

December 09, 2008
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TRANSCRIPT:

Introduction of conference call:

Listen-only mode. Following the presentation the conference will be open for questions... Tuesday Dec. 9th, 2008

I will now turn this conference call over to Barbara Henderson, VP of Investor Relations. Please go ahead.

Barbara Henderson

Good morning everybody. I'd like to thank you for joining us this morning to discuss our filing today of a notice of intent to seek arbitration against the government of El Salvador under the Central American Dominican Republic United States Free Trade Agreement, otherwise known as CAFTA. Today we have Tom Shrake, President and CEO of Pacific Rim, on line, who will give a brief presentation on this filing. And our legal representative Timothy McCrum of Crowell & Moring. After Tom's presentation we will open the floor to questions. And without further delay I'll turn floor over to Tom. Go ahead Tom.

Tom Shrake

Thank you. Let me start by thanking everyone for their attendance on this conference call. I'll make a brief statement and then, as Barbara said, we'll open the floor for questions. As you know today we filed a notice of intent to file a claim for arbitration under the Central American Dominican Republic United States Free Trade Agreement, known commonly as CAFTA, against the government of El Salvador. We are seeking repayment of the \$77 million we have invested as well as hundreds of millions of dollars in damages. The precise number of hundreds of millions of dollars in damages will be defined as the case progresses. I'm both surprised and disappointed it's come to a CAFTA action but I'm still optimistic that a resolution can be negotiated.

Mining Industry has favor in El Salvador. A poll taken in August, 2008 shows that only 25% of the population opposes the mining industry. We believe that this limited opposition is based upon misinformation. Last year there was an article, or last week there was an article on the front three pages of one of the more prominent newspapers in El Salvador, Diario de Hoy, describing a debate among congressional

candidates. Candidates from all political parties. No candidate thought that mining was bad for El Salvador as long as the environment was protected. Even the candidates from the more left-leaning FMLN party were in favor of responsible mining. A similar debate among mayoral candidates generated the same opinions.

In my mind the permit is a "when" question not an "if" question. Benefits to El Salvador are tremendous and the environmental impact is minimal.

The government of El Salvador has effectively shut down the mining industry. The Ministries of the Economy and the Environment were told to do nothing with respect to mining until they heard otherwise. They haven't. There have been no environmental permits including exploration permits granted to ANY mining company during the past two years. In fact we had one exploration permit almost ready to go, 2 years ago for which we had taken the final step of posting bond. It still has not been granted.

Similarly there have been no new mining concessions granted and there have been many applied for. In our grass-roots reconnaissance programs we have discovered two new epithermal systems in El Salvador, for which we have applied for concessions. We're still waiting almost two years.

Let me be crystal clear. These silent "inactions" by the El Salvador government are illegal with respect to El Salvador law as well as international treaty. We did not enter into this CAFTA decision lightly. It is an action with consequences to the good hard-working people of El Salvador, and we tried extremely hard to avoid it. We have been in nearly constant negotiations with the government throughout the year. In fact, as a direct result of what we perceived as good will in these negotiations, the company has been under self-imposed insider trading blackouts throughout much of the year, including a nearly continuous trading ban since May. During this time we have been told on many occasions by the government that a permit was imminent. Obviously it was not and it's equally obvious the current government of El Salvador has no intention of granting our permit. They've simply been delaying, delaying us for over a year by making us believe a permit is imminent. After a year of stalling and with our backs against the wall, we are forced to seek justice through international arbitration.

Pacific Rim is a company that was designed to set the bar higher for environmental protection. With that goal in mind our explorations focus solely on an environmentally-clean type of deposit technically known as a low sulphidation epithermal deposit. Environmental protection was built into our start-up strategy. These types of gold deposits have no potential for acid mine drainage and have lower levels of accessory metals common to most other types of metal deposits of gold, copper or zinc, for example. In fact at El Dorado the metal content of the gold-bearing vein is lower than the metal content of the rocks that surrounds that vein. These same rocks that surround the vein are the most common rocks in El Salvador. The reality is that gold mining in cabanas will be significantly less polluting than doing the laundry for example. If you can't mine this type of deposit then you can't mine any deposit anywhere in the world. The idea that this type of mining is catastrophic to the environment is pure fiction invented by politically-minded international NGO's who hide behind environmental protection in their anti-development activities. These organizations want to deny the extremely poor people of cabanas the economic prosperity these same NGO's enjoy themselves. They want

to scare the good people of El Salvador into believing that gold mining will destroy the environment for ages. That's simply preposterous.

If these organizations are so environmentally sensitive, why when they invade our property with masked armed gunmen do they chop down trees planted in our reforestation program. That does not sound like an environmentalist to me.

Over 77 million dollars has been invested at the El Dorado mine. Until last summer we had 262 direct employees in El Salvador. We now have 36. Counting contractors there are now more than 400 people out of work because of the government's illegal actions.

We should be talking hand in hand with the government of El Salvador about the thousands of direct and indirect new jobs the mine will create. We should be talking about tax revenues. Pacific rim will be the single greatest taxpayer in El Salvador. Instead we're talking about CAFTA and the denial of those benefits to all the people of El Salvador. El Salvador has environmental laws. El Salvador has a mining law written in 1996 just 12 years ago. El Salvador has attractive foreign investment laws. El Salvador has laws that cover our industry and our investment. The laws are there and we've followed them, every one of them. The government of El Salvador has not. Fortunately the disregard for the law is not endemic to the country or the society. When we first started working in El Salvador the government spoke about building confidence for foreign investors. They spoke of transparency, the rule of law, a country aggressively pursuing foreign investment. They have now lost ground in most of these areas. If you doubt this, look into the Millennium Challenge. El Salvador won the competition called the Millennium Challenge two years ago. The Millennium Challenge is a US-backed competition for third world countries competing to receive US aid. Competition is based on 17 parameters measured by the US, including business climate, environmental protections, transparency, rule of law, etc. Over the past two years El Salvador has fallen on many of the parameters measured by the Millennium Challenge Corporation including rule of law and security. However, I'm confident as a country they'll rebound, and believe that the last few years have been an aberration and not the norm. While we understand the unfortunate consequences to El Salvador and her people, we have been painted into a corner. We are left with no option but to preserve our rights under CAFTA. We hope we can resume negotiations with the government of El Salvador in a timely manner, and we hope these negotiations are in good faith to seek a mutually beneficial resolution for Pacific Rim, our current and former employees and all the people of El Salvador.

CAFTA process is prescribed. We now have until the 9th of March to continue to negotiate. On that date under CAFTA rules we are able to file our claim for arbitration. Until then, we will maintain a dialogue with the government in hopes of settling this dispute for the sake of all of those involved.

Operator I'd like to now open the floor to questioners and remind listeners that I'm joined by Tim McCrum of Crowell & Moring, our legal representative, who is also available to answer your questions.

Barbara Henderson

Thank you sir. Ladies and gentlemen as a reminder, if you do have a question ...(directions for questions)...

A first question question comes on the line from Nicholas Campbell with Canaccord Adams (<http://www.canaccordadams.com/default.htm>)

Please go ahead.

Nicholas Campbell

Hi Tom, how are you doing?

Tom Shrake

I'm doing well thank you.

Nicholas Campbell

Can you just walk through the process on how you guys are going to, uh, how you guys are going to go at this legally to try and, uh, come to a resolution with the government?

Tom Shrake

Well, uh, the CAFTA process requires a 90 day, basically "cooling off" period from the time you file the notice of intent, which was this morning, until we actually file for arbitration. That is a prescribed negotiating time frame. And so we will continue to pursue a negotiated solution during that time.

Nicholas Campbell

OK. And if it does go to arbitration, do you have any idea, in terms of cost to you, how much will be born by you, during the CAFTA arbitration?

Tom Shrake

Yeah we've, we have uh, uh, we have a fairly hefty budget for legal costs for uh, for the arbitration, arbitration process. It's a long process and we budgeted several hundred, several hundred? , several million dollars for that process.

Nicholas Campbell

OK and do you think this is something, this is something that is just specific to this government, do you think with a new government you might be able to negotiate some sort of a resolution if new parties come into place?

Tom Shrake

Yeah, I'm very, I'm very confident that that that there's going to be a resolution achieved here. I think the political will is there. Clearly the populous support is there. And, you know frankly in this time of economic crisis this is, this is probably the best hope that the country has, uh, to advance their economy in this crisis. I think, I just can't imagine the logic of the government to get us where we are today. Um, I don't see..El Salvador, El Salvador is a very special place. I've, as many of you know I've worked throughout Latin America, I've done systematic work in 7 Latin American countries: Chile, Peru, Argentina, Costa Rica, El Salvador, Mexico. And I've been in practically all of the countries along the Pacific margin. Now there are very few places, very few societies, very few cultures that have as hard working people, that have a general acceptance of the rule of law. Corruption is is not, uh, is not tolerated in in El Salvador in general. Just to give you a sort of simple uh, analogy, there are only two Latin American countries where I've worked, or where I've done even limited work, where um, where you're not, uh, fleeced by the police, when you get pulled over, and those two countries are Chile and El Salvador.

I think the society has, has, is special. I mean it's a special place. I really think very highly of the country and I think very highly of the people in particular and I don't think that the current government is representative, representative of those standards. The um, the candidates that are running for president, have, have all made statements about mining and basically have made statements to the effect of that they favor responsible mining. I think that, as I pointed out in my remarks the, uh, political will is certainly there. Uh, you know, whenever, you know, candidates... There's an election in March for congressmen, mayors and president and the debates on mining have all been very favorable to us.

Tim McCrum

This is Tim McCrum of Crowell & Moring, just one follow-up just to clarify, Uh, the company remains optimistic that the current government will be open to negotiations in its remaining months in office, despite, despite the past. So we're hopeful that they will take a fresh look at this matter in light of this CAFTA notice.

Nicholas Campbell

And if the uh, if you do eventually go to CAFTA arbitration can uh, can the government uh, can it be stopped or does it have to go all the way through to completion?

Tim McCrum

Even after the claim would be filed, the government would be free to settle claim at any time and not be pursued, not be forced to pursue it to a resolution through that process.

Nicholas Campbell

OK. Thanks guys. Good luck.

Barbara Henderson

Thank you. The next question comes on the line from Ralph Weil of R. Weil Investment Management (of Boca Raton), please go ahead.

Ralph Weil

Good morning. Good morning to you. Who are the, uh, major organizations, or you said NFO's

Tom Shrake

NGO's

Ralph Weil

NGO's

Tom Shrake

Yeah, non-governmental organizations

Ralph Weil

Yeah, who are they, and have they done this in any other places?

Tom Shrake

Um, the two international, the, the, I really hate to name names. The bottom line is that probably the most active NGO in the country is OXFAM America. They are supporting and they're a major supporter of the local organizations who oppose the project and who are responsible for a lot of the anti-mining activities in the country so OXFAM is certainly one of them.

Ralph Weil

And what is their major objective to keep the people poor so they can...

Tom Shrake

You've got me. I mean that question, that fundamental question is one that has gnawed at me for the entire time I've spent my career in the mining business. What is it that they hope to achieve? I mean do we go back to hunters and gatherers. I mean do we want no metal? Do we want no oil? I just, I don't understand it. And the thing that really... as someone who's worked in extremely poor countries for over two decades now, and has, you know, lived with the people in poverty and..you know I have just tremendous compassion for these people and I, I don't don't get the logic. The logic just isn't there, I mean, the, if you go out and visit with the people in the region where we're trying to build this mine, II mean there's no, their number one objective in life is to be able to, to have the dignity and the ability to feed their families. And they're the hardest working group of people I've ever been around I mean, they deserve this as much as anybody, but uh. I can't answer that question cuz, I just don't, I fail to see the logic of what these organizations are trying to achieve and what alternative they propose.

Tim McCrum

This is Tim McCrum of Crowell & Moring. The question was not exactly a legal one but in terms of who the, what the motivation is of these opposition groups. There was a documentary DVD made a year or two ago entitled "Mine your Own Business", describing three different mine projects one in Europe, one in Africa, one in South America. And these projects were carried out by companies ranging from Rio Tinto to Barrick Gold and the common theme in each case was that you had international NGO's seeking to deprive local people of economic development provided by mining. Local populations supporting the mining, but the international NGO's, typically

removed from the situation, uh, putting forth scare claims that influenced the uh, influenced the local country to either delay or deny the projects. And that's the same type of phenomena as what we've seen here in El Salvador where we believe the local population supports the project that's been corroborated by the Wall Street Journal this past year in their story on this by Mary O'Grady. Uh, and yet we see the NGO's uh, making these claims that are influencing the government into paralysis.

Tom Shrake

Basically the product of the NGO's is fear. They just try to scare the heck out of everybody involved.

Ralph Weil

Where does the church stand in this?

Tom Shrake

Complicated. Actually Tim has been working on that issue for us and I'll just defer to him...

Tim McCrum

The um, the Catholic Church has been a factor in El Salvador and its not been a productive, uh, factor. And we are, we are puzzled by that, uh and uh, we see that the, in some cases the Catholic Church in Central America has allowed itself to be influenced by the NGO positions.

Ralph Weil

Which is the stronger factor the NGO's or the Church? I assume the people will listen to the church more than the NGO's.

Tom Shrake

El Salvador's a little bit different I mean, I think there's an almost 35% Protestant population in El Salvador which is a little unique. Um, as far as, ...I think it's hard to separate the two. The NGO's work with the Church. I think that they do, in many

regards go hand in hand. Um, but I think it's it's very complicated the politics of the Catholic Church in Latin America. Uh, there are, there is a certain constituency of the Catholic Church basically that stretches from Central America, or central Mexico all the way down the Pacific margin to southern Peru, that is uh, politically very, uh, almost radically left-leaning. And they are a vocal, uh they are a vocal component of the Church in those regions and they have for a long long time now, uh, been opposed to many types of foreign investment. For example the Church was opposed to the Central, the Free Trade Agreement in general. They were, in El Salvador they were opposed to privatizations, they were opposed to the dollarization of the economy. Um, so it's, it's basic politics. There's a constituency in the Central American part of the Catholic Church that we need to make sure we qualify that, that is sort of left-leaning.

Ralph Weil

Uh huh

Tom Shrake

They don't necessarily dominate the politics of the church but they're a factor.

Tim McCrum

Uh, um, the only thing I would add is that uh, the people that are, the representatives of the Church that are espousing the opposition to this mining, we don't believe are actually acting consistent with Catholic doctrine as espoused, as espoused by Pope Benedict as recently as January 1 of 2008 of this past year.

Ralph Weil

Right

(Well maybe they're getting paid by Oxfam America)

Tim McCrum

We'd rather not speculate there.

(OK)

Barbara Henderson

Thank you the next question comes on the line from (Brian Mann with Brit Capital), please go ahead.

Brian Mann

Yeah, I was just wondering as far as um, filing the legal case if there is any precedent that the legal team was relying on and actually more specifically if there's ever been an instance where a mining company has actually claim, has actually won a case in international arbitration with respect to a situation like this where a sovereign country, you know, decided to deny permits for whatever reason and I guess, if there's ever been, you know, a president from an arbitration case that's won outside of mining but obviously more specifically mining if there was one available in that instance. Thanks.

Tim McCrum

One of the more, uh one of the recent analogous arbitration claims, uh, that is informative here is not involving mining but involving a hazardous waste facility proposed in Mexico and that is the Metal Clad, uh, controversy where a US investor was pursuing a hazardous waste facility in Mexico and everything was going along smoothly for a number of years and then, and then the government uh turned, turned against the project and arbitrarily denied it and in that case the claim was brought by the US investor under NAFTA and that did result a decision that the NAFTA protections for investors had been violated and ultimately resulted in a reward to the investor of, in the range of 12 million dollars or so, which was the estimated amount at issue there.

Brian Mann

OK thank you.

Barbara Henderson

Thank you. The next question comes from the line of Steve Jones, private investor. Please go ahead.

Steve Jones

Hi. Thanks for holding this call. I've got two questions. One, what, uh. You know the Saca administration in El Salvador has been opposed to dollarization and claimed that dollarization has harmed the country's poor. To what degree do you think your situation, Tom, is influenced by that larger political debate?

Tom Shrake

Hi Steve. I don't uh. I've never been, I've never heard any discussions by the Arena party in terms of opposition to dollarization. If he's made a statement like that he probably made it uh, in a political sense. I don't think there is any, uh, I don't think that the Arena party would, would even attempt to try to flip the dollarization, the dollar, you know, the dollarized economy. In fact, even the FMLN party, Mauricio Funes, the candi, the presidential candidate for the FMLN has come out in favor of dollarization. So I'm not aware of any, uh, comments that uh, negative towards dollarization. But certainly, you know, where the US dollar is, anyone who is dollarized is suffering. (right) But uh, you know there are cycles, things go up and things go down. I don't, I don't, I don't I've never, I never have perceived any uh, any political will to change that. What was the second question Steve? I'm sorry.

Steve Jones

Well. The second question was, to what degree do you think this claim might influence your relation with other business leaders Nicholas Selume, the head of the National Hydroelectric Company and others who have, at least, not opposed Pacific Rim. Uh, do you think this...what influence this might have on the rest of the business community there and their support for you?

Tom Shrake

I think that, first of all it's important to know that we've really reached out to the business community and tried.

Steve Jones

I know you have and this might change that.

Tom Shrake

I don't think there's any question that we're running the risk of losing some support by filing for CAFTA. But I think the vast majority of the, uh, business leaders in El Salvador recognize that we just don't have any choice. Recognize how hard we have tried to avoid having to file this action. I mean we've been in, you know, almost constant negotiations for over a year. And in those negotiations we've brought in many, many of the sectors of civil and private society into, into the debate, and the business community strongly supports mining and strongly supports our project. They recognize that we've taken additional environmental steps. They recognize that what we're doing really offers very little in the way of, of, uh, of environmental, potential environmental damage and they understand that it potentially could be the driver to the economy much like copper is, copper mining is in Chile. So, while we may lose um, some portion of our support in the business community, I don't anticipate losing the majority of the support that we benefit from.

Steve Jones

OK thanks.

Tom Shrake

You're welcome.

Barbara Henderson

Thank you. Gentlemen, there are no further questions. I'll turn it back to you for closing comments.

Tom Shrake

Again I'd like to thank everybody for calling in and I'd just reiterate that if you have questions, just contact us we're always available. And uh, let's all hope that we can bring this to a quick resolution. So thank you very much.

Barbara Henderson

Thank you. Ladies and gentlemen, that will conclude today's teleconference. We do thank you again for your participation. And at this time you may disconnect. Have a nice day.

END OF CONFERENCE