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July 29, 2020

Dirección General de Consultoría
Jurídica de Comercio Internacional
Secretaría de Economía
Pachuca #189, piso 19
Col. Condesa Demarcación
Territorial Cuauhtémoc
Ciudad de México
C.P. 06140

Dirección General de Inversión Extranjera
Secretaría de Economía
Insurgentes Sur 1940, piso 8
Col. Florida México
D.F. 01030
México

Re: Notice of Intent to Submit a Claim to Arbitration under Paragraph 1 of Annex 14-C of the United States-Mexico-Canada Agreement (the “USMCA”)

Dear Secretary:

Finley Resources, Inc., a U.S. company, is one of two private companies holding rights and interests of the Contractor in Contract number 421004821, a contract with Pemex Exploración y Producción for the performance of services at fixed prices (the “821 Contract”). Drake-Mesa, S. de R.L. de C.V., a Mexican company, is the other private company holding rights and interests in the Contractor. Prize Permanent Holdings, LLC is a U.S. company that owns 25% of the equity of Drake-Mesa, S. de R.L. de C.V. For purposes of this letter, Prize Permanent Holdings, LLC’s interest will be called Drake-Mesa.

The 821 Contract is a result of an international public bid called by Pemex on August 29, 2013 (ILC number 18575088-542-13). Under this competitive bidding process, Pemex and the Mexican government invited oilfield service companies like Finley to submit bids for contracts based on Pemex’s model contract to drill onshore wells for Pemex on select blocks. Notably, the guidelines governing this bidding process promoted that investments under these contracts would be protected by Mexico’s free trade agreements such as the North American Free Trade Agreement (“NAFTA”). For each contract, Pemex assigned a budgetary range that specified the maximum and minimum number of wells that the contractor would drill. Finley and Drake-Mesa submitted a competitive bid based on Pemex’s model contract for certain contract packages, and on February 12, 2014, Pemex awarded the 821 Contract to Finley and Drake-Mesa.

On February 28, 2014, Pemex executed the 821 Contract with Finley and Drake-Mesa. Under the 821 Contract, Pemex agreed to request work from Finley and Drake-Mesa, including providing equipment and drilling oil wells on behalf of Pemex. The minimum amount of work that Pemex agreed to request was the equivalent to US\$ 169 million. The work was to begin on March 1, 2014, and last for 1,402 days, terminating on December 31, 2017.

Under the 821 Contract, Pemex assured Finley and Drake-Mesa that it would have sufficient resources to request and pay for the agreed work to be performed. Pemex declared that “It has allocated the resources to carry out the Works under this Contract.” Relying on Pemex’s representation and its agreement to spend at least US\$ 169 million (Pemex also agreed to a maximum amount of US\$ 418.3 million that it could request), Finley and Drake-Mesa invested significant amounts in Mexico, including importing drilling equipment to comply with Pemex’s work orders. Ultimately, Pemex would not live up to its representation of having sufficient funds to request work or its obligation to request the minimum amount of work agreed under the 821 Contract.

In response to Pemex’s work orders, Finley and Drake-Mesa conducted and was paid for work amounting to approximately US\$ 48 million. However, Pemex did not comply with its obligation to request the minimum amount of work (US\$ 169 million) as agreed under the 821 Contract. Instead, Pemex did not come close to meeting its contractual obligations to Finley and Drake-Mesa.

The 821 Contract contains a plan/schedule for the wells that Pemex agreed to have drilled as part of Pemex’s US\$ 169 million minimum spending commitment. Pemex agreed to issue work orders for the wells and to provide the coordinates where Finley and Drake-Mesa were to drill the well(s). However, Pemex opted not to issue timely work orders that would allow Finley and Drake-Mesa to conduct the work and achieve the US\$ 169 million minimum spending commitment before the contract’s termination.

Instead, Pemex contended that it was not obligated to conduct the scheduled work under the 821 Contract. Pemex claimed that it only had an obligation once it issued a work order to have a well drilled, regardless of its minimum commitments to Finley and Drake-Mesa. As a result, Pemex did not issue work orders for, and thus did not pay Finley and Drake-Mesa for, approximately US\$ 120.9 million of agreed work under the 821 Contract. Such conduct was not consistent with Pemex’s contractual obligation to act in good faith and equitably and to cooperate with Finley and Drake-Mesa to fulfill the 821 Contract in a mutually beneficial manner.

In addition to not sending work orders for extended periods, Pemex also repeatedly suspended performance under the 821 Contract. Even though Pemex declared under the contract that it had sufficient funds to support issuing work orders for its US\$ 169 million commitment to Finley and Drake-Mesa, Pemex admitted that the Mexican government had not sufficiently funded Pemex’s budget. For example, in September 2014, Pemex announced that service companies had drilled 21 of 26 scheduled wells and that Pemex did not expect additional funds for its budget to continue drilling wells between September and December 2014. In November 2014, Pemex suspended performance under the 821 Contract. Using the excuse of suspension, Pemex suspended work orders two additional times, totaling over 300 days. For Finley and Drake-Mesa, Pemex’s suspensions cost approximately US\$ 28 million in lost opportunity, i.e., fees that they could have earned by using their drilling equipment elsewhere. To date, Pemex has not paid these amounts to Finley and Drake-Mesa as contractually required.

Pemex’s third suspension started on January 13, 2016. Previously, Pemex had suspended the contract for 108 days between November 2014 and March 2015 and for 98 days between August 2015 and November 2015. After 105 days of inactivity under Pemex’s third suspension, Finley and Drake-Mesa became weary that Pemex was not going to issue any more work orders and fulfill its remaining

US\$ 120.9 million minimum commitment. In addition, Pemex was telling Finley and Drake-Mesa that Pemex was planning to cancel the 821 Contract (in addition to other similar service contracts) because the Mexican government was not providing sufficient funds to Pemex to meet its obligations under the 821 Contract. Consequently, on April 29, 2016, Finley and Drake-Mesa sought relief from a Mexican federal civil court.

In response to Finley and Drake-Mesa's attempt to protect their interests, Pemex retaliated by pursuing a strategy of rescinding the 821 Contract. Ten months after Pemex suspended its performance for the third time and seven months after Finley and Drake-Mesa initiated their lawsuit, Pemex claimed that it issued a new work order to Finley and Drake-Mesa in November 2016. However, Pemex did not properly notify or send the work order to the proper person to receive a work order under the contract. As such, Pemex alleged that Finley and Drake-Mesa did not perform the work. Pemex then used this supposed unfulfilled work order to notify Finley and Drake-Mesa on June 26, 2017 that Pemex would be seeking rescission of the 821 Contract.

Regardless of whether Pemex's transmission of the work order was proper, Pemex's threat to rescind the 821 Contract was wrongful. The 821 Contract does not allow Pemex to seek rescission because of one unfulfilled work order. In fact, the 821 Contract requires fifteen (15) unfulfilled work orders before Pemex can pursue rescission. Put simply, Pemex claimed that it was entitled to rescind the 821 Contract because of one supposedly unfulfilled work order — and not fifteen (15) as contractually required — that Finley and Drake-Mesa never properly received or for which Pemex did not have the budgeted amounts to pay.

Nevertheless, on July 31, 2017, Pemex rescinded the 821 Contract. Pemex made various allegations to rescind the contract based on the work order that Finley and Drake-Mesa did not properly receive. However, Pemex did not mention the specific condition that applied to Pemex work orders — that Pemex can only claim rescission after Finley and Drake-Mesa did not comply with fifteen (15) work orders.

Finley and Drake-Mesa challenged this decision before the Federal Court of Administrative Justice. Again, Pemex relied on general provisions to rescind the 821 Contract when a specific provision regarding work orders precludes Pemex from rescinding the contract unless and until Finley and Drake-Mesa do not fulfill fifteen (15) work orders. Alarming, the Mexican court did not consider this specific protection for Finley and Drake-Mesa. On October 4, 2018, the court wrongly confirmed the 821 Contract rescission because of one work order that Finley and Drake-Mesa purportedly did not fulfill (because they did not receive it) and that Pemex could not even pay for because of its previously-announced budgetary constraints.

Pemex and the Mexican judicial system have caused significant damages to Finley and Drake-Mesa. Finley and Drake-Mesa have been denied approximately US\$ 121 million in the minimum work guaranteed under the 821 Contract. Pemex and the Mexican judicial system have also denied Finley and Drake-Mesa nearly US\$ 28 million in costs associated with work that Pemex requested but then suspended for extraordinary prolonged periods because of Pemex's budgetary constraints.

Mexico, through Pemex and the Mexican judicial system, has violated Finley's and Drake-Mesa's investment protections under NAFTA. Finley and Drake-Mesa committed significant capital in

Mexico for the performance of and with the expectation of performing services under the 821 Contract. The actions of Pemex and the Mexican judicial system have failed to give fair and equitable treatment to Finley's and Drake-Mesa's investments in Mexico. Moreover, they have denied Finley and Drake-Mesa the right to enjoy their investment in Mexico because of unreasonable and discriminatory measures. Consequently, Finley and Drake-Mesa invokes Article 1105 of NAFTA and hereby notifies the Mexican government, with copy to Pemex, of these breaches.

Moreover, Finley and Drake-Mesa invoke the most favorable nations clause under Article 1103 of NAFTA, which grants Finley and Drake-Mesa no less favorable rights than the Mexican government has given to investors of any third state. Under Article 1103 of NAFTA, Finley and Drake-Mesa invokes their right to apply Article 2(3) of the Agreement Between the Government of the United Mexican States and the Government of the Kingdom of Denmark Concerning the Promotion and Reciprocal Protection of Investments. Article 2(3) requires Mexico to "observe any other obligation in writing it has assumed with regard to investments in its territory by investors of the other Contracting Party. Disputes arising from such obligations shall be settled in accordance with the terms of the contract." Pemex and the Mexican judicial system violated this protection by failing to respect Finley's and Drake-Mesa's protection under the 821 Contract, to wit, that Pemex cannot seek a rescission unless and until Finley has not complied with fifteen (15) work orders.

Finley and Drake-Mesa have instructed Thompson & Knight to send this letter to provide Finley's and Drake-Mesa's notice that a dispute has arisen under NAFTA with respect to the 821 Contract. Article 1119 of NAFTA requires Finley and Drake-Mesa to submit this notice ninety (90) days before submitting its claim to arbitration. Before initiating a formal arbitration proceeding, Finley and Drake-Mesa propose to attempt to resolve these disputes through consultations with Pemex and other appropriate authorities within the Mexican government. We would prefer to commence such consultations immediately and would appreciate you advising us as to who is the proper designee for the Mexican government.

For purposes of Article 1119, the names and addresses of the disputing investors are as follows:

Finley Resources, Inc.
1308 Lake St.
Fort Worth, Texas 76102

Prize Permanent Holdings, LLC
182 E. Edgewood Place
San Antonio, Texas 78209

Please direct all future communications regarding these disputes to my attention. My contact information is as follows:

Thompson & Knight
Andrew Melsheimer
1722 Routh Street, Suite 1500
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Finley and Drake-Mesa reserve their right to supplement this notice in all aspects.

July 29, 2020

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Sincerely,



Andrew Melsheimer

Attachments:

Articles of Incorporation of Finley Resources Inc. as amended
Certificate of Formation of Prize Permanent Holdings, LLC
Power of Attorney for Thompson & Knight, LLP from Finley Resources, Inc.
Power of Attorney for Thompson & Knight, LLP from Prize Permanent Holdings, LLC

cc:

Mtro. Arturo Herrera Gutiérrez, Secretario de Hacienda y Crédito Público

secretario@hacienda.gob.mx

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Col. Verónica Anzures

Alcaldía Miguel Hidalgo

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July 29, 2020

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Juan José Paullada Figueroa, Consejero Independiente de Petróleos Mexicanos

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