

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;

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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 BAGUIO CITY ON JULY 20, 1989 AND APPROVED BY THE DENR 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 BAGUIO CITY;

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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 HERINAFTER 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 HERINAFTER 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 HERINAFTER 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