



Confirmation statement from Philex's Board Risk Oversight Committee:

July 29, 2019

The Audit and Risk Management Committee  
First Pacific Company Limited  
24<sup>th</sup> Floor, Two Exchange Square  
8 Connaught Place  
Hong Kong

Dear Committee Members,

This is to inform you that the Board Risk Oversight Committee of Philex Mining Corporation ("Philex") has conducted a review of the effectiveness of the Philex Group's (including its subsidiaries, major associated companies and joint ventures, except PXP Energy) Enterprise Risk Management ("ERM") systems for the six-month period ended 30 June 2019. The review covered all material strategic, financial, operational and compliance risks.

Please refer to the attached summary report for the six-month period ended 30 June 2019 highlighting the key enterprise risks identified and the corresponding mitigation measures to address these risks.

Based on our evaluation of Philex's ERM process, reviewing the periodically ERM report and discussions with the Chief Risk Officer as well as the external auditor, we have assured ourselves that the material risks are periodically identified, evaluated, managed and reported appropriately by management.

We have not noticed any material deviation from local as well as Hong Kong Listing Rules requirements, including Inside Information.

We hope that this letter is sufficient for your requirements.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Oscar J. Hilado", written over a horizontal line.

Oscar J. Hilado  
Chairman of the Board Risk Oversight Committee  
Philex Mining Corporation

A handwritten signature in blue ink, appearing to read "Danny Y. Yu", written over a horizontal line.

Danny Y. Yu  
Chief Risk Officer  
Philex Mining Corporation



## **Appendix A**

### **PHILEX MINING CORPORATION**

#### **STATEMENT OF INTERNAL CONTROL AND MANAGEMENT OF THE TOP ENTERPRISE RISKS**

Corporate Governance Certificate of Confirmation to First Pacific Company

1. During the 1<sup>st</sup> Half of 2019, the internal audit department has not identified any major internal control issues based on its review of the business processes and system of internal control. The results of the business processes review were regularly reported to the Audit and Board Risk Oversight Committees. For its part, the Management implemented the internal auditors' recommendations on operational control issues and process improvements.
2. The Group's external auditors, SGV & Co., did not find any major internal control issues that may materially impact the Company's financial report ended December 30, 2018.
3. The top enterprise risks identified in the 1<sup>st</sup> Half of 2019 and corresponding mitigation measures were as follows:

#### **A. OPERATIONAL**

1. *Failure of Padcal to meet the 2019 production targets due to lower tonnage, declining ore grades and increase in operating cost.*

#### **Mitigants:**

- Arrival of new LHD equipment and completion of five new dumping stations to boost production tonnage
- Continuous manpower rationalization and implementation of other operational efficiency measures
- Additional bank loan availments for working capital purposes
- Disposal of non-core assets
- Conversion of convertible bonds into equity
- Possible reduction of subscription in PXP for debt payment
- Reclassification of Tuding property into multiple-use zone to increase potential for real estate development

2. *Possible physical damage to tailings storage facility per GHD consultant assessment.*

**Mitigants:**

- Engaged local consultant Geotecnica suggesting that tailings embankment will not liquefy because the grain size and density do not meet the criteria for liquefaction
- Appointed foreign consultant Coffey to evaluate tailings facility; Coffey preliminary report recommends partial buttressing work but still needs further validation with advanced studies
- Renewed pollution coverage with sub-limit of \$1M for tailings-related incidents caused by natural catastrophe

**B. FINANCIAL**

3. *Ability to raise funding for the \$758 million Silangan mine development.*

**Mitigants:**

- Bank on the reputation, experience and network of J.P. Morgan and Mizuho
- Resulting net present value of the first of four phases of the Silangan project is positive and attractive enough to generate investor interest

4. *Sustained negative cash position may lead to shortening of Padcal mine life.*

**Mitigants:**

- Disposal of non-core assets
- Explore real estate development options for Padcal
- Process remaining inventory and cease development of new blocks to generate cash

**C. REGULATORY**

5. *Approval and implementation of "Security of Tenure and End of ENDO Act".*

**Mitigants:**

- Work closely with the Chamber of Mines and actively participate in the Tripartite Industry Council to review the definition of core mining activities