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March 16, 2009

Direccion de Administracion de Tratados Comerciales
Ministerio de Economia
Alameda Juan Pablo II y Calle Guadalupe
Edificio C1-C2, Plan Maestro Centro de Gobierno
San Salvador, El Salvador

DIRECCION DE ADMINISTRACION DE TRATADOS COMERCIALES	
CORRESPONDENCIA RECIBIDA	
Fecha <u>12/03/09</u>	Hora: <u>3:10 p.m.</u>
Signa <u>[Signature]</u>	No. <u>074</u>

RE: Notice of Intent to File Claim Under CAFTA-DR
Claimant: Commerce Group Corp. and San Sebastian Gold Mines, Inc.
Subject of Dispute: Failure to permit mining activities in El Salvador

TO THE HONORABLE MINISTER:

The law firm of Machulak, Robertson & Sodos, S.C. has been retained by Commerce Group Corp. and San Sebastian Gold Mines, Inc., to represent them in connection with their claim against the government of El Salvador. The government of El Salvador has frustrated efforts by Commerce Group Corp. and San Sebastian Gold Mines, Inc. to develop mining interests in the Country of El Salvador in violation of the Central America Free Trade Agreement-Dominican Republic ("CAFTA-DR"). As a result of the government of El Salvador's actions, Commerce Group Corp. and San Sebastian Gold Mines, Inc., have sustained substantial damages.

The facts underlying Commerce/Sanseb's CAFTA-DR claim are as follows:

1. Commerce Group Corp. ("Commerce") is a United States corporation organized under the laws of the State of Wisconsin. Commerce was organized in 1962 and its common shares have been publicly traded since 1968. Its address in the United States is 6001 North 91st Street, Milwaukee, Wisconsin 53225.
2. San Sebastian Gold Mines, Inc. ("Sanseb") is a United States corporation organized under the laws of the State of Nevada on September 4, 1968. Commerce owns 82 1/2% of the authorized and issued common shares of Sanseb. Its address in the United States is 6001 North 91st Street, Milwaukee, Wisconsin 53225.
3. On September 22, 1987, Commerce and Sanseb entered into a joint venture agreement (named the "Commerce/Sanseb Joint Venture") to formalize the relationship between them. The Commerce/Sanseb Joint Venture is registered as an operating entity to do

business in the State of Wisconsin, U.S.A. and in the Republic of El Salvador, Central America. The joint venture agreement authorizes Commerce to execute agreements on behalf of the Commerce/Sanseb Joint Venture.

4. Mineral San Sebastian, S.A. de C.V. ("Misanse") is an El Salvadoran corporation formed on May 8, 1960, reinstated on January 25, 1975 and reincorporated on October 22, 1993. Commerce owns 52% of the authorized and issued common shares of Misanse.
5. Starting in 1968, Commerce and Sanseb have been in the business of the exploration, development, mining, and production of precious metals in El Salvador at the San Sebastian Gold Mine near Santa Rosa de Lima and at other locations.
6. Commerce and Sanseb began producing gold at the San Sebastian Gold Mine site in 1968. In February, 1978, they suspended operations because of the war in El Salvador. The mill which had been constructed on site at the San Sebastian Gold Mine was destroyed during the war. In 1985, Commerce and Sanseb returned to San Sebastian to resume operations and were able to re-hire many of their former employees.
7. On July 23, 1987, in a ceremony officiated by former Presidente Napoleon Duarte, Commerce and Sanseb were awarded the exploitation concession for the San Sebastian Gold Mine. At this time, the Commerce/Sanseb Joint Venture entered into an agreement with Misanse to lease the 304-acre site of the San Sebastian Gold Mine and develop the concession.
8. In 1993, Commerce/Sanseb acquired a mill for processing gold and silver, known as the San Cristóbal Mill and Plant. This facility is located on the Pan American Highway west of the city of El Divisadero. Commerce/Sanseb purchased the equipment on February 23, 1993 and signed a lease for the site with CORSAIN on November 12, 1993. The equipment required extensive retrofitting. Later, Commerce/Sanseb purchased a crushing system to be operated at the site of the San Sebastian Gold Mine.
9. In September 1993, Commerce/Sanseb expanded its mining interests when it acquired the El Modesto Mine located near the city of El Paisnal and about 19 miles north of San Salvado, with a view toward future exploration and exploitation concessions.
10. Commerce/Sanseb produced 22,710 ounces of bullion containing 13,305 ounces of gold and 4,667 ounces of silver at the San Cristóbal Mill and Plant from March 1995 through December 31, 1999. Commerce/Sanseb suspended production intending to expand the facility from its then existing 200-ton-per-day capacity to a 500-ton-per-day operation.
11. On September 6, 2002, at a meeting held with the El Salvadoran Minister of Economy and the Department of Hydrocarbons and Mines, Commerce/Sanseb agreed to cancel the concession for the exploitation of the San Sebastian Gold Mine obtained on July 23,

- 1987, in exchange for a new concession. On August 18, 2003 (delivered August 29, 2003) the Ministry of Economy issued a twenty-year concession. On May 20, 2004 (delivered June 4, 2004) the Government of El Salvador extended the exploitation concession for a period of thirty (30) years.
12. Commerce/Sanseb applied for and received environmental permits to mine gold ore at the San Sebastian Gold Mine site, and process ore at the San Cristóbal Mill and Plant. On October 15, 2002, the El Salvador Ministry of Environment and Natural Resources ("MARN") issued an environmental permit under Resolution 474-2002 for the San Cristóbal Mill and Plant. On October 20, 2002, MARN issued an environmental permit under Resolution 493-2002 for the new San Sebastian Gold Mine exploitation concession. Financial security bonds were submitted as required. This permit was later renewed for a three-year period with the issuance of Resolution No. 3026-003-2006 dated January 4, 2006.
 13. In connection with the new San Sebastian Gold Mine concession, Commerce/Sanseb provided a bond to protect third parties against any damage caused from the mining operations. Also, on January 14, 2003, the Company entered into an amended and renewed 30-year lease agreement with Misanse.
 14. On March 3, 2003, the Government of El Salvador granted Commerce/Sanseb a new exploration license for a 41-square kilometer area (10,374 acres), which surrounded the site of the San Sebastian Gold Mine and included three other formerly-operated mines (the "New San Sebastian Exploration License").
 15. On May 25, 2004, the Government of El Salvador granted Commerce/Sanseb a new exploration license for an additional 45 square kilometers of area (11,115 acres) to the North of and abutting the New San Sebastian Exploration License area. This new license area encompassed eight formerly-operated gold and silver mines (the "Nueva Esparta Exploration License").
 16. After receiving the New San Sebastian Exploration License and the Nueva Esparta Exploration License, Commerce/Sanseb invested resources for the exploration of these areas for precious metals including explorations at the La Lola Mine, the Santa Lucia Mine, the Tabanco Mine, the Montemayor Mine, and the La Joya Mine. This was done with the expectation that Commerce/Sanseb would ultimately receive exploitation concessions for these sites.
 17. Then, on or about September 13, 2006, MARN delivered to Commerce/Sanseb's El Salvadoran legal counsel its revocation of the environmental permits issued for the San Sebastian Gold Mine exploitation concession and the San Cristóbal Mill and Plant, effectively terminating Commerce/Sanseb's right to mine and process gold and silver. This was done without justification or any forewarning.

18. On December 6, 2006, Commerce/Sanseb's legal counsel filed with the El Salvadoran Court of Administrative Litigation of the Supreme Court of Justice two complaints relating to this matter, one for the San Sebastian Gold Mine and the other for the San Cristobal Mill and Plant. These legal proceedings have not been resolved.
19. On October 10, 2006, Commerce/Sanseb applied to MARN for an environmental permit for its exploration in connection with the New San Sebastian Exploration License and the Nueva Esparta License. MARN did not respond to the request and on March 8, 2007, Commerce/Sanseb applied to the El Salvador Ministry of Economy for an extension of these exploration licenses, as was its right. On October 28, 2008, the Ministry of Economy denied Commerce/Sanseb's application citing Commerce/Sanseb's failure to secure an environment permit.
20. On January 20, 2009, Commerce/Sanseb's legal counsel filed a challenge in the Courts to the government's refusal to honor Commerce/Sanseb's request to extend its exploration permits pursuant to the terms of the 2002 permits. These legal proceedings have not been resolved.
21. The actions of the El Salvadoran government, through its ministries, reflects an ongoing government policy since September 2006 to de facto deny foreign companies the right to develop mining interests in the country of El Salvador.
22. This policy, as applied, discriminates against foreign investment:
 - a. While the government of El Salvador asserts that the current ban on gold and silver mining, and exploration connected with such mining, stems from the government's desire to protect the environment, the government permits, for example, the operation of coffee beneficios which dump liquid residue directly into rivers and other activities which are more intrusive on the environment.
 - b. The government's ban on development of gold and silver mines applies in practice exclusively to foreign companies.
 - c. The government does not enforce its stated policies against native El Salvadorans engaged in gold and silver production.
23. This policy, as applied, is arbitrary and irrational, and has denied Commerce/Sanseb of its property rights and investment in the country of El Salvador.
24. The government of El Salvador's continuing refusal to permit Commerce Group to engage in any exploration or mining activities despite proposals to ensure environmental protection and compliance with the laws of El Salvador, is unreasonable and is in violation of established international commerce law.

25. From 1969 forward, Commerce/Sanseb has provided substantially all of the capital required to develop the mining operation at the San Sebastian Gold Mine, to fund exploration, and to acquire, refurbish and operate the San Cristobal Mill and Plant. Commerce/Sanseb has continued to pay and incur expenses, has lost opportunities to secure investment capital, and has been denied the ability to develop and process an estimated 3.5 million ounces of gold, pending its legal efforts to secure the right to develop its investments in the Country of El Salvador. Commerce/Sanseb's damages exceed the sum of \$100,000,000.

By its conduct, the government of El Salvador has violated Article 10.3 and Article 10.5 of CAFTA-DR. Commerce and Sanseb are hereby seeking compensation from the government of El Salvador for its losses incurred as a result of the government of El Salvador's violation of its obligations under CAFTA-DR with respect to treatment of foreign investors. Commerce and Sanseb are willing to resolve its claims against the government of El Salvador under the following conditions:

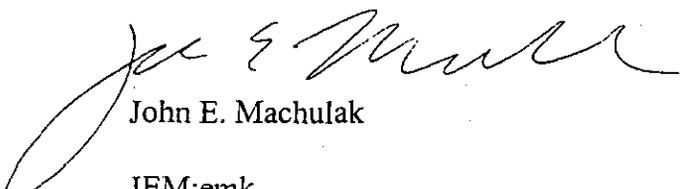
1. Payment of compensation from the government of El Salvador to Commerce Group in an amount of not less than \$100,000,000 for its losses; and
2. Granting of permits allowing Commerce Group to resume its mining activities in the Country of El Salvador subject to reasonable and appropriate environmental protection conditions.

If Commerce Group Corp. and San Sebastian Gold Mines, Inc. are unable to resolve this dispute with the government of El Salvador within ninety (90) days of delivery of this notice to the government of El Salvador, Commerce and Sanseb will submit their claim to arbitration pursuant to the ICSID Convention and the ICSID Rules of Procedures for Arbitration Proceedings.

I sincerely hope that this matter can be resolved through negotiations so that all sides can avoid unnecessary costs and expenses relating to arbitration and litigation. Please address your responses to this correspondence to the undersigned.

Thank you for your consideration of this matter.

Respectfully yours,



John E. Machulak

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