Beneficiary, and extensions or renewals thereof, (2) the performance of each agreement of Trustor incorporated by reference or contained herein, including, without limitation that certain Disposition and Development Agreement entered into by and between Trustor and Beneficiary and dated as of September 8, 2015, and (3) payment of additional sums and interest thereon which may hereafter be loaned to Trustor, or his successors or assigns, when evidenced by a promissory note or notes reciting that they are secured by this Deed of Trust.

To protect the security of this Deed of Trust, and with respect to the property above described, Trustor expressly makes each and all of the agreements, and adopts and agrees to perform and be bound by each and all of the terms and provisions set forth in subdivision A, and it is mutually agreed that each and all of the terms and provisions set forth in subdivision B of the fictitious deed of trust recorded in Orange County August 17, 1964, and in all other counties August 18, 1964, in the book and at the page of Official Records in the office of the county recorder of the county where said property is located, noted below opposite the name of such county, namely:

COUNTY	BOOK	PAGE	COUNTY	BOOK	PAGE	COUNTY	BOOK	PAGE	COUNTY	BOOK	PAGE
Alameda	1288	556	Kings	858	713	Placer	1028	379	Sierra	38	187
Alpine	3	130-31	Lake	437	110	Plumas	166	1307	Siskiyou	506	762
Amador	133	438	Lassen	192	367	Riverside	3778	347	Solano	1287	621
Butte	1330	513	Los Angeles	T-3878	874	Sacramento	5039	124	Sonoma	2067	427
Calaveras	185	338	Madera	911	136	San Benito	300	405	Stanislaus	1970	56
Colusa	323	391	Marin	1849	122	San Bernardino	6213	768	Sutter	655	585
Contra Costa	4684	1	Mariposa	90	453	San Francisco	A-804	596	Tehama	457	183
Del Norte	101	549	Mendocino	667	99	San Joaquin	2855	283	Trinity	108	595
El Dorado	704	635	Merced	1660	753	San Luis Obispo	1311	137	Tulare	2530	108
Fresno	5052	623	Modoc	191	93	San Mateo	4778	175	Tuolumne	177	160
Glenn	469	76	Mono	69	302	Santa Barbara	2065	881	Venture	2607	237
Humboldt	801	83	Monterey	357	239	Santa Clara	6626	664	Yolo	769	16
Imperial	1189	701	Napa	704	742	Santa Cruz	1638	607	Yuba	398	693
Inyo	165	672	Nevada	363	94	Shasta	800	633			
Kern	3756	690	Orange	7182	18	San Diego					

SERIES 5 Book 1964, Page 149774

shall inure to and bind the parties hereto, with respect to the property above described. Said agreements, terms and provisions contained in said subdivisions A and B, (identical in all counties, and printed on pages 3 and 4 hereof) are by the within reference thereto, incorporated herein and made a part of this Deed of Trust for all purposes as fully as if set forth at length herein, and Beneficiary may charge for a statement regarding the obligation secured hereby, provided the charge therefor does not exceed the maximum allowed by law.

The undersigned Trustor, requests that a copy of any notice of default and any notice of sale hereunder be mailed to him at his address hereinbefore set forth.

TRUSTOR:

POTENTIAL INVESTMENTS, LLC, a California limited liability company

By: _____

Its: _____

DO NOT RECORD

The following is a copy of Subdivisions A and B of the fictitious Deed of Trust recorded in each county in California as stated in the foregoing Deed of Trust and incorporated by reference in said Deed of Trust as being a part thereof as if set forth at length therein.

A. To protect the security of this Deed of Trust, Trustor agrees:

(1) To keep said property in good condition and repair, not to remove or demolish any building thereon; to complete or restore promptly and in good and workmanlike manner any building which may be constructed, damaged or destroyed thereon and to pay when due all claims for labor performed and materials furnished therefor, to comply with all laws affecting said property or requiring any alterations or improvements to be made thereon, not to commit or permit waste thereof; not to commit, suffer or permit any act upon said property in violation of law; to cultivate, irrigate, fertilize, fumigate, prune and do all other acts which from the character or use of said property may be reasonably necessary, the specific enumerations herein not excluding the general.

(2) To provide, maintain and deliver to Beneficiary fire insurance satisfactory to and with loss payable to Beneficiary. The amount collected under any fire or other insurance policy may be applied by Beneficiary upon any indebtedness secured hereby and in such order as Beneficiary may determine, or at option of Beneficiary the entire amount so collected or any part thereof may be released to Trustor. Such application or release shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice.

(3) To appear in and defend any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee; and to pay all costs and expenses, including cost of evidence of title and attorney's fees in a reasonable sum, in any such action or proceeding in which Beneficiary or Trustee may appear, and in any suit brought by Beneficiary to foreclose this Deed.

(4) To pay: at least ten days before delinquency all taxes and assessments affecting said property, including assessments on appurtenant water stock; when due, all encumbrances, charges and liens, with interest, on said property or any part thereof, which appear to be prior or superior hereto; all costs, fees and expenses of this Trust.

Should Trustor fail to make any payment or to do any act as herein provided, then Beneficiary of Trustee, but without obligation so to do and without notice to or demand upon Trustor and without releasing Trustor from any obligation hereof, may: make or do the same in such manner and to such extent as either may deem necessary to protect the security hereof, Beneficiary or Trustee being authorized to enter upon said property for such purposes; appear in and defeat any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee; pay, purchase, contest or compromise any encumbrance, charge or lien which in the judgment of either appears to be prior or superior hereto; and, in exercising any such powers, pay necessary expenses, employ counsel and pay his reasonable fees.

(5) To pay immediately and without demand all sums so expended by Beneficiary or Trustee, with interest from date of expenditure at the amount allowed by law in effect at the date hereof, and to pay for any statement provided for by law in effect at the date hereof regarding the obligation secured hereby any amount demanded by the Beneficiary not to exceed the maximum allowed by law at the time when said statement is demanded.

B. It is mutually agreed:

(1) That any award of damages in connection with any condemnation for public use of or injury to said property or any part thereof is hereby assigned and shall be paid to Beneficiary who may apply or release such monies received by him in the same manner and with the same effect as above provided for disposition of proceeds of fire or other insurance.

(2) That by accepting payment of any sum secured hereby after its due date, Beneficiary does not waive his right either to require prompt payment when due of all other sums so secured or to declare default for failure so to pay.

(3) That at any time or from time to time, without liability therefor and without notice, upon written request of Beneficiary and presentation of this Deed and said note for endorsement, and without affecting the personal liability of any person for payment of the indebtedness secured hereby, Trustee may: reconvey any part of said property; consent to the making of any map or plat thereof; join in granting any easement thereon, or join in any extension agreement or any agreement subordinating the lien or charge hereof.

(4) That upon written request of Beneficiary stating that all sums secured hereby have been paid, and upon surrender of this Deed and said note to Trustee for cancellation and retention or other disposition as Trustee in its sole discretion may choose and upon payment of its fees, Trustee shall reconvey, without warranty, the property then held hereunder. The recitals in such reconveyance of any matters or facts shall be conclusive proof of the truthfulness thereof. The Grantee in such reconveyance may be described as "the person or persons legally entitled thereto".

(5) That as additional security, Trustor hereby gives to and confers upon Beneficiary the right, power and authority, during the continuance of these Trusts, to collect the rents, issues and profits of said property, reserving unto Trustor the right, prior to any default by Trustor in payment of any indebtedness secured hereby or in performance of any agreement hereunder, to collect and retain such rents, issues and profits as they become due and payable. Upon any such default, Beneficiary may at any time without notice, either in person, by agent, or by a receiver to be appointed by a court, and without regard to the adequacy of any security for the indebtedness hereby secured, enter upon and take possession of said property or any part thereof, in his own name sue for or otherwise collect such rents, issues, and profits, including those past due and unpaid, and apply the same, less costs and expenses of operation and collection, including reasonable attorney's fees, upon any indebtedness secured hereby, and in such order as Beneficiary may determine. The entering upon and taking possession of said property, the collection of such rents, issues and profits and the application thereof as aforesaid, shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice.

(6) That upon default by Trustor in payment of any indebtedness secured hereby or in performance of any agreement hereunder, Beneficiary may declare all sums secured hereby immediately due and payable by delivery to Trustee of written declaration of default and demand for sale and of written notice of default and of election to cause to be sold said property, which notice Trustee shall cause to be filed for record. Beneficiary also shall deposit with Trustee this Deed, said note and all documents evidencing expenditures secured hereby.

After the lapse of such time as may then be required by law following the recordation of said notice of default, and notice of sale having been given as then required by law, Trustee, without demand on Trustor, shall sell said property at the time and place fixed by it in said notice of sale, either as a whole or in separate parcels, and in such order as it may determine, at public auction to the highest bidder for cash in lawful money of the United States, payable at time of sale. Trustee may postpone sale of all or any portion of said property by public announcement at such time and place of sale, and from time to time thereafter may postpone such sale by public announcement at the time fixed by the preceding postponement. Trustee shall deliver to such purchaser its deed conveying the property so sold, but without any covenant or warranty, express or implied. The recitals in such deed of

any matters or facts shall be conclusive proof of the truthfulness thereof. Any person, including Trustor, Trustee, or Beneficiary as hereinafter defined, may purchase at such sale.

After deducting all costs, fees and expenses of trustee and of this Trust, including costs of evidence of title in connection with sale, Trustee shall apply the proceeds of sale to payment of: all sums expended under the terms hereof, not then repaid, with accrued interest at the amount allowed by law in effect at the date hereof; all other sums then secured hereby; and the remainder, if any, to the person or persons legally entitled thereto.

(7) Beneficiary, or any successor in ownership of any indebtedness secured hereby, may from time to time, by instrument in writing, substitute a successor or successors to any Trustee named herein or acting hereunder, which instrument, executed by the Beneficiary and duly acknowledged and recorded in the office of the recorder of the county or counties where said property is situated shall be conclusive proof of proper substitution of such successor Trustee or Trustees, who shall, without conveyance from the Trustee predecessor, succeed to all its title, estate, rights, powers and duties. Said instrument must contain the name of the original Trustor, Trustee and Beneficiary hereunder, the book and page where this Deed is recorded and the name and address of the new Trustee.

(8) That this Deed applies to, inures to the benefit of, and binds all parties hereto, their heirs, legatees, devisees, administrators, executors, successors and assigns. The term Beneficiary shall mean the owner and holder, including pledgees, of the note secured hereby, whether or not named as Beneficiary herein. In this Deed, whenever the context so requires, the masculine gender includes the feminine and/or neuter, and the singular number includes the plural.

(9) That Trustee accepts this Trust when this Deed, duly executed and acknowledged, is made a public record as provided by law. Trustee is not obligated to notify any party hereto of pending sale under any other Deed of Trust or of any action or proceeding in which Trustor, Beneficiary or Trustee shall be a party unless brought by Trustee.

DO NOT RECORD

REQUEST FOR FULL RECONVEYANCE

TO FIDELITY NATIONAL TITLE CO., TRUSTEE:

The under signed is the legal owner and holder of the note and of all indebtedness secured by the foregoing Deed of Trust. Said note, together with all other indebtedness secured by said Deed of Trust, have been fully paid and satisfied; and you are hereby requested and directed, on payment to you of any sums owing to you under the terms of said Deed of Trust, to cancel said note above mentioned, an all other evidences of indebtedness secured by said Deed of Trust delivered to you herewith, together with the said Deed of Trust, and to reconvey, without warranty, to the parties designated by the terms of said Deed of Trust, all the estate now held by you under the same.

Dated _____

Please mail Deed of Trust,
Note and Reconveyance to _____

Do Not lose or destroy this Deed of Trust OR THE NOTE which it secures. Both must be delivered to the Trustee for cancellation before reconveyance will be made.

ATTACHMENT NO. 1

PROJECT SITE LEGAL DESCRIPTION

The Northerly 659.80 Feet of that portion of the Northeast Quarter of Section 10, Township 7 North, Range 12 West, San Bernardino Meridian, in the City of Lancaster, County of Los Angeles, State of California, according to the official plat of said land approved by the Surveyor General on June 19, 1856, which lies Easterly of the Easterly line of the 200 foot Southern Pacific Railway company right of way.

EXCEPT therefrom the property belonging to the Southern Pacific Railroad Company described as Parcel 2 in Document No. 1333 recorded September 14, 1954 in Official Records of said County, described as follows:

Commencing at a point in the South line of the Northeast quarter of said Section, distant thereon N89°59'50"E 436.96 feet from the Southwest corner of the Northeast quarter of said Section, said point also being at the intersection of said South line with the Easterly line of land (200 feet wide) of the Southern Pacific Railroad company; thence N7°27'02"W, along said Easterly line parallel with and distant 100 feet Easterly measured at right angles, from the original located center line of the Southern Pacific Railroad company's main tract, a distance of 1768.86 feet to the True Point of Beginning of the parcel of land to be described; thence continuing N7°27'02"W along said Easterly line, a distance of 82.49 feet; thence Northeasterly and Easterly along a curve to the right, having a radius of 407.25 feet (the chord of said curve bears N62°18'32 1/2"E 378.32 feet) an arc distance of 393.44 feet to a point; thence N89°59'08"E, tangent to last described curve at last said point, a distance of 2074.55 feet to a point in a line parallel with and distant 40 feet Westerly, measured at right angles from the East line of said Section; thence S00°40'15"E along said parallel line, a distance of 50.00 feet; thence S89°59'08"W 2075.12 feet to a point; thence Westerly and Southwesterly along a curve to the left having a radius of 357.25 feet (tangent to said curve at last mentioned point is the last described course and chord bears S57°22'31 1/2"W 385.06 feet), an arc distance of 406.66 feet to the True Point of Beginning.

Also EXCEPT therefrom all that portion of said Northerly 659.80 Feet lying within the Sidelines of Trevor Avenue as described as Parcel A and Parcel B in Instrument No. 94-1858180 recorded on October 12, 1984 in the office of the County Recorder of said County more particularly described as follows:

Parcel A: that portion of said Northeast Quarter, which lies within a strip of land 80' wide, lying 40' on each side of the following described centerline:

Beginning at the Northeast corner of said Section; thence along the North line of said Section S89°59'54"W 969.63'; thence S0°00'06"E 113.01' to the true point of beginning; thence S0°00'06"E 150.25' to the beginning of a curve concave Westerly, having a radius of 1800.00' and central angle of 4°18'25"; thence Southerly along said curve 135.31' to the end of said curve; thence S4°18'19"W 903.17'.

Parcel B: that portion of said Northeast Quarter, described as follows:

Beginning at the Northeast corner of Parcel A described above: thence N0°00'06"W 11.00' to the beginning of a curve concave Southeasterly having a radius of 42.00' and central angle of 82°19'32"; thence Northeasterly along said curve 60.35' to the end of said curve; thence S86°09'40"W 158.75' to the beginning of a curve concave Southwesterly having a radius of 42.00' and central angle of 90°00'00"; a radial line to said beginning of curve bears N0°00'06"W, thence Southeasterly along said curve 65.97' to the end of said curve; thence N89°59'54"E 80.00' to the Point of Beginning.

Also EXCEPT therefrom that portion of said Northerly 659.80 Feet lying Northerly of the Southerly Sideline of Avenue "H" as described in Instrument No. 94-1954647 recorded on August 9, 1984 in the office of the County Recorder of said County more particularly described as follows:

Beginning at the Northeast corner of said Section; thence S89°59'54"W along the Northerly line of said Section, 40.00 feet, to a point on a line 40.00 feet West of and parallel with the East line of said Section; thence S00°40'14"E along said East line 50.00 feet, to the True Point of Beginning; thence S89°59' 54"W 1175.47 feet; thence N00°40'14"W 50.00 feet to the North line of said Section; thence S89°59'54"W 1326.83 feet along said North line to the East line of the Southern Pacific Transportation company Right of Way; thence S07°26' 50"E along said last mentioned Right of Way 40.35 feet; thence N89°59'54"E 525.00 feet; thence S00°00'06"E 59.99 feet; thence S86°56'07"E 280.40 feet; thence N84°17'16"E 150.75 feet; thence N87°53'08"E 406.88 feet; thence N00°00'06"W 13.99 feet; thence N89°59'54"E 123.84 feet to the Westerly terminus of a line in the above mentioned Parcel B portion of Trevor Avenue, said line having a bearing of S86°09'40"W 158.75'; thence N86°09'40"E 158.75 feet along last said line to the beginning of a non-tangent curve, concave Southerly having a radius of 42.00 feet and central angle of 7°40'28"; thence Easterly, along said curve 5.63 feet to the end of said curve; thence N89°59'54"E 487.09 feet; thence S85°14'07"E 120.26 feet; thence N89°59'54"E 200.00 feet to the beginning of a curve concave Southwesterly having a radius of 42.00 feet and central angle of 89°19'52" and being tangent to said line 40 feet West and parallel with the East line of said Section; thence Southeasterly along said curve 65.48 feet to the end of said curve; thence N00°40'14"W along said parallel line 61.51 feet to the True Point of Beginning.

Also EXCEPT therefrom that portion of said Northerly 659.80 Feet lying Westerly of the following described line:

Commencing at the intersection of the Easterly line of said Southern Pacific Railway company right of way, 200 feet wide, with a line that is parallel with the North line of said Section, and that is distant 40.00 feet, measured at right angles, Southerly from said North line; thence N89°59'54"E along said parallel line 405 feet to the True Point of Beginning; thence leaving said parallel line S00°00'06"E 619.80 feet to the Southerly line of said Northerly 659.80.

Also EXCEPT therefrom all that portion of said Northerly 659.80 Feet lying Easterly of said Trevor Avenue.

Illustrative Parcelization Map:



EXHIBIT L

DESCRIPTION OF PUBLIC IMPROVEMENTS

It is the responsibility of the City of Lancaster to install the entire offsite infrastructure on Trevor for the project. This includes widening of Trevor Avenue between Avenue H and the southern border of the project site (a 550-linear-foot path), the development of infrastructure on Trevor Avenue, pavement as needed, and underground improvements. All utilities will also be installed in the above-mentioned street, including wet (sewer and water) as well as dry utilities (electrical, telephone, cable, and gas).

The City shall also fast-track approvals for this project at City Hall and work with Potential to obtain approvals for those approval entities that are located outside of City Hall.

EXHIBIT M

MEMORANDUM OF AGREEMENT

**RECORDING REQUESTED BY AND
WHEN RECORDED MAIL TO:**

City of Lancaster
44933 Fern Avenue
Lancaster, California 93534
Attn: City Manager

[Space above for recorder.]

MEMORANDUM OF AGREEMENT

THIS MEMORANDUM OF AGREEMENT (“Memorandum”), dated for identification purposes as of September 8, 2015, is entered into by and between the **CITY OF LANCASTER**, a charter city and California municipal corporation (“City”), and **POTENTIAL INVESTMENTS, LLC**, a California limited liability company (“Potential”).

1. Disposition and Development Agreement. City and Potential have entered into a Disposition and Development Agreement (“Agreement”), dated as of September 8, 2015, which provides for the development of that certain real property located in the City of Lancaster, County of Los Angeles, State of California, more fully described in Attachment No. 1 attached hereto and incorporated herein by this reference (the “Project Site”). The Agreement is available for public inspection and copying at the office of the City of Lancaster, 44933 North Fern Avenue, Lancaster, California. All of the terms, conditions, provisions and covenants of the Agreement are incorporated in this Memorandum by reference as though written out at length herein, and the Agreement and this Memorandum shall be deemed to constitute a single instrument or document.

2. Purpose of Memorandum. This Memorandum is prepared for recordation purposes only, and in no way modifies the terms, conditions, provisions and covenants of the Agreement. In the event of any inconsistency between the terms, conditions, provisions and covenants of this Memorandum and the Agreement, the terms, conditions, provisions and covenants of the Agreement shall prevail.

[Remainder of page intentionally blank.]

The parties have executed this Memorandum of Agreement on the dates specified immediately adjacent to their respective signatures.

GRANTOR:

Date: _____

CITY OF LANCASTER, a charter city and
California municipal corporation

By: _____

Its: _____

GRANTEE:

Date: _____

POTENTIAL INVESTMENTS, LLC, a California
limited liability company

By: _____

Its: _____

ATTACHMENT NO. 1

PROJECT SITE LEGAL DESCRIPTION

The Northerly 659.80 Feet of that portion of the Northeast Quarter of Section 10, Township 7 North, Range 12 West, San Bernardino Meridian, in the City of Lancaster, County of Los Angeles, State of California, according to the official plat of said land approved by the Surveyor General on June 19, 1856, which lies Easterly of the Easterly line of the 200 foot Southern Pacific Railway company right of way.

EXCEPT therefrom the property belonging to the Southern Pacific Railroad Company described as Parcel 2 in Document No. 1333 recorded September 14, 1954 in Official Records of said County, described as follows:

Commencing at a point in the South line of the Northeast quarter of said Section, distant thereon N89°59'50"E 436.96 feet from the Southwest corner of the Northeast quarter of said Section, said point also being at the intersection of said South line with the Easterly line of land (200 feet wide) of the Southern Pacific Railroad company; thence N7°27'02"W, along said Easterly line parallel with and distant 100 feet Easterly measured at right angles, from the original located center line of the Southern Pacific Railroad company's main tract, a distance of 1768.86 feet to the True Point of Beginning of the parcel of land to be described; thence continuing N7°27'02"W along said Easterly line, a distance of 82.49 feet; thence Northeasterly and Easterly along a curve to the right, having a radius of 407.25 feet (the chord of said curve bears N62°18'32 1/2"E 378.32 feet) an arc distance of 393.44 feet to a point; thence N89°59'08"E, tangent to last described curve at last said point, a distance of 2074.55 feet to a point in a line parallel with and distant 40 feet Westerly, measured at right angles from the East line of said Section; thence S00°40'15"E along said parallel line, a distance of 50.00 feet; thence S89°59'08"W 2075.12 feet to a point; thence Westerly and Southwesterly along a curve to the left having a radius of 357.25 feet (tangent to said curve at last mentioned point is the last described course and chord bears S57°22'31 1/2"W 385.06 feet), an arc distance of 406.66 feet to the True Point of Beginning.

Also EXCEPT therefrom all that portion of said Northerly 659.80 Feet lying within the Sidelines of Trevor Avenue as described as Parcel A and Parcel B in Instrument No. 94-1858180 recorded on October 12, 1984 in the office of the County Recorder of said County more particularly described as follows:

Parcel A: that portion of said Northeast Quarter, which lies within a strip of land 80' wide, lying 40' on each side of the following described centerline:

Beginning at the Northeast corner of said Section; thence along the North line of said Section S89°59'54"W 969.63'; thence S0°00'06"E 113.01' to the true point of beginning; thence S0°00'06"E 150.25' to the beginning of a curve concave Westerly, having a radius of 1800.00' and central angle of 4°18'25"; thence Southerly along said curve 135.31' to the end of said curve; thence S4°18'19"W 903.17'.

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Also EXCEPT therefrom all that portion of said Northerly 659.80 Feet lying Easterly of said Trevor Avenue.

Illustrative Parcelization Map:



EXHIBIT N

RELEASE OF CONSTRUCTION COVENANTS

**RECORDING REQUESTED BY AND
WHEN RECORDED MAIL TO:**

Potential Investments, LLC
735 West Lancaster Boulevard
Lancaster, California 93534

[Space above for recorder.]

RELEASE OF CONSTRUCTION COVENANTS

THIS RELEASE OF CONSTRUCTION COVENANTS (the “Release”) is made by the **CITY OF LANCASTER**, a charter city and California municipal corporation (“City”), in favor of **POTENTIAL INVESTMENTS, LLC**, a California limited liability company (“Potential”), as of the date set forth below.

RECITALS

A. City and Potential have entered into that certain Disposition and Development Agreement (the “DDA”) dated September 8, 2015, concerning the redevelopment of certain real property situated in the City of Lancaster, California as more fully described in Attachment No. 1 attached hereto and made a part hereof. All capitalized terms utilized herein and not otherwise defined shall have the same meaning as set forth in the DDA.

B. As referenced in Section 412 of the DDA, City is required to furnish Potential or its successors with a Release of Construction Covenants upon completion of construction of the Improvements which Release is required to be in such form as to permit it to be recorded in the Recorder’s Office of Los Angeles County. This Release is conclusive determination of satisfactory completion of the construction and development required by the DDA.

C. City has conclusively determined that such construction and development has been satisfactorily completed.

NOW, THEREFORE, City hereby certifies as follows:

1. The Improvements to be constructed by Potential have been fully and satisfactorily completed in conformance with the DDA. All covenants relating to operating requirements, and use, maintenance and nondiscrimination covenants contained in the DDA shall remain in effect and enforceable according to their terms.

2. Nothing contained in this instrument shall modify in any other way any other provisions of the DDA.

IN WITNESS WHEREOF, City has executed this Release this ____ day of _____, 201__.

CITY:

CITY OF LANCASTER, a charter city and California municipal corporation

By: _____

Its: _____

ATTEST:

City Clerk

APPROVED AS TO FORM:

City Attorney

ATTACHMENT NO. 1

PROJECT SITE LEGAL DESCRIPTION

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Parcel B: that portion of said Northeast Quarter, described as follows:

Beginning at the Northeast corner of Parcel A described above: thence $N0^{\circ}00'06''W$ 11.00' to the beginning of a curve concave Southeasterly having a radius of 42.00' and central angle of $82^{\circ}19'32''$; thence Northeasterly along said curve 60.35' to the end of said curve; thence $S86^{\circ}09'40''W$ 158.75' to the beginning of a curve concave Southwesterly having a radius of 42.00' and central angle of $90^{\circ}00'00''$; a radial line to said beginning of curve bears $N0^{\circ}00'06''W$, thence Southeasterly along said curve 65.97' to the end of said curve; thence $N89^{\circ}59'54''E$ 80.00' to the Point of Beginning.

Also EXCEPT therefrom that portion of said Northerly 659.80 Feet lying Northerly of the Southerly Sideline of Avenue "H" as described in Instrument No. 94-1954647 recorded on August 9, 1984 in the office of the County Recorder of said County more particularly described as follows:

Beginning at the Northeast corner of said Section; thence $S89^{\circ}59'54''W$ along the Northerly line of said Section, 40.00 feet, to a point on a line 40.00 feet West of and parallel with the East line of said Section; thence $S00^{\circ}40'14''E$ along said East line 50.00 feet, to the True Point of Beginning; thence $S89^{\circ}59'54''W$ 1175.47 feet; thence $N00^{\circ}40'14''W$ 50.00 feet to the North line of said Section; thence $S89^{\circ}59'54''W$ 1326.83 feet along said North line to the East line of the Southern Pacific Transportation company Right of Way; thence $S07^{\circ}26'50''E$ along said last mentioned Right of Way 40.35 feet; thence $N89^{\circ}59'54''E$ 525.00 feet; thence $S00^{\circ}00'06''E$ 59.99 feet; thence $S86^{\circ}56'07''E$ 280.40 feet; thence $N84^{\circ}17'16''E$ 150.75 feet; thence $N87^{\circ}53'08''E$ 406.88 feet; thence $N00^{\circ}00'06''W$ 13.99 feet; thence $N89^{\circ}59'54''E$ 123.84 feet to the Westerly terminus of a line in the above mentioned Parcel B portion of Trevor Avenue, said line having a bearing of $S86^{\circ}09'40''W$ 158.75'; thence $N86^{\circ}09'40''E$ 158.75 feet along last said line to the beginning of a non-tangent curve, concave Southerly having a radius of 42.00 feet and central angle of $7^{\circ}40'28''$; thence Easterly, along said curve 5.63 feet to the end of said curve; thence $N89^{\circ}59'54''E$ 487.09 feet; thence $S85^{\circ}14'07''E$ 120.26 feet; thence $N89^{\circ}59'54''E$ 200.00 feet to the beginning of a curve concave Southwesterly having a radius of 42.00 feet and central angle of $89^{\circ}19'52''$ and being tangent to said line 40 feet West and parallel with the East line of said Section; thence Southeasterly along said curve 65.48 feet to the end of said curve; thence $N00^{\circ}40'14''W$ along said parallel line 61.51 feet to the True Point of Beginning.

Also EXCEPT therefrom that portion of said Northerly 659.80 Feet lying Westerly of the following described line:

Commencing at the intersection of the Easterly line of said Southern Pacific Railway company right of way, 200 feet wide, with a line that is parallel with the North line of said Section, and that is distant 40.00 feet, measured at right angles, Southerly from said North line; thence $N89^{\circ}59'54''E$ along said parallel line 405 feet to the True Point of Beginning; thence leaving said parallel line $S00^{\circ}00'06''E$ 619.80 feet to the Southerly line of said Northerly 659.80.

Also EXCEPT therefrom all that portion of said Northerly 659.80 Feet lying Easterly of said Trevor Avenue.

Illustrative Parcelization Map:

