

PRODUCTION SHARING AGREEMENT

This PRODUCTION SHARING AGREEMENT (this "Agreement") is made and entered into in Metro Manila, Philippines, this _____ day of _____, 1994, by and between:

THE REPUBLIC OF THE PHILIPPINES, referred to as the "Government", represented by the Secretary of the Department of Environment and Natural Resources, Hon. Angel C. Alcala, with offices at the Department of Environment and Natural Resources Building, Visayas Avenue, Diliman, Quezon City, Metro Manila

and

PHILNICO MINING AND INDUSTRIAL CORPORATION, a corporation duly organized and existing under the laws of the Republic of the Philippines, hereinafter referred to as the "Contractor", with offices at 2283 Pasong Tamo Extension, Makati, Metro Manila, represented in this act by its President and Chairman of the Board JESUS S. CABARRUS, as authorized by the Board under Annex A which forms an integral part hereof.

W I T N E S S E T H

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; and

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; and

WHEREAS, Republic Act No. 1828, as amended, authorized the development, exploitation, and utilization of the mineral deposits in the Surigao Mineral Reservation and granted authority to the President of the Philippines to engage the services of independent contractors for that purpose; and

WHEREAS, by Executive Order No. 279 issued on July 25, 1987, the Secretary of the Department of Environment and Natural Resources is authorized to enter into production sharing agreements in furtherance of the objectives of the Government and the Constitution to bolster the national economy through systematic development and exploitation of mineral lands; and

WHEREAS, pursuant to Letter of Instructions No. 1447 (LOI 1447) issued on February 12, 1985, all the rights and privileges granted to an operator of the Surigao Mineral Reservation under Section 3 of Republic Act No. 1828 were granted to the contractor therein; and

WHEREAS, the Government desires to avail itself of the financial resources, technical competence and skill which Contractor is capable of applying in the Mining Operations at the project contemplated herein; and

WHEREAS, Contractor desires to join and assist the Government in the development and exploitation for commercial purposes of nickel, cobalt, chrome and iron deposits existing in the Contract Area (as hereinafter defined) and any other minerals which may be discovered in such Contract Area; and

WHEREAS, Contractor has available to it the capital, technical competence and skills necessary to carry out the Mining Operations herein described.

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 production sharing agreement entered into pursuant to Executive Order No. 279.

1.2 The primary purpose of this Agreement is to provide for the exploration, development and commercial utilization of nickel, cobalt, chrome, iron and other deposits existing within the Contract Area, with all necessary services, technology and financing to be furnished or arranged for by the Contractor in accordance with the provisions of this Agreement. The Contractor shall not, by virtue of this Agreement, acquire any title to lands encompassed within the Contract Area.

1.3 The Contractor shall undertake and execute, for and on behalf of the Government, Mining Operations in accordance with the provisions of this Agreement, and is hereby constituted and appointed for the purposes of this Agreement the exclusive entity to conduct Mining Operations in the Contract Area.

1.4 The Contractor shall assume all exploration risk such that if no Minerals in commercial quantity are developed and produced, it will not be entitled for reimbursement.

1.5 During the term of this Agreement, the total value of production and sale of marketable products derived from the Mining Operations contemplated herein shall be accounted for and divided between the Government and Contractor in