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December 9, 2008

Government of the Republic of El Salvador
Attention: His Excellency Ambassador René Antonio León Rodríguez
Ambassador of the Republic of El Salvador to the United Stiates
Embassy of El Salvador
1400 16th St., NW, Suite 100
Washington, D.C. 20036

Re: Pac Rim Cayman LLC v. Republic of El Salvador

Dear Excellency:

We represent Pac Rim Cayman LLC ("PRC"), a limited liability company organized under the laws of Nevada. On behalf of our client, the attached Notice of Intent to Submit a Claim to Arbitration ("NOI") provides notice to the Government of the Republic of El Salvador ("El Salvador" or the "Government") of claims that PRC intends to submit to arbitration against El Salvador under the Central America-United States-Dominican Republic Free Trade Agreement ("CAFTA") and the Convention on the Settlement of Investment Disputes Between States and Nationals of Other States.

Although PRC is confident in the merits of its claims and the likelihood of success, our client looks forward to continuing its good faith discussions with the Government in order to attain an amicable resolution of the parties' dispute. Nonetheless, should a resolution of this dispute not be promptly achieved, PRC intends to submit its claims to arbitration as described within the NOI. In addition, PRC hereby requests and provides notice to the Government that no actions be taken to exacerbate the parties' dispute in the interim. PRC expressly reserves its rights to pursue any and all available legal remedies to protect and preserve its rights.

Please note that all communications concerning this matter should be sent to the undersigned counsel at the address shown above.

Excellency, we take this opportunity to express to you and the Government of the Republic of El Salvador the assurances of our highest consideration.

Very truly yours,

Arif Hyder Ali

NOTICE OF INTENT
TO SUBMIT A CLAIM TO ARBITRATION
UNDER CHAPTER TEN OF THE
CENTRAL AMERICA – UNITED STATES – DOMINICAN REPUBLIC
FREE TRADE AGREEMENT

PAC RIM CAYMAN LLC,	)
Investor,	)
v.	)
REPUBLIC OF EL SALVADOR,	)
Party	)

Pursuant to Article 10.16 of the Central America-United States-Dominican Republic Free Trade Agreement ("CAFTA"), Pac Rim Cayman LLC hereby serves notice of its intent to submit a claim against the Republic of El Salvador ("El Salvador") to arbitration (the "Notice of Intent") under the auspices of the International Centre for Settlement of Investment Disputes ("ICSID").

Pac Rim Cayman LLC ("PRC") is an American investor organized under the laws of Nevada and is the sole owner of the Salvadoran companies, Pacific Rim El Salvador, Sociedad Anónima de Capital Variable ("PRES") and Dorado Exploraciones, Sociedad Anónima de Capital Variable ("DOREX") (collectively, the "Enterprises"). PRC is in turn owned by Pacific Rim Mining Corp. ("Pacific Rim"), a public company organized under the laws of Canada, which is traded primarily on the U.S. stock exchange.

As set out in this Notice of Intent, PRC's claims arise out of unlawful and politically motivated measures taken by the Government of El Salvador (the "Government"), through the *Ministerio de Medio Ambiente y Recursos Naturales* ("MARN")[1] and the *Ministerio de Economía* ("MINEC"),[2] against the Enterprises' business and operations in the area of Las

[1] Ministry of Environment and Natural Resources.

[2] Ministry of Economy.

Cabañas. These measures have included, *inter alia*, the arbitrary imposition of unreasonable delays and unprecedented regulatory obstacles designed and implemented with the aim of preventing PRES and DOREX from developing gold mining rights in which PRC, through those Enterprises, has made substantial and long-term investments. As a result of the measures, the rights held by the Enterprises have been rendered virtually valueless and PRC's investments in El Salvador have been effectively destroyed.

A. NAME AND ADDRESS OF THE DISPUTING INVESTOR

1. All communications with regard to this matter should be directed to counsel.

Investor:

Pac Rim Cayman LLC
3545 Airway Drive, Suite 105
Reno, NV 89511 – USA

Enterprises:

Pacific Rim El Salvador, Sociedad Anónima de Capital Variable
3ª Avda. Oriente No. 6, Barrio Los Remedios
Sensuntepeque, Cabañas – El Salvador

Dorado Exploraciones, Sociedad Anónima de Capital Variable
3ª Avda. Oriente No. 6, Barrio Los Remedios
Sensuntepeque, Cabañas – El Salvador

For purposes of the present Notice of Intent, Pac Rim is represented by:

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Daniel Vielleville, Esq.
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Crowell & Moring LLP
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B. BREACH OF OBLIGATIONS

2. PRC alleges that El Salvador has breached its obligations under Section A of CAFTA, including the following provisions:

(i) Article 10.3: National Treatment;

(ii) Article 10.4: Most-Favored Nation Treatment;

(iii) Article 10.5: Minimum Standard of Treatment; and

(iv) Article 10.7: Expropriation and Compensation.

The relevant articles provide as follows:

Article 10.3: National Treatment

1. Each Party shall accord to investors of another Party treatment no less favorable than that it accords, in like circumstances, to its own investors with respect to the establishment, acquisition, expansion, management, conduct, operation, and sale or other disposition of investments in its territory.

2. Each Party shall accord to covered investments treatment no less favorable than that it accords, in like circumstances, to investments in its territory of its own investors with respect to the establishment, acquisition, expansion, management, conduct, operation, and sale or other disposition of investments.

3. The treatment to be accorded by a Party under paragraphs 1 and 2 means, with respect to a regional level of government, treatment no less favorable than the most favorable treatment accorded, in like circumstances, by that regional level of government to investors, and to investments of investors, of the Party of which it forms a part.

Article 10.4: Most-Favored-Nation Treatment

1. Each Party shall accord to investors of another Party treatment no less favorable than that it accords, in like circumstances, to investors of any other Party or of any non-Party with respect to the establishment, acquisition, expansion, management, conduct, operation, and sale or other disposition of investments in its territory.

2. Each Party shall accord to covered investments treatment no less favorable than that it accords, in like circumstances, to investments in its territory of investors of any other Party or of any non-Party with respect to the establishment, acquisition, expansion, management, conduct, operation, and sale or other disposition of investments.

Article 10.5: Minimum Standard of Treatment

1. Each Party shall accord to covered investments treatment in accordance with customary international law, including fair and equitable treatment and full protection and security.

2. For greater certainty, paragraph 1 prescribes the customary international law minimum standard of treatment of aliens as the minimum standard of treatment to be afforded to covered investments. The concepts of "fair and equitable treatment" and "full protection and security" do not require treatment in addition to or beyond that which is required by that standard, and do not create additional substantive rights. The obligation in paragraph 1 to provide:

(a) "fair and equitable treatment" includes the obligation not to deny justice in criminal, civil, or administrative adjudicatory proceedings in accordance with the principle of due process embodied in the principal legal systems of the world; and

(b) "full protection and security" requires each Party to provide the level of police protection required under customary international law.

3. A determination that there has been a breach of another provision of this Agreement, or of a separate international agreement, does not establish that there has been a breach of this Article.

Article 10.7: Expropriation and Compensation

1. No Party may expropriate or nationalize a covered investment either directly or indirectly through measures equivalent to expropriation or nationalization ("expropriation"), except:

(a) for a public purpose;

(b) in a non-discriminatory manner;

(c) on payment of prompt, adequate, and effective compensation in accordance with paragraphs 2 through 4; and

(d) in accordance with due process of law and Article 10.5.

2. Compensation shall:

(a) be paid without delay;

(b) be equivalent to the fair market value of the expropriated investment immediately before the expropriation took place ("the date of expropriation");

(c) not reflect any change in value occurring because the intended expropriation had become known earlier; and

(d) be fully realizable and freely transferable.

3. If the fair market value is denominated in a freely usable currency, the compensation paid shall be no less than the fair market value on the date of expropriation, plus interest at a commercially reasonable rate for that currency, accrued from the date of expropriation until the date of payment.

4. If the fair market value is denominated in a currency that is not freely usable, the compensation paid – converted into the currency of payment at the market rate of exchange prevailing on the date of payment – shall be no less than:

(a) the fair market value on the date of expropriation, converted into a freely usable currency at the market rate of exchange prevailing on that date, plus

(b) interest, at a commercially reasonable rate for that freely usable currency, accrued from the date of expropriation until the date of payment.

5. This Article does not apply to the issuance of compulsory licenses granted in relation to intellectual property rights in accordance with the TRIPS Agreement, or to the revocation, limitation, or creation of intellectual property rights, to the extent that such issuance, revocation, limitation, or creation is consistent with Chapter Fifteen (Intellectual Property Rights).

3. In addition, pursuant to CAFTA Article 10.16.1(a)(i)(B), PRC alleges that El Salvador has breached the express and implied terms of the Enterprises' investment authorizations, including, without limitation, all resolutions issued by MINEC in relation to the investments in El Salvador.

4. Finally, PRC alleges that El Salvador has breached its own domestic law vis-à-vis the Enterprises, including relevant provisions of the *Ley de Inversiones* ("Investment Law"). Pursuant to Article 15(a) of the Investment Law, in the event that PRC commences an arbitration against El Salvador as contemplated in this Notice of Intent, the Government's breaches of Salvadoran law will be joined to the claims set out in the preceding paragraphs.

C. FACTUAL BASES FOR THE CLAIM

5. PRC's claims arise out of El Salvador's arbitrary and discriminatory conduct, lack of transparency, and unfair and inequitable treatment in failing to act upon the Enterprises' applications for a mining exploitation concession and for various environmental permits, as well as El Salvador's failure to protect the Investor's investments. The factual background underlying these claims is summarized below.

1. The Investor and the Enterprises

6. PRC is a growth-oriented, environmentally and socially responsible mining company dedicated to the exploration, development, and extraction of precious metals in the Americas. It supports robust environmental protection, as well as fair mineral royalty payments. The company is ultimately owned by a majority of individual U.S. investors, and is predominantly managed and directed from its exploration headquarters in Reno, Nevada. PRC's most significant investment is in the El Dorado Project in El Salvador, via the Enterprises described below.

7. PRES is a wholly-owned subsidiary of PRC, incorporated under the laws of El Salvador. It is the owner of the rights in the mining areas denominated "El Dorado Norte," "El Dorado Sur," and "Santa Rita."

8. DOREX is also a wholly-owned subsidiary of PRC, incorporated under the laws of El Salvador. It is the owner of the rights in the mining areas denominated "Huacuco," "Pueblos," and "Guaco."

2. The Investment

9. Pacific Rim undertook its initial investment in El Salvador in 2002 when it merged with, and acquired the assets of, Dayton Mining Corporation ("Dayton"). As a result of the merger with Dayton, with the full knowledge and consent of the Government of El Salvador, Pacific Rim acquired the Salvadoran enterprise known as Kinross El Salvador, Sociedad Anónima de Capital Variable ("Kinross"), including Kinross' mineral exploration rights in various license areas in El Salvador. The El Dorado Project dates back to 1993, when the first exploration licenses in the area were granted to the New York and El Salvador Mining Company. Of principal importance among these areas were two contiguous license areas known as "El Dorado Norte" and "El Dorado Sur," both of which contained identified deposits of high quality gold ore. Both areas were and are principally located in the administrative department of Cabañas.

10. In January 2003, Kinross was renamed "Pacific Rim El Salvador" (previously defined as "PRES") and in 2004, Pacific Rim vested sole ownership rights in PRES in its subsidiary, PRC. PRES's mining rights in the El Dorado Sur and El Dorado Norte license areas were acknowledged by the Government of El Salvador in Resolutions No. 181, dated December 5, 2003, and No. 189, dated December 18, 2003, respectively. Resolutions 181 and 189 specifically modified all previous exploration licenses issued with respect to the El Dorado Norte and El Dorado Sur areas, recognizing PRES as the owner of all exploration rights in those areas.

11. In June 2005, PRC incorporated a second Salvadoran enterprise, DOREX, in order to acquire exploration rights over three additional license areas contiguous to, and

partially overlapping with, the El Dorado Norte and El Dorado Sur license areas.[3] These three areas are known as "Huacuco," "Pueblos," and "Guaco" (collectively with El Dorado Norte and El Dorado Sur, the "El Dorado Project"). DOREX, like PRES, is wholly-owned by PRC.

12. Since 2002, the Enterprises have spent many tens of millions of U.S. dollars in El Salvador on infrastructure, community development initiatives, and exploration and mine development activities related to the entire El Dorado Project.

3. The Legal Framework for Mining in El Salvador

13. In 1996, El Salvador put in place a new legal framework for the mining industry. Pursuant to the new *Ley de Minería* ("Mining Law")[4] and the corresponding regulations ("Mining Regulations"), MINEC is the authority charged with regulating all mining activity within El Salvador. All mining companies must apply to MINEC in order to receive a license to explore for precious metals, such as gold and silver, in a specific area. After being granted an exploration license, a licensee must file an annual report with MINEC during each year in which the license is in effect, detailing progress in exploration to date, as well as plans for future exploration.

14. Pursuant to the *Ley del Medio Ambiente* ("Environmental Law"),[5] licensees must also apply to MARN for an environmental permit before undertaking exploration activities. In order to obtain the necessary environmental permit, the company must file a "multidisciplinary" *Estudio de Impacto Ambiental* ("EIA"). In turn, MARN has sixty business days within which to review, and to approve or reject, the company's EIA.[6] Upon approval of the EIA, MARN is required to grant the company an environmental permit within ten business days.

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[3] The creation of the Huacuco, Pueblos and Guaco areas was necessitated by PR-ES's application to convert its exploration licenses over El Dorado Norte and El Dorado Sur into an exploitation concession.

[4] Decreto Legislativo No. 544 of December 14, 1995.

[5] Decreto Legislativo No. 233 of February 8, 1998.

[6] This period can be extended to up to 120 business days in the case of "complex" applications.

15. According to Salvadoran law, an exploration licensee acquires the right to eventually mine any mineral deposits that it may discover pursuant to its exploration activities by virtue of complying with its obligations under the terms of the exploration license and other requirements of Salvadoran law. Thus, a company's successful completion of the exploration phase of development creates the right to proceed to an exploitation phase, in which it receives – pursuant to application with MINEC, and after obtaining a second environmental permit[7] – a concession to extract metal from the land, and to begin to generate income from its substantial upfront investment in exploration.

4. El Salvador's Arbitrary and Unlawful Measures

16. Relying on (1) the high quality of the gold deposits in El Salvador, (2) the legal framework set out above, and (3) the company's due diligence, including meetings with Government officials in 2002, in which the Government specifically encouraged the company to invest in mining in the country, Pacific Rim began to focus on the El Dorado Project as its primary investment operation. In particular, Pacific Rim's due diligence for the Dayton transaction included meetings with high-level officials from MINEC's *Dirección de Hidrocarburos y Minas* ("Department of Mines"), who represented that the company's Salvadoran enterprise would receive an exploitation concession upon confirming the commercial mining potential of the El Dorado site. Furthermore, Pacific Rim's representatives also received assurances as to the legal status of the El Dorado Project license areas from the Ministers of both MINEC and MARN, including that the mining rights in those areas had been legally acquired and properly administered under the relevant laws.

17. Nevertheless, as discussed in the following sections, after the Enterprises had spent substantial amounts of money in El Salvador in reliance on the representations of Government officials and on the overall legal framework governing mining and foreign investment activities in the country, the Government began to reverse its

[7] The process for obtaining an environmental permit from MARN is the same for both exploration and exploitation activities.

previous policy and to adopt measures specifically aimed at impeding their activities.

18. The Government's nascent opposition to the Enterprises' operations was first manifested by MARN in late 2005, when it began delaying its responses to their applications for environmental permits without explanation. Soon thereafter, it began to arbitrarily change or add new requirements to the established legal process for obtaining such permits. In response to this conduct, the Enterprises cooperated with every request made of them by MARN, even when such requests were spurious and unsubstantiated. At the same time, they continued to comply strictly with the legal framework governing their operations in the country.

a. The El Dorado Exploitation Concession

19. During 2002 and 2003, PRES[8] carried out exploration activities at the El Dorado site under valid exploration licenses. In March 2004, after having discovered substantial gold ore deposits at the El Dorado Norte and El Dorado Sur license areas, and complied with all legal requirements, PRES filed an application for an environmental permit in order to be able to begin mining activities on those areas (the "Exploitation Permit"). At MARN's request, PRES then submitted a comprehensive EIA of its proposed mining activities to MARN in September 2004 (the "El Dorado EIA").

20. Prior to submitting the EIA, on August 23, 2004, PRES sent a letter to the Director of the Department of Mines, Ms. Gina Navas de Hernández, informing her that it was ready to "pass to the exploitation phase of [its] licenses." PRES also informed Ms. Navas in the same communication that it was in the process of obtaining its Exploitation Permit from MARN. In December 2004, at the same time that MARN's approval of the El Dorado EIA should have been forthcoming, PRES submitted a formal application to MINEC for an exploitation concession covering a portion of both the El Dorado Norte and El Dorado Sur license areas (the "Exploitation Concession").

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[8] Previously known as Kinross, as discussed above.

21. Today, however, ***over four years*** after having applied to MARN for the Exploitation Permit, and ***nearly four years*** after having requested the Exploitation Concession, the Government has failed to approve either of PRES's pending applications. Neither MARN nor MINEC has provided any valid justification for this failure, a situation which is rendered even more egregious in light of PRES's consistent compliance with all of its legal obligations, as well as its acceptance of and cooperation with every administrative request that has been made of it throughout the application processes.

22. Indeed, throughout the entire time that approval of the El Dorado EIA has been pending, PRES has continued to meet and cooperate with MARN's representatives with the aim of aiding and expediting the evaluation process. Between March 2004 and December 2006, for example, MARN made a number of observations and comments to the EIA, to which PRES fully responded. Finally, in December 2006, PRES responded to the last of MARN's alleged "concerns" by presenting the Ministry with a plan for a state-of-the-art water treatment facility that the company proposed to build in order to treat any effluent from the mining and processing operations.

23. With the submission of the water treatment facility proposal in December 2006, PRES had successfully addressed every observation and eliminated every concern that had been expressed by MARN (whether reasonable, substantiated, or otherwise) throughout the improperly extended EIA review process. Since that time, however, MARN has made no further requests of PRES, and indeed inexplicably *has ceased all official communication* with the company. Unbelievably, the company has received no information from MARN regarding the status of its EIA approval for ***over two years***, even though Salvadoran law clearly stipulates that MARN must take definitive action on EIA submissions ***within 60 business days***, *and even under exceptional circumstances*, ***within a maximum of 120 business days***.

24. In view of the plain language of Salvadoran law and the Enterprises' consistent compliance with all legal requirements, there is simply no justification for the Government's decision to impede PRES's proposed mining activities. Moreover, the

Government's conduct flies in the face of its earlier acceptance of PRC's investments, and its repeated assurances that it would receive an exploitation concession once mineral deposits at the El Dorado site had been sufficiently proven.

b. The Exploration Licenses for Pueblos, Guaco and Huacuco

25. In September 2005, DOREX[9] was granted exploration licenses for the license areas designated as Huacuco, Pueblos, and Guaco, via Resolutions Nos. 205, 208, and 211, respectively.

26. DOREX immediately began the process of receiving the necessary environmental permits to continue the exploration activities that already had been approved and commenced by PRES under the prior El Dorado Norte and El Dorado Sur licenses, in the newly designated areas. Nevertheless, although DOREX has fulfilled all the requirements to receive the environmental permits with respect to these three areas, the Ministry unjustifiably has failed to take definitive action on any of the pending applications.

27. At least with respect to the Huacuco application, DOREX is aware that the EIA submitted for exploration activities *already has been approved and finalized* by the technical team within MARN. In fact, on November 9, 2006, MARN requested that DOREX deposit an environmental bond for exploration – a bond which is normally requested and deposited only *after final approval* of the relevant EIA. Although DOREX complied with this request, the license is still awaiting the signature of the Minister of MARN ***over one year*** later, even when the Environmental Law itself requires MARN to execute the license within ***ten business days*** of approving the EIA.

28. MARN's conduct with respect to DOREX's environmental permit applications for exploration of Huacuco, Pueblos, and Guaco – exploration that would be materially equivalent to the activities already commenced and approved on the same sites

[9] In June 2005, PRC organized DOREX as a local Salvadoran subsidiary, much like PRES.

under the terms of the El Dorado Norte and El Dorado Sur exploration licenses – confirms the arbitrary about-face in the Government's policies with respect to the Enterprises' operations in El Salvador.

c. Confirmation of the Government's Opposition to PRC's Investment Activities

29. Since the end of 2006, when indications arose that MARN was intent on delaying the Enterprises' activities, it has become increasingly apparent that these delay tactics were designed and implemented by the Government with the unlawful, discriminatory, and politically motivated aim of preventing their operations altogether. In this vein, commencing in or about January 2007, MARN informed the Enterprises that it had taken the position – clearly unfounded in law– that the exploration phase of mining was "separate" from the exploitation phase, and that, as such, owners of an exploration license were not entitled to engage in exploitation of their claims as a matter of right. Moreover, MARN officials stated during informal talks with PRES and DOREX representatives during this period that MARN had no "obligation" to grant any exploration licensee an environmental permit to carry out the exploitation of a mine.

30. In addition to articulating the foregoing position, MARN also informed the Enterprises in 2007 that, prior to the Ministry granting any environmental permits, MARN would need to conduct a "country-wide strategic environmental study," despite the fact that the Environmental Law does not condition the granting of *any* environmental permits on such a country-wide study. In fact, the only strategic study contemplated by Salvadoran law relates to development of the administration's overall environmental regulatory strategy, and has no impact whatsoever on the implementation of existing laws and regulations, or indeed any relationship to specific private activities.

31. Initially, the Enterprises legitimately believed that MARN's position was an unofficial temporary aberration, implemented at the behest of a select group of bureaucrats. As such, they continued to correspond with MARN in the hope of receiving an update on the status of their applications, while steadily seeking a negotiated solution to what they considered to be only a temporary impasse. In

particular, representatives of the companies participated in both public and private meetings with various members of the Government throughout the year, during which they objected to the Government's newfound positions and presented clear and precise information about the environmentally protective mining techniques that would be employed in developing the El Dorado Project, as well as the employment and revenue that the project would generate. Notably, notwithstanding the bureaucratic mixed signals, there were indications by senior government officials at these meetings that an amicable solution was entirely achievable.

32. Nevertheless, El Salvador's total inaction with respect to granting the Enterprises the necessary permits – permits for which they have more than fulfilled every requirement under Salvadoran law – has continued without justification. In March 2008, President Elías Antonio Saca was reported as having publicly stated that he opposed the granting of any outstanding mining permits.[10] In light of President Saca's comments and the Government's actions and inactions, the Enterprises engaged in several meetings with the Government in 2008 seeking approval of the necessary permits. Despite the Enterprises' best efforts to reach a negotiated solution with the Government, however, as of the time of this Notice, the Government's conduct has impeded the ability of the Enterprises to conduct mining activities and benefit from their investments. It has also impeded their ability to obtain further financing for their activities – financing which would without doubt be forthcoming were the permits in hand – and has thus rendered their further operation virtually impossible.

d. The Continuing Harm to the Enterprises

[10] Apparently, President Saca's admonition has now been taken to heart by MINEC as well as by MARN. In December 2007, DOREX filed applications with MINEC for five new exploration licenses (entitled Jocote, Cimarrón, Texiste, Sesori and Mesa). MINEC refused to respond to those applications until November 2008, when it summarily informed DOREX that the licenses would not be granted unless the company could obtain environmental permits for the relevant exploration projects within 30 days. Given that the exploration license from MINEC must be presented to MARN as part of the environmental permit application process, MINEC's response effectively negates the company's applications by placing them – like the Enterprises' other pending applications – in perpetual bureaucratic limbo. PRC reserves the right to seek compensation from El Salvador with respect to these five exploration licenses.

33. In addition to El Salvador's refusal to act upon its obligations, the Government has further compounded the unfairness of its treatment of PRC's investments by requiring the Enterprises to continue exploration work on those very license areas for which they have requested, but have not yet been granted, environmental permits. For example, DOREX filed all required annual reports for its exploration licenses over Guaco, Pueblos, and Huacuco in 2007, and has – at significant expense – complied with the Mining Law and the Environmental Law to the extent possible without having received the environmental permits. On the other hand, MINEC representatives have informed company officials that physical work such as drilling and trenching would also need to be completed on those license areas in 2008 in order to maintain them in good standing, even though DOREX cannot legally conduct these activities due to MARN's unjustified refusal to approve the EIAs submitted by DOREX in connection with those areas.

5. The Lack of Justification for the Government's Conduct

34. While the Mining Law and Regulations provide for review of the impact a mining operation may have on the environment, the Enterprises have satisfied all legal requirements and have responded to all of the observations presented by MARN, in most cases exceeding the requirements of the law and international standards. Significantly, the Government has not actually denied any of the Enterprises' applications; indeed, it cannot, as *it has no legal basis to do so.* Instead, it has simply failed to act upon these applications, thus effectively preventing the Enterprises from continuing their operations without providing them the benefit of due process, and indeed without providing any justification whatsoever for its decision. This conduct constitutes a gross abuse of administrative discretion, which is impermissible under both Salvadoran and international law.

D. LEGAL BASES FOR THE CLAIM

1. Violation of Articles 10.3 and 10.4

35. El Salvador's conduct towards the Enterprises has been based solely upon arbitrary considerations, and more recently, outright hostility. Indeed, there has been no suggestion by MARN during the entire review of the Enterprises' environmental

permit applications that their respective EIAs failed to reflect adequate environmental protection; to the contrary, MARN has explicitly stated that its refusal to issue the requisite permits is not based on any technical concerns. The Salvadoran Government's discriminatory behavior toward the Enterprises is also reflected by the fact that other industries whose operations raise similar environmental concerns, such as power plants, dams, ports, and fishing operations, have received environmental permits during the same timeframe that the Enterprises' applications have been pending. By, *inter alia*, refusing to grant the environmental permits to PRES and DOREX while issuing those permits to other companies, El Salvador has denied to PRC the same treatment that it is required to afford, and has afforded, to investments of its own nationals and to nationals of other states.

2. Violation of Article 10.5

36. In good faith and detrimental reliance upon representations of the Salvadoran Government and the existing legal framework, the Enterprises have spent tens of millions of U.S. dollars in tests, studies, reports, audits, and expert analyses in an effort to satisfy alleged "concerns" raised by the Salvadoran environmental authorities. Despite the fact that the Enterprises have complied with all the applicable legal requirements necessary to explore and exploit minerals, El Salvador has refused and continues to refuse to allow the mining activities that are permitted by its own legislation. Through these and other related measures, El Salvador has denied the Enterprises the benefit of the international minimum standard of treatment (including full protection and security and fair and equitable treatment of its investment).

3. Violation of Articles 10.5 and 10.7

37. Furthermore, El Salvador's unjustified conduct with respect to the Enterprises' concession and permit applications has rendered the Enterprises worthless, and thus constitutes a direct and indirect expropriation of PRC's investment in El Salvador. Pursuant to CAFTA, international law, and Salvadoran legislation, such an uncompensated taking is unlawful. This expropriation was not effected for any legitimate public purpose, was discriminatory, was not undertaken in accordance

with due process of law, and was not accompanied by payment of compensation as provided by CAFTA Article 10.7.

E. RELIEF SOUGHT AND DAMAGES CLAIMED

38. Without prejudice to its rights to amend, supplement or restate the relief to be requested in the arbitration, PRC intends to request the arbitral tribunal to:

(1) Declare that El Salvador has breached the terms of CAFTA and of the Salvadoran Investment Law;

(2) Award compensation in excess of US $75 million for out-of-pocket expenses incurred in connection with mineral exploration activities upon the Exploration Licenses and associated rights and obligations, including real estate, materials, equipment, labor, and attorneys' fees and costs;

(3) Award a sum in compensation for losses sustained as a result of PRC and the Enterprises being deprived of their investment and property rights pursuant to CAFTA, the Exploration Licenses, and Salvadoran law, including, *inter alia*, the right to complete exploration activities at all sites subject to their control, the right to obtain exploitation concessions for those same sites, the right to develop the valuable minerals discovered, reasonable lost profits, and indirect losses; while this sum has not yet been quantified, it is far in excess of the amount of expenditures made by PRC and the Enterprises;

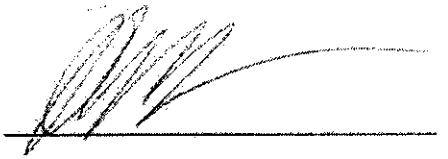
(4) Award costs associated with any proceedings undertaken in connection with this Notice of Intent, including all professional fees and costs;

(5) Award pre- and post- award interest at a rate to be fixed by the tribunal; and

(6) Grant such other relief as counsel may advise and that the tribunal may deem appropriate.

DATE OF ISSUE: December 9, 2008

CROWELL & MORING LLP

By: 

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