

MINERAL PRODUCTION SHARING AGREEMENT

THIS MINERAL PRODUCTION SHARING AGREEMENT (THIS "AGREEMENT") IS MADE AND ENTERED INTO IN MAKATI, METRO MANILA, PHILIPPINES, THIS 3RD DAY OF MARCH, 1990, BY AND BETWEEN:

THE REPUBLIC OF THE PHILIPPINES, REPRESENTED BY THE SECRETARY OF THE DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES, WITH OFFICES AT THE DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES BUILDING, VISAYAS AVENUE, DILIMAN, QUEZON CITY, METRO MANILA (THE "GOVERNMENT");

- AND -

LEPANTO CONSOLIDATED MINING COMPANY ("LEPANTO"), A CORPORATION DULY ORGANIZED AND EXISTING UNDER THE LAWS OF THE PHILIPPINES, WITH OFFICES AT THE 21ST FLOOR, BA-LEPANTO BUILDING, 8747 PASEO DE ROXAS, MAKATI, METRO MANILA, REPRESENTED HEREIN BY ITS CHAIRMAN AND CHIEF EXECUTIVE OFFICER, MR. FELIPE U. YAP;

- AND -

FAR SOUTH EAST GOLD RESOURCES, INC. ("FAR SOUTH EAST"), A CORPORATION DULY ORGANIZED AND EXISTING UNDER THE LAWS OF THE PHILIPPINES, WITH OFFICES AT 21ST FLOOR BA-LEPANTO BUILDING, 8747 PASEO DE ROXAS, MAKATI, METRO MANILA, REPRESENTED BY ITS CHAIRMAN AND CHIEF EXECUTIVE OFFICER, MR. RAMON A. RECTO, (JOINTLY REFERRED TO HEREIN AS THE "CONTRACTORS").

WITNESSETH:

WHEREAS, THE 1987 CONSTITUTION OF THE REPUBLIC OF THE PHILIPPINES (THE "CONSTITUTION") PROVIDES IN ARTICLE XII, SECTION 2 THAT ALL LANDS OF THE PUBLIC DOMAIN, WATERS, MINERALS, COAL, PETROLEUM, AND OTHER NATURAL RESOURCES ARE OWNED BY THE STATE, AND THAT THE EXPLORATION, DEVELOPMENT, AND UTILIZATION OF NATURAL RESOURCES SHALL BE UNDER THE FULL CONTROL AND SUPERVISION OF THE STATE;

WHEREAS, THE CONSTITUTION FURTHER PROVIDES THAT THE STATE MAY DIRECTLY UNDERTAKE SUCH ACTIVITIES, OR IT MAY ENTER INTO CO-PRODUCTION, JOINT VENTURE, OR PRODUCTION SHARING AGREEMENTS WITH FILIPINO CITIZENS, OR CORPORATIONS OR ASSOCIATIONS AT LEAST SIXTY PER CENTUM OF WHOSE CAPITAL IS OWNED BY SUCH CITIZENS;

PRODUCTION SHARING AGREEMENT
DENR-LCMC-FAR SOUTH EAST
PAGE - 2 -

=====

WHEREAS, BY EXECUTIVE ORDER NO. 279 ISSUED ON JULY 25, 1987, THE SECRETARY IS AUTHORIZED TO ENTER INTO MINERAL PRODUCTION SHARING AGREEMENTS FOR THE SYSTEMATIC DEVELOPMENT AND UTILIZATION OF MINERAL LANDS SO AS TO CONTRIBUTE TO THE GROWTH OF THE NATIONAL ECONOMY IN FURTHERANCE OF THE OBJECTIVES OF THE GOVERNMENT AND THE CONSTITUTION;

WHEREAS, LEPANTO IS THE LESSEE OR HOLDS MINING RIGHTS OVER CERTAIN MINING CLAIMS UNDER VALID AND EXISTING MINING LEASES LOCATED AT MANKAYAN, BENGUET PROVINCE, WHICH MINING CLAIMS CONSTITUTE AND FORM PART OF THE CONTRACT AREA AS HEREINAFTER DEFINED, AND WHICH MINING LEASES SHALL CONTINUE IN FULL FORCE AND EFFECT FOR THE DURATION OF THEIR RESPECTIVE TERMS BY THE PROVISIONS OF EXECUTIVE ORDER NO. 211, SERIES OF 1987 AND DENR ADMINISTRATIVE ORDER NO. 57, SERIES OF 1989, AS CLARIFIED IN DENR CIRCULAR ORDER NO. 06, SERIES OF 1989;

WHEREAS, LEPANTO, IS A PHILIPPINE MINING COMPANY WHICH HAS BEEN IN ACTIVE MINING OPERATIONS FOR AT LEAST FIFTY YEARS AND HAS CONDUCTED EXTENSIVE EXPLORATION WORK ON ITS MINING CLAIMS, INCLUDING THE CLAIMS WHICH CONSTITUTE THE CONTRACT AREA AS HEREINAFTER DEFINED;

WHEREAS, LEPANTO HAS DISCOVERED THE PRESENCE OF GOLD-COPPER PORPHYRY OREBODY BELOW 500 METERS ABOVE SEA LEVEL IN THE CONTRACT AREA;

WHEREAS, LEPANTO HAS ASSIGNED THE MINING RIGHTS TO THE AREA BELOW 500 METERS ABOVE SEA LEVEL WITHIN THE CONTRACT AREA FOR EXPLORATION, DEVELOPMENT AND MINING OPERATIONS TO ITS SUBSIDIARY, FAR SOUTH EAST, BY VIRTUE OF THAT ASSIGNMENT OF MINING RIGHTS EXECUTED BY LEPANTO IN FAVOR OF FAR SOUTH EAST WHICH AGREEMENT WAS DULY REGISTERED WITH THE DENR-CAR SECRETARY ON NOVEMBER 29, 1989;

WHEREAS, LEPANTO AND FAR SOUTH EAST HAVE CONDUCTED FURTHER EXPLORATION WORK IN THE CONTRACT AREA AND HAVE COMMENCED A FEASIBILITY STUDY;

WHEREAS, FAR SOUTH EAST WILL UNDERTAKE THE MINING DEVELOPMENT AND MINING OPERATIONS OF THE CONTRACT AREA AND LEPANTO SHALL PROVIDE TECHNICAL SERVICES TO MANAGE AND CONDUCT ALL MINING CONSTRUCTION AND MINING OPERATIONS IN THE CONTRACT AREA TO FAR SOUTH EAST IN ACCORDANCE WITH THAT MINING SERVICES AGREEMENT EXECUTED BETWEEN THEM ON MAY 16, 1989, DULY REGISTERED ON JULY 20, 1989 WITH THE DENR-CAR-

[Handwritten signatures and initials]

PRODUCTION SHARING AGREEMENT
DENR-LCMC-FAK SOUTH EAST
PAGE -3-

=====

WHEREAS, CONTRACTORS DESIRE TO CEDE THEIR MINING LEASES AND RIGHTS OVER THE CONTRACT AREA TO THE GOVERNMENT AND, IN EXCHANGE, TO UNDERTAKE THE DEVELOPMENT AND UTILIZATION FOR COMMERCIAL PURPOSES OF CERTAIN GOLD-COPPER PORPHYRY DEPOSITS EXISTING IN THE CONTRACT AREA AS HEREINAFTER DEFINED AND ANY OTHER MINERALS WHICH MAY BE DISCOVERED IN SUCH CONTRACT AREA UNDER THE REGIME OF A MINERAL PRODUCTION SHARING AGREEMENT IN ACCORDANCE WITH THE CONSTITUTION, EXECUTIVE ORDER NO. 279, DENR ADMINISTRATIVE ORDER NO. 57, AS CLARIFIED BY DENR CIRCULAR ORDER NO. 06, BOTH SERIES OF 1989, AND IN ACCORDANCE WITH THE TERMS AND CONDITIONS HEREOF;

WHEREAS, CONTRACTORS HAVE AVAILABLE TO THEM THE CAPITAL, TECHNICAL COMPETENCE AND SKILLS NECESSARY TO CARRY OUT THE MINING OPERATIONS HEREINAFTER DESCRIBED;

WHEREAS, THE GOVERNMENT DESIRES TO AVAIL ITSELF OF THE FINANCIAL RESOURCES, TECHNICAL COMPETENCE AND SKILLS WHICH CONTRACTORS ARE CAPABLE OF APPLYING TO THE MINING OPERATIONS OF THE PROJECT CONTEMPLATED HEREIN UNDER A MINERAL PRODUCTION SHARING AGREEMENT;

NOW, THEREFORE, FOR AND IN CONSIDERATION OF THE PREMISES, THE MUTUAL COVENANTS, TERMS AND CONDITIONS HEREINAFTER SET FORTH, IT IS HEREBY STIPULATED AND AGREED AS FOLLOWS:

SECTION I

SCOPE

1.1 THIS AGREEMENT IS A MINERAL PRODUCTION SHARING AGREEMENT ENTERED INTO PURSUANT TO EXECUTIVE ORDER NO. 279. THE PRIMARY PURPOSE OF THIS AGREEMENT IS TO PROVIDE FOR THE EXPLORATION, DEVELOPMENT AND COMMERCIAL UTILIZATION OF CERTAIN MINERAL DEPOSITS EXISTING WITHIN THE CONTRACT AREA, WITH ALL NECESSARY SERVICES, TECHNOLOGY AND FINANCING TO BE FURNISHED OR ARRANGED FOR BY THE CONTRACTORS IN ACCORDANCE WITH THE PROVISIONS OF THIS AGREEMENT. THE CONTRACTORS SHALL NOT, BY VIRTUE OF THIS AGREEMENT, ACQUIRE ANY TITLE TO LANDS ENCOMPASSED WITHIN THE CONTRACT AREA.

1.2 CONTRACTORS SHALL UNDERTAKE AND EXECUTE, FOR AND IN BEHALF OF THE GOVERNMENT, MINING OPERATIONS IN ACCORDANCE WITH THE PROVISIONS OF THIS AGREEMENT, AND IS HEREBY

PRODUCTION SHARING AGREEMENT
DENR-LCMC-FAR SOUTH EAST
PAGE - 4 -

=====

CONSTITUTED AND APPOINTED FOR THE PURPOSES OF THIS AGREEMENT THE EXCLUSIVE ENTITY TO CONDUCT MINING OPERATIONS IN THE CONTRACT AREA.

1.3 DURING THE TERM OF THIS AGREEMENT THE TOTAL VALUE OF PRODUCTION AND SALE OF MINERALS DERIVED FROM THE MINING OPERATIONS CONTEMPLATED HEREIN SHALL BE ACCOUNTED FOR AND DIVIDED BETWEEN THE GOVERNMENT AND CONTRACTORS IN ACCORDANCE WITH SECTION VII HEREOF.

1.4. THE OBLIGATIONS OF THE CONTRACTORS UNDER THIS AGREEMENT SHALL BE JOINT AND SEVERAL.

SECTION II DEFINITIONS

AS USED IN THIS AGREEMENT, THE FOLLOWING WORDS AND TERMS, WHETHER IN THE SINGULAR OR PLURAL, SHALL HAVE THE FOLLOWING RESPECTIVE MEANINGS:

2.1 "AGREEMENT" MEANS THIS MINERAL PRODUCTION SHARING AGREEMENT.

2.2 "ASSOCIATED MINERALS" MEANS ORE MINERALS WHICH OCCUR TOGETHER WITH THE PRINCIPAL ORE MINERAL.

2.3 "BUDGET" MEANS AN ESTIMATE OF EXPENDITURES TO BE MADE BY CONTRACTORS IN MINING OPERATIONS CONTEMPLATED HEREUNDER TO ACCOMPLISH THE WORK PROGRAM FOR EACH PARTICULAR PERIOD.

2.4 "CALENDAR YEAR" OR "YEAR" MEANS A PERIOD OF TWELVE (12) CONSECUTIVE MONTHS STARTING WITH THE FIRST OF JANUARY AND ENDING ON DECEMBER 31, WHILE "CALENDAR QUARTER" MEANS A PERIOD CONSISTING OF THREE (3) CONSECUTIVE MONTHS WITH THE FIRST CALENDAR QUARTER STARTING WITH THE FIRST DAY OF JANUARY.

2.5 "CENTRAL BANK" MEANS THE CENTRAL BANK OF THE REPUBLIC OF THE PHILIPPINES.

2.6 "COMMERCIAL PRODUCTION" MEANS THE PRODUCTION OF SUFFICIENT QUANTITY OF MINERALS TO SUSTAIN ECONOMIC VIABILITY OF MINING OPERATIONS AS SPECIFIED IN THE APPROVED WORK PROGRAM. PRODUCTION OF GOLD-PORPHYRY ORE REQUIRED TO TEST AND/OR DEVELOP A PROCESSING SYSTEM OR SUPPLY A PILOT PLANT USED FOR SUCH TESTING IN QUALITY AND VOLUME SPECIFIED

(M)

S

No 2

PRODUCTION SHARING AGREEMENT
DENR-LCMC-FAR SOUTH EAST
PAGE - 5 -

=====

IN THE WORK PROGRAM SHALL NOT BE CONSIDERED IN THE DETERMINATION OF COMMERCIAL PRODUCTION.

2.7 "CONSTITUTION" OR "PHILIPPINE CONSTITUTION" MEANS THE 1987 CONSTITUTION OF THE REPUBLIC OF THE PHILIPPINES, ADOPTED BY THE CONSTITUTIONAL COMMISSION OF 1986 ON OCTOBER 15, 1986, AND RATIFIED BY THE PEOPLE OF THE PHILIPPINES ON FEBRUARY 2, 1987.

2.8 "CONTRACT AREA" MEANS THE AREA WITHIN THE JURISDICTION OF THE REPUBLIC OF THE PHILIPPINES WHICH IS THE SUBJECT OF THIS CONTRACT.

2.9 "CONTRACT YEAR" MEANS A PERIOD OF TWELVE (12) CONSECUTIVE MONTHS COUNTED FROM THE EFFECTIVE DATE OF THIS AGREEMENT OR FROM THE ANNIVERSARY OF SUCH EFFECTIVE DATE.

2.10 "CONTRACTORS" MEANS LEPANTO CONSOLIDATED MINING COMPANY AND/OR FAR SOUTH EAST GOLD RESOURCES, INC. AND THEIR ASSIGNEE OR ASSIGNEES OF ANY INTEREST UNDER THIS AGREEMENT PROVIDED SUCH ASSIGNMENT OF ANY SUCH INTEREST IS ACCOMPLISHED PURSUANT TO THE PROVISIONS HEREOF.

2.11 "DECLARATION OF MINING FEASIBILITY" MEANS A DOCUMENT PROCLAIMING THE PRESENCE OF MINERALS IN A SPECIFIC SITE THAT ARE RECOVERABLE BY SOCIALLY ACCEPTABLE, ENVIRONMENTALLY SAFE AND ECONOMICALLY SOUND METHODS.

2.12 "EFFECTIVE DATE" MEANS THE DATE OF APPROVAL OF THIS AGREEMENT BY THE PRESIDENT OF THE PHILIPPINES.

2.13 "ENVIRONMENT" MEANS PHYSICAL FACTORS OF THE SURROUNDINGS OF HUMAN BEINGS, INCLUDING LAND, WATER, ATMOSPHERE, CLIMATE, SOUND, ODORS, TASTE AND BIOLOGICAL FACTORS OF ANIMALS AND PLANTS AND THE SOCIAL FACTORS OF AESTHETICS.

2.14 "EXECUTIVE ORDER" MEANS THAT CERTAIN ORDER OF THE PRESIDENT OF THE PHILIPPINES ISSUED ON JULY 25, 1987 AND KNOWN AS EXECUTIVE ORDER NO. 279.

2.15 "EXPLORATION" MEANS THE EXAMINATION AND INVESTIGATION OF LANDS AND OFFSHORE AREAS SUPPOSED TO CONTAIN VALUABLE MINERALS BY DRILLING, TRENCHING, SHAFT SINKING, TUNNELLING, TEST PITTING AND OTHER MEANS, FOR THE PURPOSE OF PROBING THE PRESENCE OF MINERAL DEPOSITS AND THE EXTENT THEREOF.

2.16 "FORCE MAJEURE" MEANS ACTS OR CIRCUMSTANCES BEYOND THE REASONABLE CONTROL OF THE PARTY TO THIS AGREEMENT AFFECTED

(A)

(B)

(C)

(D)

PRODUCTION SHARING AGREEMENT
DENR-LCMC-FAR SOUTH EAST
PAGE - 6 -
=====

THEREBY, INCLUDING, WITHOUT LIMITATION, WAR, WHETHER DECLARED OR NOT, REBELLION, SEDITION, INSURRECTION, RIOTS, CIVIL DISTURBANCE, BLOCKADE, SABOTAGE, EMBARGO, STRIKE, LOCKOUT AND OTHER LABOR DISPUTES, EPIDEMIC, EARTHQUAKE, STORM, FLOOD OR OTHER ADVERSE WEATHER CONDITIONS, EXPLOSION, FIRE, ADVERSE ORDER OR DIRECTION OF ANY GOVERNMENT DE JURE OR DE FACTO OR ANY INSTRUMENTALITY OR SUBDIVISION THEREOF, ACT OF GOD OR THE PUBLIC ENEMY, BREAKDOWN OF MACHINERY HAVING A MAJOR EFFECT ON THE OPERATIONS, AND ANY CAUSE (WHETHER OR NOT OF THE KIND HEREINBEFORE DESCRIBED) OVER WHICH THE AFFECTED PARTY HAS NO REASONABLE CONTROL AND WHICH IS OF SUCH A NATURE AS TO DELAY, CURTAIL OR PREVENT TIMELY ACTION BY THE PARTY AFFECTED. ANY PARTY CLAIMING FORCE MAJEURE, EXCEPT AS TO THOSE EVENTS OF GENERAL KNOWLEDGE, SHALL GIVE NOTICE THEREOF TO THE OTHER PARTY WITHIN FIFTEEN (15) CALENDAR DAYS FROM DATE OF OCCURENCE.

2.17 "FOREIGN EXCHANGE" MEANS ANY CURRENCY OTHER THAN THAT OF THE REPUBLIC OF THE PHILIPPINES ACCEPTABLE TO THE GOVERNMENT AND THE CONTRACTORS.

2.18. "GOVERNMENT" MEANS THE GOVERNMENT OF THE REPUBLIC OF THE PHILIPPINES.

2.19 "GROSS MINING REVENUES" MEANS THE GROSS SALES OF PRODUCTION LESS FREIGHT AND INSURANCE, SMELTING AND REFINING COSTS.

2.20 "MILLING OPERATIONS" MEANS THE PROCESS OF TREATMENT TO SEPARATE THE VALUABLE MINERALS FROM THE WASTE MATERIALS.

2.21 "MINE DEVELOPMENT" REFERS TO STEPS NECESSARILY TAKEN TO REACH AN OREBODY OR MINERAL DEPOSIT SO THAT IT CAN BE MINED.

2.22 "MINERALS" MEANS ALL NATURALLY OCCURRING INORGANIC SUBSTANCES IN SOLID, LIQUID OR ANY INTERMEDIATE STATE.

2.23 "MINERAL PRODUCTS" MEANS THINGS PRODUCED AND PREPARED IN A MARKETABLE STATE BY SIMPLE TREATMENT PROCESSES SUCH AS WASHING OR DRYING, BUT WITHOUT UNDERGOING ANY CHEMICAL CHANGE OR PROCESS OR MANUFACTURING.

2.24 "MINING OPERATIONS" MEANS MINERAL EXPLORATION, DEVELOPMENT, PRODUCTION, AND ALL OTHER OPERATIONS NECESSARY TO DISCOVER, DEVELOP AND EXTRACT MINERALS.

2.25 "NET MINING REVENUES" MEANS NET MINING REVENUES AS DEFINED IN SECTION 7.3 OF THIS AGREEMENT.

2.26 "NOTICE" MEANS NOTICE IN WRITING, OR BY TELEX OR

(A)

(B)

(C) V

PRODUCTION SHARING AGREEMENT
DENR-LCMC-FAR SOUTH EAST
PAGE - 7 -
=====

TELECOPY (AUTHENTICATED BY ANSWER BACK OR CONFIRMATION RECEIVED) ADDRESSED OR SENT AS PROVIDED IN SECTION XIII OF THIS AGREEMENT.

2.27 "ORE" MEANS MINERAL OR ROCK EXTRACTED FOR PROFIT.

2.28 "ORE MINERAL" MEANS A MINERAL THAT CAN BE EXTRACTED FROM ORE AND CONTRIBUTES TO THE VALUE OF THE ORE.

2.29 "POLLUTION" MEANS DIRECT OR INDIRECT ALTERATION OF THE PHYSICAL, THERMAL, CHEMICAL, BIOLOGICAL, OR RADIOACTIVE PROPERTIES OF ANY PART OF THE ENVIRONMENT BY DISCHARGING, EMITTING, OR DEPOSITING WASTE SO AS TO MATERIALLY AFFECT ANY BENEFICIAL USE ADVERSELY, OR TO CAUSE A CONDITION WHICH IS HAZARDOUS TO PUBLIC HEALTH, SAFETY OR WELFARE, OR TO ANIMALS, BIRDS, WILDLIFE, FISH, AQUATIC LIFE, AND TO PLANTS.

2.30 "SECRETARY" MEANS THE SECRETARY OF THE DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES (DENR).

2.31 "WORK PROGRAM" MEANS A DOCUMENT WHICH PRESENTS THE PLAN OF MAJOR MINING ACTIVITIES AND THE CORRESPONDING EXPENDITURES AND BUDGET OF THE CONTRACTORS IN ITS CONTRACT AREA DURING A GIVEN PERIOD OF TIME, INCLUDING THE PLAN AND EXPENDITURES FOR ENVIRONMENTAL PROTECTION AND REHABILITATION, DEVELOPMENT OF HOST AND NEIGHBORING COMMUNITIES AND OF LOCAL GEOSCIENCE AND MINERAL TECHNOLOGY, AS SUBMITTED AND APPROVED PURSUANT TO THIS AGREEMENT.

SECTION III

TERM OF AGREEMENT

3.1 THE INITIAL TERM OF THIS AGREEMENT SHALL BE TWENTY-FIVE (25) CONTRACT YEARS FROM THE EFFECTIVE DATE, SUBJECT TO TERMINATION AS PROVIDED HEREIN, RENEWABLE FOR ANOTHER PERIOD OF TWENTY-FIVE (25) YEARS UPON SUCH TERMS AND CONDITIONS AS MAY BE MUTUALLY AGREED UPON BY THE PARTIES OR AS MAY BE PROVIDED FOR BY LAW.

SECTION IV

CONTRACT AREA

4.1 SIZE AND SHAPE OF AREA - THIS AGREEMENT COVERS ONE HUNDRED TWENTY NINE (129) LEASED MINING CLAIMS, WITH AN

PRODUCTION SHARING AGREEMENT
DENR-LCMC-FAR SOUTH EAST
PAGE - 8 -

=====

APPROXIMATE AREA OF 948.9695 HECTARES AS SHOWN IN ANNEX "A", LOCATED IN THE MUNICIPALITY OF MANKAYAN, PROVINCE OF BENGUET. THE SPECIFIC SIZE AND SHAPE OF THE CONTRACT AREA ARE INDICATED IN THE MAP/SKETCH WITH THE CORRESPONDING GEOGRAPHICAL COORDINATES AS SHOWN IN ANNEX "B".

SECTION V
MINING FEASIBILITY, DEVELOPMENT
AND CONSTRUCTION PERIOD.

5.1 "MINING FEASIBILITY" - WITHIN SIX (6) MONTHS FROM THE EFFECTIVE DATE OF THIS AGREEMENT, CONTRACTORS SHALL SUBMIT THE DECLARATION OF MINING FEASIBILITY TO THE SECRETARY WITH A WORK PROGRAM FOR DEVELOPMENT AND CONSTRUCTION FOR THE NEXT SUCCEEDING THREE (3) YEARS.

5.2. "TIMETABLE" - CONTRACTORS SHALL COMPLETE THE DEVELOPMENT OF THE MINE INCLUDING THE CONSTRUCTION OF PRODUCTION FACILITIES WITHIN THIRTY SIX (36) MONTHS FROM THE DATE OF THE APPROVAL OF THE DECLARATION OF MINING FEASIBILITY, WITH AN EXTENSION OF TWELVE (12) MONTHS CONSIDERING THE NATURE OF THE PROJECT, SUBJECT TO SUCH APPROVAL.

5.3 "REPORTING" -

(A) "ANNUAL" - CONTRACTORS SHALL SUBMIT AN ANNUAL REPORT WITHIN NINETY (90) DAYS AFTER DECEMBER 31 OF EACH YEAR WHICH STATES THE MAJOR ACTIVITIES, ACHIEVEMENTS AND EXPENDITURES DURING THE YEAR COVERED, INCLUDING MAPS, ASSAYS, ROCK AND MINERAL ANALYSES AND PROGRESS GEOLOGICAL AND SIMILAR REPORTS DURING THE DEVELOPMENT AND CONSTRUCTION PERIOD.

(B) "FINAL REPORT" - WITHIN SIX (6) MONTHS FROM THE COMPLETION OF THE DEVELOPMENT AND CONSTRUCTION ACTIVITIES, CONTRACTORS SHALL SUBMIT A FINAL REPORT TO THE GOVERNMENT. SUCH REPORT SHALL INTEGRATE ALL INFORMATION IN MAPS OF APPROPRIATE SCALE AND QUALITY AS

[Handwritten signatures]

[Handwritten signature]

PRODUCTION SHARING AGREEMENT
DENR-LCMC-FAR SOUTH EAST
PAGE - 9 -
=====

WELL AS IN MONOGRAPHS OR REPORTS IN
ACCORDANCE WITH INTERNATIONAL STANDARDS.

SECTION VI
PRODUCTION PERIOD

6.1 "TIMETABLE" - CONTRACTORS SHALL SUBMIT WITHIN SIXTY (60) DAYS FROM THE COMPLETION OF THE CONSTRUCTION FACILITIES A WORK PROGRAM FOR A PERIOD OF THREE (3) YEARS. CONTRACTORS SHALL COMMENCE COMMERCIAL PRODUCTION ACCORDING TO THE PERIOD(S) SPECIFIED IN THE APPROVED WORK PROGRAM. FAILURE OF CONTRACTORS TO COMMENCE COMMERCIAL PRODUCTION WITHIN THE PERIOD SHALL BE CONSIDERED A SUBSTANTIAL BREACH OF THIS AGREEMENT.

6.2 "WORK PROGRAMS" - DURING THE PRODUCTION PERIOD, CONTRACTORS SHALL SUBMIT TO THE GOVERNMENT WORK PROGRAMS COVERING A PERIOD OF THREE (3) YEARS EACH WHICH SHALL BE SUBMITTED NOT LATER THAN THIRTY (30) DAYS BEFORE THE EXPIRATION OF THE PERIOD COVERED BY THE PREVIOUS WORK PROGRAMS.

CONTRACTORS SHALL CONDUCT MINING OPERATIONS AND OTHER RELATED ACTIVITIES FOR THE DURATION OF THE PRODUCTION PERIOD IN ACCORDANCE WITH THE DULY APPROVED WORK PROGRAMS AND ANY MODIFICATION THEREOF APPROVED BY THE SECRETARY PURSUANT TO SECTION VIII HEREOF.

6.3 "REPORTING" -

(A) "QUARTERLY REPORTS" - BEGINNING WITH THE FIRST CALENDAR QUARTER FOLLOWING THE COMMENCEMENT OF THE PRODUCTION PERIOD, CONTRACTORS SHALL SUBMIT WITHIN THIRTY (30) DAYS AFTER THE END OF EACH CALENDAR QUARTER, A QUARTERLY REPORT STATING THE TONNAGE OF PRODUCTION IN TERMS OF ORES, CONCENTRATES, AND THEIR CORRESPONDING GRADES AND OTHER TYPES OF PRODUCTS, VALUES, DESTINATION OF SALES OR EXPORTS AND TO WHOM SOLD, TERMS OF SALES AND EXPENDITURES.

(B) "ANNUAL REPORTS" - DURING THE PRODUCTION PERIOD, CONTRACTORS SHALL SUBMIT WITHIN SIXTY (60) DAYS FROM THE END OF EACH CALENDAR






PRODUCTION SHARING AGREEMENT
DENR-LCMC-FAR SOUTH EAST
PAGE - 10 -

YEAR AN ANNUAL REPORT INDICATING IN
SUFFICIENT DETAIL:

(I) THE TOTAL TONNAGE OF ORE RESERVES WHETHER PROVEN, PROBABLE, OR INFERRED; THE TOTAL TONNAGE OF ORES, KIND-BY-KIND, BROKEN DOWN BETWEEN TONNAGES MINED, TONNAGES TRANSPORTED FROM THE MINES AND THEIR CORRESPONDING DESTINATION, TONNAGES STOCKPILED IN THE MINE AND ELSEWHERE IN THE PHILIPPINES, TONNAGES SOLD OR COMMITTED TO BE SOLD OR COMMITTED FOR EXPORT (WHETHER ACTUALLY SHIPPED FROM THE PHILIPPINES OR NOT), TONNAGES ACTUALLY SHIPPED FROM THE PHILIPPINES (WITH FULL DETAILS AS TO PURCHASER, DESTINATION AND TERMS OF SALE), AND IF KNOWN TO CONTRACTORS, TONNAGES REFINED, PROCESSED OR MANUFACTURED IN THE PHILIPPINES WITH FULL SPECIFICATIONS AS TO THE INTERMEDIATE PRODUCTS, BY-PRODUCTS OR FINAL PRODUCTS AND OF THE TERMS AT WHICH THEY WERE DISPOSED;

(II) WORK ACCOMPLISHED AND WORK IN PROGRESS AT THE END OF THE YEAR IN QUESTION WITH RESPECT TO ALL OF THE INSTALLATIONS AND FACILITIES RELATED TO THE UTILIZATION PROGRAM, INCLUDING THE INVESTMENTS ACTUALLY MADE OR COMMITTED;

(III) PROFILE OF WORK FORCE, INCLUDING MANAGEMENT AND STAFF, STATING PARTICULARLY THEIR NATIONALITIES, AND FOR FILIPINOS THEIR PLACE OF ORIGIN (I.E., BARANGAY, TOWN, PROVINCE, REGION).

(IV) OWNERSHIP OF CONTRACTORS, PARTICULARLY WITH RESPECT TO NATIONALITY.

6.4 "EXPANSIONS AND MODIFICATIONS OF FACILITIES" - CONTRACTORS MAY TAKE EXPANSIONS, MODIFICATIONS, IMPROVEMENTS AND REPLACEMENTS OF THE MINING FACILITIES AND MAY ADD NEW FACILITIES AS IT SHALL CONSIDER NECESSARY FOR THE OPERATIONS, PROVIDED SUCH PLANS SHALL BE EMBODIED IN AN APPROPRIATE WORK PROGRAM APPROVED BY THE SECRETARY PURSUANT TO SECTION VIII HEREOF.

SJ

SECTION VII
FISCAL REGIME

7.1 "GENERAL PRINCIPLES" - THE FINANCIAL REGIME OF THIS AGREEMENT SHALL BE GOVERNED BY THE PRINCIPLE ACCORDING TO WHICH THE GOVERNMENT EXPECTS A REASONABLE RETURN IN ECONOMIC VALUE FOR THE UTILIZATION OF NON-RENEWABLE NATURAL RESOURCES UNDER ITS NATIONAL SOVEREIGNTY WHILE THE CONTRACTORS EXPECT A REASONABLE RETURN ON ITS INVESTMENT WITH SPECIAL ACCOUNT TO BE TAKEN FOR THE HIGH RISKS OF EXPLORATION, THE TERMS AND CONDITIONS PREVAILING ELSEWHERE IN THE INDUSTRY AND ANY SPECIAL EFFICIENCY TO BE GAINED BY PARTICULARLY GOOD PERFORMANCE OF THE CONTRACTORS.

7.2 "OCCUPATION FEES" - COMMENCING FROM THE DATE OF REGISTRATION OF THIS AGREEMENT AND EVERY YEAR THEREAFTER, THE CONTRACTORS SHALL PAY TO THE GOVERNMENT AN ANNUAL OCCUPATION FEE FOR THE EXCLUSIVE MINING RIGHTS OVER THE CONTRACT AREA AT THE RATE OF ₱10.00 PER HECTARE.

7.3 "PRODUCTION SHARE" - FROM THE START OF COMMERCIAL PRODUCTION, THERE SHALL BE DUE TO THE GOVERNMENT A PRODUCTION SHARE OF TWO PER CENTUM (2%) ON GROSS MINING REVENUES AS EARLIER DEFINED IN SECTION 2.19 OF THIS AGREEMENT AND TEN PER CENTUM (10%) ON NET MINING REVENUES. SAID SHARE SHALL BE PAYABLE TO THE DENR REGIONAL OFFICE CONCERNED WITHIN THIRTY (30) CALENDAR DAYS AFTER THE END OF EACH CALENDAR YEAR.

NET MINING REVENUES SHALL MEAN GROSS MINING REVENUES LESS:

(A) MINING, MILLING, REFINING, TRANSPORTING, HANDLING AND MARKETING EXPENSES WHICH ARE NOT DEDUCTIBLE FROM GROSS SALES;

(B) DEPLETION AND DEPRECIATION COMPUTED FOR TAX PURPOSES AND UNDER INCENTIVE LAWS;

(C) FIFTEEN PER CENTUM (15%) INVESTMENT ALLOWANCE BASED ON NET ASSETS WHICH MEANS PROPERTY, PLANT AND EQUIPMENT AS REFLECTED IN THE AUDITED FINANCIAL STATEMENTS OF THE

[Signature]

[Signature]

[Signature]

[Signature]

PRODUCTION SHARING AGREEMENT
DENR-LCMC-FAR SOUTH EAST
PAGE - 12 -
=====

CONTRACTORS NET OF DEPRECIATION AS COMPUTED FOR TAX PURPOSES AND SHALL EXCLUDE APPRAISAL INCREASE.

ANY EXCISE TAX CURRENTLY IMPOSED AND PAID BY CONTRACTORS SHALL BE CHARGED AGAINST THE PRODUCTION SHARE PAYABLE TO GOVERNMENT, PROVIDED THAT IF THE EXCISE TAX IN ANY CONTRACT YEAR SHOULD EXCEED THE PRODUCTION SHARE AS DETERMINED IN ACCORDANCE WITH THIS SECTION, CONTRACTORS SHALL NOT HAVE THE RIGHT TO RECOVER THE EXCESS FROM THE GOVERNMENT. PROVIDED FURTHER, IF THE VALUE OF THE SHARE IS LESS THAN THE VALUE OF THE EXCISE TAX, THE CONTRACTORS SHALL PAY THE EXCISE TAX INSTEAD.

7.4 "PRICING OF SALES" - THE CONTRACTORS SHALL ENDEAVOR TO OBTAIN THE BEST ACHIEVABLE PRICE FOR ITS PRODUCTION AND PAY THE LOWEST ACHIEVABLE MARKETING COMMISSIONS AND RELATED FEES. CONTRACTORS SHALL SEEK TO STRIKE A BALANCE BETWEEN LONG-TERM AND SHORT-TERM SALES COMPARABLE TO POLICIES FOLLOWED BY INDEPENDENT PRODUCERS IN THE INTERNATIONAL MINING INDUSTRY.

THE CONTRACTORS SHALL LIKEWISE SEEK A BALANCED DISTRIBUTION AMONG CONSUMERS. INSOFAR AS SALES TO CONTRACTORS' AFFILIATES ARE CONCERNED, PRICES SHALL BE AT ARMS-LENGTH STANDARD AND COMPETING OFFERS FOR LARGE SCALE AND LONG-TERM CONTRACTS SHALL BE PROCURED.

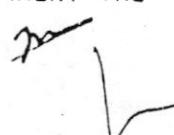
7.5 "SALE OF GOLD AND SILVER" - ALL GOLD AND SILVER PRODUCTION OF CONTRACTORS SHALL BE SOLD TO THE CENTRAL BANK OF THE PHILIPPINES IN ACCORDANCE WITH THE EXISTING LAWS, RULES AND REGULATIONS.

7.6 "ASSOCIATED MINERALS" - IF MINERALS, OTHER THAN GOLD-PORPHYRY COPPER ARE DISCOVERED IN COMMERCIAL QUANTITIES IN THE CONTRACT AREA, THE VALUE THEREOF SHALL BE ADDED TO THE VALUE OF THE PRINCIPAL MINERAL IN COMPUTING THE SHARE OF THE GOVERNMENT.

SECTION VIII

WORK PROGRAMS

8.1 "SUBMISSION TO GOVERNMENT" - WITHIN THE PERIODS PRESCRIBED IN SECTIONS 5.1 AND 6.2 OF THIS AGREEMENT, CONTRACTORS SHALL PREPARE AND SUBMIT TO THE GOVERNMENT THE



PRODUCTION SHARING AGREEMENT
DENR-LCMC-FAR SOUTH EAST
PAGE - 13 -

WORK PROGRAM AND BUDGET FOR THE CONTRACT AREA STATING THE MINING OPERATIONS WHICH CONTRACTORS PROPOSE TO CARRY OUT DURING THE PERIOD COVERED WITH THE DETAILS AND PARTICULARS SET FORTH ELSEWHERE IN THIS AGREEMENT OR IN THE GUIDELINES (DENR ADMINISTRATIVE ORDER NO. 57 SERIES OF 1989). IF WITHIN SIXTY (60) DAYS FROM RECEIPT OF THE WORK PROGRAM AND BUDGET, NO NOTICE OF REVISION AS PROVIDED IN SECTION 8.2 BELOW IS GIVEN TO CONTRACTORS, THEN THE SUBMITTED WORK PROGRAM AND BUDGET ARE DEEMED APPROVED IN TOTO.

8.2 "EXAMINATION, REVISION" - SHOULD THE GOVERNMENT WISH TO PROPOSE A REVISION AS TO CERTAIN SPECIFIC FEATURES OF SAID WORK PROGRAM OR BUDGET, IT SHALL WITHIN SIXTY (60) DAYS AFTER RECEIPT THEREOF PROVIDE NOTICE TO CONTRACTORS SPECIFYING IN REASONABLE DETAIL ITS REASONS THEREFOR. ANY PORTION OF SAID WORK PROGRAM OR BUDGET AS TO WHICH THE GOVERNMENT SHALL FAIL TO NOTIFY CONTRACTORS OF PROPOSED REVISION SHALL INSOFAR AS POSSIBLE BE CARRIED OUT AS PRESCRIBED HEREIN. PROMPTLY UPON SERVICE OF SUCH NOTICE TO CONTRACTORS, THE GOVERNMENT AND CONTRACTORS WILL MEET AND ENDEAVOR TO AGREE ON THE REVISION PROPOSED BY THE GOVERNMENT. IN ANY EVENT, IF THE GOVERNMENT AND CONTRACTORS SHALL FAIL TO AGREE ON THE PROPOSED REVISION WITHIN THIRTY (30) DAYS FROM THE TIME NOTICE TO CONTRACTORS WAS SENT, THEN THE WORK PROGRAM AND BUDGET PROPOSED BY CONTRACTORS SHALL BE DEEMED APPROVED SO AS NOT TO UNNECESSARILY DELAY THE PERFORMANCE OF THIS AGREEMENT.

8.3 IT IS RECOGNIZED BY THE GOVERNMENT AND CONTRACTORS THAT THE DETAILS OF ANY WORK PROGRAM MAY REQUIRE CHANGES IN THE LIGHT OF CHANGING CIRCUMSTANCES. CONTRACTORS MAY MAKE SUCH CHANGES PROVIDED THEY DO NOT CHANGE THE GENERAL OBJECTIVE OF ANY WORK PROGRAM. CONTRACTORS SHALL PROMPTLY ADVISE THE SECRETARY OF SUCH CHANGES. IF THE CHANGES WILL ENTAIL A VARIANCE OF AT LEAST TWENTY PER CENTUM (20%) OF THE BUDGET, THEN THE CHANGE SHALL BE SUBJECT TO THE APPROVAL OF THE SECRETARY.

8.4 THE GOVERNMENT'S APPROVAL OF A PROPOSED WORK PROGRAM AND BUDGET AND AMENDMENTS THERETO WILL NOT BE UNREASONABLY withheld.

SECTION IX
RIGHTS AND OBLIGATIONS OF THE PARTIES

9.1 "OBLIGATIONS" - CONTRACTORS SHALL:

[Handwritten signatures]

[Handwritten signature]

[Handwritten signature]

PRODUCTION SHARING AGREEMENT
DENR-LCMC-FAR SOUTH EAST
PAGE - 14 -

=====

(A) PERFORM ALL MINING OPERATIONS IN ACCORDANCE WITH THE GENERALLY ACCEPTED MINING AND ENGINEERING PRACTICES PROVIDING ALL NECESSARY SERVICE, TECHNOLOGY AND FINANCING IN CONNECTION THEREWITH.

(B) PERFORM ITS ACTIVITIES WITHIN THE PERIODS EXPRESSED IN THIS AGREEMENT, PLANS AND WORK PROGRAMS, SAVE AS MAY BE EXCUSED BY FORCE MAJEURE.

(C) FURNISH ALL MATERIALS, LABOR, EQUIPMENT, AND OTHER INSTALLATIONS THAT MAY BE REQUIRED FOR CARRYING ON ALL MINING OPERATIONS. TO THE MAXIMUM EXTENT COMPATIBLE WITH EFFICIENT OPERATIONS, CONTRACTORS SHALL GIVE PREFERENCE TO PRODUCTS AND SERVICES PRODUCED AND OFFERED IN THE PHILIPPINES OF COMPARATIVE QUALITY AND PRICE. IN PARTICULAR, CONTRACTORS SHALL GIVE PREFERENCE TO FILIPINO CONSTRUCTION ENTERPRISES AND USE BUILDINGS WHICH CAN BE CONSTRUCTED BY USING MATERIALS AND SKILLS AVAILABLE IN THE PHILIPPINES, EMPLOY FILIPINO SUBCONTRACTORS FOR ROAD CONSTRUCTION AND TRANSPORTATION, AND PURCHASE PHILIPPINE HOUSEHOLD EQUIPMENT, FURNITURE AND FOOD.

(D) CONTRACTORS SHALL, TO THE EXTENT FEASIBLE AND ACCEPTABLE IN VIEW OF THE RATES AND CONDITIONS AVAILABLE, MAXIMIZE THE USE OF FILIPINO VESSELS AND OTHER MEANS OF TRANSPORT AVAILABLE IN THE PHILIPPINES. TO FACILITATE THIS, CONTRACTORS MAY SET JOINT ARRANGEMENTS WITH FILIPINO CONCERN FOR THE TRANSPORTATION OF CONCENTRATES.

(E) CONTRACTORS SHALL KEEP ACCURATE TECHNICAL RECORDS ABOUT THE OPERATIONS AS WELL AS FINANCIAL AND MARKETING ACCOUNTS AND MAKE THEM AVAILABLE TO GOVERNMENT REPRESENTATIVES AUTHORIZED BY THE SECRETARY FOR PURPOSES OF ASSESSING PERFORMANCE AND COMPLIANCE OF CONTRACTORS WITH THE TERMS OF THIS AGREEMENT.

[Signature]

[Signature]

[Signature]

PRODUCTION SHARING AGREEMENT
DENK-LCMC-FAK SOUTH EAST
PAGE - 15 -
=====

AUTHORIZED REPRESENTATIVES OF OTHER GOVERNMENT AGENCIES MAY ALSO HAVE ACCESS TO SUCH ACCOUNTS IN ACCORDANCE WITH EXISTING LAWS, RULES AND REGULATIONS.

(F) HOLD HARMLESS THE GOVERNMENT FROM ALL CLAIMS AND ACCOUNTS OF ALL KINDS, AND DEMANDS AND ACTIONS ARISING OUT OF THE ACCIDENTS OR INJURIES TO PERSONS OR PROPERTY CAUSED BY MINING OPERATIONS OF THE CONTRACTORS AND INDEMNIFY THE GOVERNMENT FOR ANY EXPENSES OR COSTS INCURRED BY THE GOVERNMENT BY REASON OF ANY SUCH CLAIMS, ACCOUNTS, DEMANDS OR ACTIONS.

(G) PAY TAXES OR OBLIGATIONS IN ACCORDANCE WITH EXISTING LAWS, RULES AND REGULATIONS, SUBJECT TO THE PROVISIONS OF SECTION VII ABOVE.

(H) CONFORM TO LAWS AND REGULATIONS REGARDING, AMONG OTHERS, LABOR, SAFETY, DEMARCATON OF THE CONTRACT AREA, AND NON-INTERFERENCE WITH THE RIGHTS OF OTHER MINING OPERATORS.

(I) ALLOW ACCESS TO EXPLORATION AND PRODUCTION SITES AND OPERATIONS BY INSPECTORS AUTHORIZED BY THE GOVERNMENT.

(J) RECOGNIZE AND RESPECT THE RIGHTS, CUSTOMS AND TRADITIONS OF INDIGENOUS TRIBAL COMMUNITIES OVER THEIR ANCESTRAL LANDS.

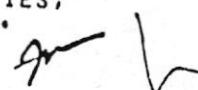
(K) CONTRIBUTE TO NATIONAL DEVELOPMENT BY HELPING DEVELOP THE HOST AND NEIGHBORING COMMUNITIES OF THE CONTRACT AREA, LOCAL GEOSCIENCE AND MINING TECHNOLOGY, AND MITIGATING ENVIRONMENTAL EFFECTS OF MINING OPERATIONS;

DEVELOPMENT OF HOST AND NEIGHBORING COMMUNITIES:

(I) THE CONTRACTORS SHALL COORDINATE WITH PROPER AUTHORITIES IN PROVIDING DEVELOPMENT PLANS FOR THE HOST AND NEIGHBORING COMMUNITIES.

(II) THE CONTRACTORS SHALL HELP CREATE SELF-SUSTAINING, INCOME-GENERATING ACTIVITIES,





PRODUCTION SHARING AGREEMENT
DENR-LCMC-FAR SOUTH EAST
PAGE - 16 -
=====

SUCH AS BUT NOT LIMITED TO, REFORESTATION AND PRODUCTION OF GOODS AND SERVICES NEEDED BY THE MINE.

(III) THE CONTRACTORS SHALL GIVE PREFERENCE TO FILIPINO CITIZENS, PARTICULARLY RESIDENTS OF ITS HOST AND NEIGHBORING COMMUNITIES IN HIRING PERSONNEL FOR ITS MINING OPERATIONS. IF NECESSARY SKILLS AND EXPERTISE ARE CURRENTLY NOT AVAILABLE, THE CONTRACTORS MUST PREPARE AND UNDERTAKE A TRAINING AND RECRUITMENT PROGRAM WITHIN THE FIRST YEAR OF COMMERCIAL PRODUCTION AT ITS EXPENSE.

DEVELOPMENT OF GEOSCIENCE AND MINERAL TECHNOLOGY:

(I) THE CONTRACTORS, IN THE COURSE OF ITS OPERATIONS, SHALL PRODUCE GEOLOGICAL, GEOPHYSICAL, GLEOCHEMICAL AND OTHER TYPES OF MAPS AND REPORTS IN SCALE, FORMAT AND NOMENCLATURE CONSISTENT WITH INTERNATIONALLY ACCEPTED PRACTICES AND STANDARDS.

(II) THE CONTRACTORS SHALL SYSTEMATICALLY KEEP THE DATA GENERATED FROM THE CONTRACT AREA SUCH AS CORES, ASSAYS AND OTHER RELATED INFORMATION, INCLUDING ECONOMIC AND FINANCIAL, AND SHALL MAKE THEM ACCESSIBLE TO STUDENTS, RESEARCHERS AND OTHER PERSONS RESPONSIBLE FOR DEVELOPING GEOSCIENCE AND MINERAL TECHNOLOGY AFTER DECLASSIFICATION.

ENVIRONMENTAL PROTECTION AND INDUSTRIAL SAFETY:

(I) THE CONTRACTORS SHALL PREPARE A PLAN OF MINING AND MILLING SO THAT ITS DAMAGE TO THE ENVIRONMENT WILL BE MINIMAL. TO THE EXTENT POSSIBLE, CONTROL OF POLLUTION AND THE TRANSFORMATION OF THE MINED-OUT AREA OR MATERIALS INTO ECONOMICALLY AND SOCIALLY PRODUCTIVE FORMS MUST BE DONE SIMULTANEOUSLY WITH MINING. AN APPROPRIATE ENVIRONMENTAL IMPACT STATEMENT (EIS) MUST BE MADE ACCORDING TO THE FORM PRESCRIBED BY PROPER GOVERNMENT AUTHORITIES AND SHALL BE REQUIRED COMPONENT OF ANY OF THE FEASIBILITY STUDIES OF THE MINE.





PRODUCTION SHARING AGREEMENT
DENR-LCMC-FAR SOUTH EAST
PAGE - 17 -
=====

THESE ACTIVITIES MUST BE REFLECTED CLEARLY IN THE APPROPRIATE WORK PROGRAM.

9.2 "RIGHTS OF THE CONTRACTORS" - THE CONTRACTORS SHALL:

- (A) HAVE THE RIGHT TO CONDUCT MINING OPERATIONS IN THE CONTRACT AREA IN ACCORDANCE WITH THE TERMS AND CONDITIONS HEREOF.
- (B) HAVE THE RIGHT OF POSSESSION OF THE CONTRACT AREA, WITH FULL RIGHT OF INGRESS AND EGRESS AND THE RIGHT TO OCCUPY THE SAME, SUBJECT TO SURFACE AND EASEMENT RIGHTS.
- (C) HAVE THE RIGHT TO USE AND HAVE ACCESS TO ALL DECLASSIFIED GEOLOGICAL, GEOPHYSICAL, DRILLING, PRODUCTION AND OTHER INFORMATION HELD BY THE GOVERNMENT OR ANY AGENCY OR ENTERPRISE THEREOF NOW OR IN THE FUTURE, RELATING TO THE CONTRACT AREA.
- (D) HAVE THE RIGHT TO SELL, ASSIGN, TRANSFER, CONVEY OR OTHERWISE DISPOSE OF ALL ITS RIGHTS, INTERESTS AND OBLIGATIONS UNDER THIS AGREEMENT SUBJECT TO THE APPROVAL OF THE SECRETARY, WHICH APPROVAL WILL NOT BE UNREASONABLY WITHHELD.
- (E) SUBJECT TO APPLICABLE LAWS AND REGULATIONS, TO EMPLOY OR BRING INTO THE PHILIPPINES FOREIGN TECHNICAL AND SPECIALIZED PERSONNEL (INCLUDING THE IMMEDIATE MEMBERS OF THEIR FAMILIES) AS MAY BE REQUIRED IN THE OPERATIONS OF THE CONTRACTORS, PROVIDED, THAT IF THE EMPLOYMENT CONNECTION OF SUCH FOREIGN PERSONS WITH THE CONTRACTORS CEASES, THE APPLICABLE LAWS AND REGULATIONS ON IMMIGRATION SHALL APPLY TO THEM.
- (F) ENJOY, SUBJECT TO PERTINENT LAWS, RULES AND REGULATIONS AND THE RIGHTS OF THIRD PARTIES, EASEMENT RIGHTS, THE USE OF TIMBER, WATER AND OTHER NATURAL RESOURCES IN THE CONTRACT AREA.
- (G) HAVE THE RIGHT OF REPATRIATION OF CAPITAL AND REMITTANCE OF PROFITS, DIVIDENDS AND INTEREST ON LOANS, SUBJECT TO EXISTING LAWS, AND CENTRAL BANK RULES, AND REGULATIONS; AND

[Handwritten signatures]

PRODUCTION SHARING AGREEMENT
DENR-LCMC-FAR SOUTH EAST
PAGE - 18 -
=====

(H) HAVE THE RIGHT TO IMPORT WHEN NECESSARY ALL EQUIPMENT, SPARE PARTS, AND RAW MATERIALS REQUIRED IN THE OPERATIONS IN ACCORDANCE WITH EXISTING LAWS AND REGULATIONS.

9.3 "OBLIGATIONS OF THE GOVERNMENT" - THE GOVERNMENT SHALL:

(A) ENSURE THAT CONTRACTORS HAVE THE GOVERNMENT'S FULL COOPERATION IN THE EXERCISE OF THE RIGHTS GRANTED IT UNDER THIS AGREEMENT.

(B) USE ITS BEST EFFORTS TO ENSURE THE TIMELY ISSUANCE OF NECESSARY PERMITS AND/OR SIMILAR DOCUMENTS FOR THE USE OF SURFACE OVER THE CONTRACT AREA.

(C) IF CONTRACTORS SEEKS TO OBTAIN FINANCING CONTEMPLATED HEREIN FROM BANKS OR OTHER FINANCING INSTITUTIONS, COOPERATE WITH CONTRACTORS IN SUCH EFFORTS PROVIDED THAT SUCH FINANCING ARRANGEMENTS WILL IN NO EVENT REDUCE CONTRACTORS' OBLIGATIONS OR THE GOVERNMENT'S RIGHTS HEREUNDER.

SECTION X
ASSETS AND EQUIPMENT

10.1 CONTRACTORS SHALL ACQUIRE FOR THE MINING OPERATIONS ONLY SUCH ASSETS AS ARE REASONABLY ESTIMATED TO BE REQUIRED IN CARRYING OUT SUCH MINING OPERATIONS.

10.2 ALL MATERIALS, EQUIPMENT, PLANT AND OTHER INSTALLATIONS ERECTED OR PLACED ON THE CONTRACT AREA BY THE CONTRACTORS SHALL REMAIN THE PROPERTY OF THE CONTRACTORS AND UPON THE TERMINATION OF THIS AGREEMENT AS PROVIDED IN SECTION XIII HEREOF, THE CONTRACTORS SHALL HAVE THE RIGHT TO REMOVE AND EXPORT SUCH MATERIALS, EQUIPMENT, PLANT AND OTHER INSTALLATIONS EXCEPT BUILDINGS, BRIDGES, WAREHOUSES AND OTHER SOCIAL INFRASTRUCTURES SUBJECT TO EXISTING RULES AND REGULATIONS. ALL MATERIALS, EQUIPMENT, PLANT AND OTHER INSTALLATIONS NOT REMOVED WITHIN TWELVE (12) MONTHS FROM THE TERMINATION OF THIS AGREEMENT SHALL BELONG TO THE GOVERNMENT.

B

M
V

SECTION XI

EMPLOYMENT AND TRAINING OF PHILIPPINE PERSONNEL

11.1 THE CONTRACTORS AGREE TO EMPLOY, TO THE EXTENT POSSIBLE, QUALIFIED FILIPINO PERSONNEL IN ITS MINING OPERATIONS; AND AFTER COMMERCIAL PRODUCTION COMMENCES SHALL, IN CONSULTATION AND WITH THE CONSENT OF THE SECRETARY, UNDERTAKE AN ELABORATE AND EXTENSIVE TRAINING PROGRAMME FOR EMPLOYMENT OF SUITABLE FILIPINO NATIONALS AT ALL LEVELS OF EMPLOYMENT. THE OBJECTIVE OF SAID PROGRAMME SHALL BE TO REACH WITHIN THE TIME-TABLE SET FORTH BELOW THE FOLLOWING TARGETS OF "FILIPINIZATION":

UNSKILLED/ SKILLED/CLERICAL/PROFESSIONAL/ MANAGEMENT

YR. 1	100%	50%	100%	50%	60%
YR. 2	100%	60%	100%	60%	60%
YR. 3	100%	70%	100%	70%	60%
YR. 5	100%	75%	100%	75%	60%
YR. 7	100%	100%	100%	80%	65%
YR. 10	100%	100%	100%	85%	70%
YR. 15	100%	100%	100%	90%	75%
					95%

11.2 COSTS AND EXPENSES OF TRAINING OF CONTRACTORS' FILIPINO PERSONNEL AND EMPLOYEES SHALL BE INCLUDED IN OPERATING EXPENSES.

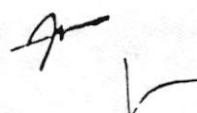
SECTION XII

ARBITRATION

12.1 THE GOVERNMENT AND THE CONTRACTORS SHALL CONSULT WITH EACH OTHER IN GOOD FAITH AND SHALL EXHAUST ALL AVAILABLE REMEDIES TO SETTLE ANY AND ALL DISPUTES OR DISAGREEMENTS ARISING OUT OF OR RELATING TO THE VALIDITY, INTERPRETATION, ENFORCEABILITY, OR PERFORMANCE OF THIS AGREEMENT BEFORE RESORTING TO ARBITRATION.

12.2 ANY DISAGREEMENT OR DISPUTE WHICH CAN NOT BE SOLVED AMICABLY SHALL BE SETTLED BY A TRIBUNAL OF THREE (3) ARBITRATORS, ONE TO BE APPOINTED BY THE CONTRACTORS, ANOTHER TO BE APPOINTED BY THE SECRETARY, AND THE THIRD BY THE ARBITRATORS SO APPOINTED WHO SHALL SERVE AS CHAIRMAN. THE





PRODUCTION SHARING AGREEMENT
DENR-LCMC-FAR SOUTH EAST
PAGE - 20 -
=====

FIRST TWO APPOINTED ARBITRATORS SHALL CONTINUE TO CONSIDER NAMES OF QUALIFIED PERSONS UNTIL AGREEMENT ON A MUTUALLY ACCEPTABLE CHAIRMAN OF THE TRIBUNAL IS REACHED. SUCH ARBITRATION SHALL BE INITIATED AND CONDUCTED PURSUANT TO REPUBLIC ACT NO. 876 OTHERWISE KNOWN AS THE ARBITRATION ACT.

WHERE SUBSTANTIAL FOREIGN INTERESTS ARE INVOLVED, THE CONTRACTORS MAY ELECT WITHIN SIXTY (60) DAYS FROM EFFECTIVE DATE OF THIS AGREEMENT ARBITRATION IN ACCORDANCE WITH THE RULES OF CONCILIATION AND ARBITRATION OF THE INTERNATIONAL CHAMBER OF COMMERCE ("ICC"), PROVIDED THAT IN ANY CASE WHERE THE ICC OR ITS SUCCESSOR IS NOT IN EXISTENCE, THE ARBITRATION SHALL PROCEED IN ACCORDANCE WITH THE UNCITRAL (UNITED NATIONS COMMISSION FOR INTERNATIONAL TRADE LAW) ARBITRATION RULES AS AT PRESENT IN FORCE.

IN ANY EVENT, THE ARBITRATION SHALL BE CONDUCTED APPLYING THE SUBSTANTIVE LAWS OF THE REPUBLIC OF THE PHILIPPINES.

12.3 EACH PARTY SHALL PAY FIFTY PER CENTUM (50%) OF THE FEES AND EXPENSES OF THE ARBITRATORS AND THE COSTS OF ARBITRATION. EACH PARTY SHALL PAY ITS OWN COSTS AND ATTORNEYS' FEES.

SECTION XIII
TERMINATION

THIS CONTRACT SHALL BE TERMINATED AND THE PARTIES SHALL BE RELIEVED OF THEIR RESPECTIVE OBLIGATIONS:

13.1 ON EXPIRATION OF THE TERM, OR EXTENSION THEREOF AS PROVIDED ELSEWHERE HEREIN.

13.2 TERMINATION BY THE GOVERNMENT UPON THE CONTRACTORS' SUBSTANTIAL BREACH OF THIS AGREEMENT; PROVIDED IN SUCH EVENT THE GOVERNMENT SHALL GIVE NOTICE TO THE CONTRACTORS SPECIFYING THE CLAIMED BREACH WITHIN THIRTY (30) DAYS FROM SUCH OCCURRENCE, CONTRACTORS SHALL HAVE THIRTY (30) DAYS FROM RECEIPT OF SUCH NOTICE WITHIN WHICH TO CORRECT OR REMEDY SUCH BREACH, SUBJECT TO SUCH EXTENSION AS MAY REASONABLY BE NECESSARY AND APPROVED BY THE SECRETARY.

13.3 "WITHDRAWAL BY CONTRACTORS". THE CONTRACTORS MAY WITHDRAW FROM THIS AGREEMENT BY GIVING SIX (6) MONTHS' NOTICE IF IN ITS BUSINESS JUDGMENT THE CONTINUATION OF OPERATIONS BECOMES TECHNICALLY OR ECONOMICALLY UNFEASIBLE.

Three handwritten signatures are present at the bottom right of the page. One signature is a stylized 'J', another is a stylized 'M', and the third is a stylized 'V'.

PRODUCTION SHARING AGREEMENT
DENR-LCMC-FAR SOUTH EAST
PAGE - 21 -

THE WITHDRAWAL SHALL BECOME EFFECTIVE SIX (6) MONTHS AFTER NOTICE OF WITHDRAWAL HAS BEEN RECEIVED BY THE GOVERNMENT. UNLESS COVERED BY A WRITTEN WAIVER, NO DELAY OR OMISSION OR COURSE OF DEALING BY THE GOVERNMENT SHALL IMPAIR ANY OF ITS RIGHTS HEREUNDER. THE GOVERNMENT'S RIGHT TO SEEK RECOURSE AND RELIEF BY ALL OTHER MEANS SHALL NOT BE AFFECTED BY THE EXERCISE OF ITS RIGHT TO TERMINATE THE AGREEMENT. ANY WAIVER OF DEFAULT SHALL NOT BE CONSTRUED TO BE A WAIVER OF ANY SUCCEEDING OR OTHER DEFAULT UNLESS THE CONTRARY IS EXPRESSLY STATED IN WRITING SIGNED BY THE PARTY CHARGED WITH THE WAIVER.

IN CASE OF TERMINATION, THE CONTRACTORS SHALL PAY ALL FEES AND OTHER LIABILITIES DUE UP TO THE END OF THE YEAR IN WHICH THE TERMINATION BECOMES EFFECTIVE.

SECTION XIV
OTHER PROVISIONS

14.1 "NOTICE" - ALL NOTICES, DEMANDS, AND OTHER COMMUNICATIONS REQUIRED OR PERMITTED HEREUNDER SHALL BE MADE IN WRITING OR BY TELEX OR TELECOPY AND SHALL BE DEEMED TO HAVE BEEN DULY GIVEN IN THE CASE OF TELEX OR TELECOPY NOTICE IF ANSWER BACK OR CONFIRMATION RECEIVED, OR IF DELIVERED BY HAND UPON RECEIPT OR TEN DAYS AFTER BEING DEPOSITED IN THE MAIL, AIRMAIL POSTAGE PREPAID AND ADDRESSED AS FOLLOWS:

IF TO THE GOVERNMENT -

THE SECRETARY OF THE DEPARTMENT OF ENVIRONMENT
AND NATURAL RESOURCES
DEPARTMENT OF ENVIRONMENT AND
NATURAL RESOURCES BUILDING
VISAYAS AVENUE, DILIMAN
QUEZON CITY, METRO MANILA

IF TO THE CONTRACTORS -

LEPANTO CONSOLIDATED MINING COMPANY
21ST FLOOR, BA-LEPANTO BUILDING
8747 PASEO DE ROXAS, MAKATI, METRO MANILA

FAR SOUTH EAST GOLD RESOURCES, INC.
21ST FLOOR, BA-LEPANTO BUILDING
8747 PASEO DE ROXAS, MAKATI, METRO MANILA

PRODUCTION SHARING AGREEMENT
DENR-LCMC-FAR SOUTH EAST
PAGE - 22 -
=====

EITHER PARTY MAY SUBSTITUTE OR CHANGE SUCH ADDRESS ON NOTICE THEREOF TO THE OTHER PARTY.

14.2 "FUTURE LEGISLATION"

ANY TERM AND CONDITION MORE FAVORABLE TO PRODUCTION SHARING CONTRACTORS RESULTING FROM THE REPEAL OR AMENDMENT OF ANY EXISTING LAW OR REGULATION OR FROM THE ENACTMENT OF A LAW, REGULATION, OR ADMINISTRATIVE ORDER SHALL INURE TO THE BENEFIT OF THE CONTRACTORS AND SUCH LAW, REGULATION, OR ADMINISTRATIVE ORDER SHALL BE CONSIDERED A PART OF THIS AGREEMENT.

14.3 "GOVERNING LAW - THIS AGREEMENT AND THE RELATION BETWEEN THE PARTIES HERETO SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE REPUBLIC OF THE PHILIPPINES.

14.4 "SUSPENSION OF OBLIGATIONS"

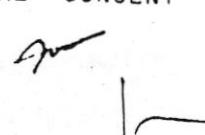
(A) ANY FAILURE OR DELAY ON THE PART OF ANY PARTY IN THE PERFORMANCE OF ITS OBLIGATIONS OR DUTIES HEREUNDER SHALL BE EXCUSED TO THE EXTENT ATTRIBUTABLE TO FORCE MAJEURE.

(B) IF MINING OPERATIONS ARE DELAYED, CURTAILED OR PREVENTED BY SUCH FORCE MAJEURE CAUSES, THEN THE TIME FOR ENJOYING THE RIGHTS AND CARRYING OUT THE OBLIGATIONS THEREBY AFFECTED AND ALL RIGHTS AND OBLIGATIONS HEREUNDER SHALL BE EXTENDED FOR A PERIOD EQUAL TO THE PERIOD THUS INVOLVED.

(C) THE PARTY WHOSE ABILITY TO PERFORM ITS OBLIGATIONS IS AFFECTION (I) SHALL PROMPTLY GIVE NOTICE TO THE OTHER IN WRITING OF ANY SUCH DELAY OR FAILURE IN PERFORMANCE, THE EXPECTED DURATION THEREOF, AND ITS ANTICIPATED EFFECT ON THE PARTY EXPECTED TO PERFORM, AND (II) SHALL USE ITS BEST EFFORTS TO REMEDY SUCH DELAY, EXCEPT THAT NEITHER PARTY SHALL BE UNDER ANY OBLIGATION TO SETTLE A LABOR DISPUTE.

14.5 "AMENDMENTS" - THIS AGREEMENT SHALL NOT BE ANNULLED, AMENDED OR MODIFIED IN ANY RESPECT EXCEPT BY MUTUAL CONSENT IN WRITING OF THE PARTIES HEREOF,





PRODUCTION SHARING AGREEMENT
DENR-LCMC-FAR SOUTH EAST
PAGE - 23

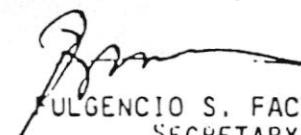
=====

14.6 THE CONTRACTORS SHALL CAUSE THE REGISTRATION OF THIS AGREEMENT TO THE DENR REGIONAL OFFICE CONCERNED WITHIN THIRTY (30) CALENDAR DAYS FROM DATE OF EXECUTION.

IN WITNESS WHEREOF, THE PARTIES HERETO HAVE EXECUTED THIS AGREEMENT, AS OF THE DAY AND YEAR FIRST ABOVE WRITTEN.

THE REPUBLIC OF THE
PHILIPPINES

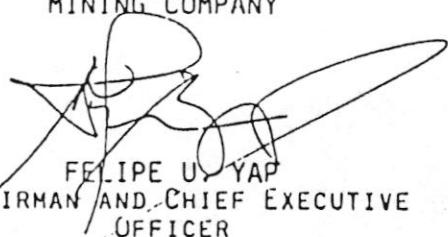
BY:



FULGENCIO S. FACTORAN, JR.
SECRETARY
DEPARTMENT OF ENVIRONMENT AND
NATURAL RESOURCES

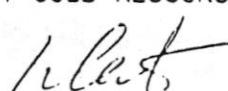
LEPANTO CONSOLIDATED
MINING COMPANY

BY:


FELIPE UY YAP
CHAIRMAN AND CHIEF EXECUTIVE
OFFICER

FAR SOUTH EAST GOLD RESOURCES INC.

BY:



RAMON A. RECTO
CHAIRMAN AND CHIEF EXECUTIVE OFFICER




APPROVED BY:

PRODUCTION SHARING AGREEMENT
DENR-LCMC-FAR SOUTH EAST
PAGE -24-

SIGNED IN THE PRESENCE OF

ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES)
MAKATI, METRO MANILA) S.S.

AT MAKATI, METRO MANILA, THIS 3RD DAY OF MARCH, 1990, PERSONALLY APPEARED, FULGENCIO S. FACTORAN, JR., WITH RES. TAX CERT. NO. 292585 K, ISSUED AT QUEZON CITY, ON JANUARY 11, 1990, SECRETARY OF ENVIRONMENT AND NATURAL RESOURCES AND REPRESENTING THE REPUBLIC OF THE PHILIPPINES; FELIPE U. YAP, WITH RES. TAX CERT. NO. 1747100, ISSUED AT DAVAO CITY, ON FEBRUARY 15, 1990, CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF, AND REPRESENTING, LEPANTO CONSOLIDATED MINING COMPANY, WITH CORPORATE RES. CERT. NO. 586799, ISSUED AT MAKATI, METRO MANILA, ON FEBRUARY 28, 1990; AND RAMON A. RECTO, WITH RES. TAX CERT. NO. 4121275, ISSUED AT MAKATI METRO MANILA, ON FEBRUARY 19, 1990, CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF, AND REPRESENTING, FAR SOUTH EAST GOLD RESOURCES, INC., WITH CORPORATE RES. TAX NO. 795292, ISSUED AT MAKATI, METRO MANILA, ON FEBRUARY 16, 1990, ALL KNOWN TO ME AND TO ME KNOWN TO BE THE SAME PERSONS WHO EXECUTED THE FOREGOING PRODUCTION SHARING AGREEMENT BETWEEN THE REPUBLIC OF THE PHILIPPINES AND LEPANTO CONSOLIDATED MINING COMPANY AND FAR SOUTH EAST GOLD RESOURCES, INC., AND ACKNOWLEDGED THAT THE SAME IS THEIR FREE-AND VOLUNTARY ACT AND DEED AND THE FREE AND VOLUNTARY ACT AND DEED OF THE GOVERNMENT INSTRUMENTALITY AND CORPORATIONS THEY, RESPECTIVELY, REPRESENT.

I FURTHER CERTIFY THAT THIS INSTRUMENT CONSISTS OF 24 PAGES, INCLUDING THIS PAGE WHERE THE ACKNOWLEDGMENT IS WRITTEN, SIGNED AT THE LEFT HAND MARGIN OF EACH AND EVERY PAGE BY THE PARTIES AND THEIR INSTRUMENTAL WITNESSES.

WITNESS: MY HAND AND SEAL AT THE PLACE AND ON THE DATE FIRST ABOVE WRITTEN

DOC. NO. 328 ;
PAGE NO. 67 ;
BOOK NO. VI ;
SERIES OF 1990.

PABLO T. AYSON, JR.
NOTARY PUBLIC
UNTIL DECEMBER 31, 1991
PTR NO. 777022 - JANUARY 18, 1990
MAKATI, METRO MANILA