



Confirmation statement from Philex's Audit Committee:

February 26, 2020

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

Dear Committee Members,

This is to inform you that the Audit 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) internal control systems for the six-month period ended 31 December 2019. The review covered all material controls, including financial, operational and compliance controls.

Please refer to the attached summary report for the six-month period ended 31 December 2019 highlighting the major internal control issues and the remedial actions taken.

Based on our review of the internal audit reports, and discussion with the internal and external auditors and with management, we would like to confirm that the internal controls (including financial, operational and compliance controls) of the Philex Group are adequate and effective.

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 blue ink, appearing to read "Oscar J. Hilado", written over a horizontal line.

Oscar J. Hilado
Chairman of the Audit Committee
Philex Mining Corporation

A handwritten signature in black ink, appearing to read "Geraldine B. Ateo-an", written over a horizontal line.

Geraldine B. Ateo-an
Chief Audit Executive
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

- A. During the 2nd 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.
- B. 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 31, 2019.
- C. The top 10 enterprise risks identified in the 2nd Half of 2019 and corresponding mitigation measures with risk matrix were as follows:

PROBABILITY (P)	5	Very High > 70% chance					1) PADCAL Failure to meet 2019 production and financial targets
	4	High 51% to 70% chance	9) IRISAN, CURRIMAO AND TUDIING Failure to convert idle properties into performing assets				2) SILANGAN Inability to raise funding for mine development
	3	Medium 31% to 50% chance					3) PADCAL Inability to sustain positive cash position between 2020-2022
	2	Low 11% to 30% chance					4) PADCAL Possible implementation of ENDO bill
	1	Very Low < 10% chance			10) PADCAL Inclusion of EXPA-78 inside No Go Zone	8) PORO Stoppage of Poro operation due to non-renewal of foreshore lease	5) PADCAL Possible structural failure or damage of tailings store facility 6) SILANGAN Ban on open pit mining 7) PADCAL Non-conversion of MOA to SAPA
			Very Low < P10 M	Low < P100 M	Medium < P500 M	High < P1 B	Very High > P1 B
			1	2	3	4	5
FINANCIAL IMPACT (I)							

SUMMARY OF RISKS

Type	Asset		Risk / Event	Severity
Financial and Operational	Padcal	1)	Failure of Padcal to meet the 2019 production and financial targets	25
Financial and Regulatory	Silangan	2)	Inability to raise funding for the Silangan mine development	20
Financial and Operational	Padcal	3)	Inability of the Company to sustain positive cash position between 2020 to 2022 may lead to shortening the mine life	15
Financial	Padcal	4)	Possible Presidential approval of the "Security of Tenure and End of ENDO Act"	10
Financial and Operational	Padcal	5)	Possible structural failure or physical damage to TSF3	5
Regulatory	Silangan	6)	Ban on open pit mining per DAO 2019-10	5
Regulatory	Padcal	7)	Non-conversion of MOA to Special Use Agreement for Protected Areas (SAPA) for TSF3	5
Operational	Poro	8)	Stoppage of Poro operation due to non-renewal of foreshore lease	4
Financial	Irisan and Currimao and Tuding	9)	Failure to convert idle properties into performing assets	4
Regulatory	Padcal	10)	Inclusion of EXPA-78 (Clifton) inside No Go Zone	3

Asset	Event	Mitigation / Management Position	Consequence	Estimated Cost Impact	(P)	(I)	(P×I)
1. Padcal (Financial and Operational)	Failure of Padcal to meet the 2019 production targets due to: <ul style="list-style-type: none"> • Lower tonnage • Declining ore grades • Increase in operating cost 	<ul style="list-style-type: none"> • Arrival of new LHD equipment and construction of new dumping stations to boost production tonnage • Continuous manpower rationalization and other operational efficiency measures • Additional bank loan availments for working capital purposes to bridge the gap • Disposal of Lepanto shares and other non-core assets • Conversion of convertible bonds into equity (P7.5B as of May 2019) • Possible reduction of subscription in PXP by 20 million shares for debt payment • Reclassification of Tuding property into multi-use zone to attract real estate development 	<ul style="list-style-type: none"> • Negative cash position • Banks to freeze existing credit facilities • Impact on ability to service short-term debts • Ability to support Silangan • Shortening of mine life 	<ul style="list-style-type: none"> • As of May 2019, we were cash negative by P343M due to Silangan's Capex of P311M and Padcal's negative cash flow of P32M • Based on the revised targets, Padcal would be positive by P581M but still not enough to support Silangan's Capex of P717M • If metal output falls by 5% and 10%, we would still be cash positive of P513M and P444M before Silangan's Capex of P204M and P272M after Silangan 	5	5	25
2. Silangan (Financial and Regulatory)	Inability to raise funding for Silangan mine development	<ul style="list-style-type: none"> • Resulting NPV of adopting underground sub-level cave mining method may not be attractive enough for equity investors. Silangan's current issues include: • Transitional and argillic zones in Boyongan extending to Bayugo • Delay in the PFS completion of Bayugo will disrupt fund raising 	<ul style="list-style-type: none"> • Uncertain status of Silangan asset • Complete Bayugo PFS in 3-4 months to increase project value 	<ul style="list-style-type: none"> • Impairment of Silangan project cost of P23.7B including fair value adjustment of P5.5B • Impact on share price and going concern 	4	5	20

		<p>schedule</p> <ul style="list-style-type: none"> • Bank on the reputation and experience of J.P. Morgan and Mizuho • Highlight economic contributions of Silangan project and lobby for exemption from open pit ban, if the latter is the only option for Silangan to come up with a financially viable project. After all, Silangan has all the necessary permits prior to the open pit ban. • Communicate that Filipinos are capable of world-class rehabilitation, restoration and reinvigoration work as evidenced by Bulawan and Sibutad 					
3. Padcal (Financial and Operational)	Inability of the Company to sustain positive cash position between 2020 to 2022 may lead to shortening the mine life	<ul style="list-style-type: none"> • Worst case is to process the remaining ore inventory and cease development of new blocks to still generate cash • Implementation of closure plan • Disposal of Lepanto shares and other non-core assets • Conversion of convertible bonds into equity (P7.2B + P1.9B) up to 2022 • Conversion of Philex advances of P1.8B into equity 	<ul style="list-style-type: none"> • Significantly impact ability to service debt and other obligations • Negative perception from investing public 	<ul style="list-style-type: none"> • Outstanding debt of P2.3B (\$45M) • Impairment of Padcal assets of P4.6B • Settle balance of P78M for mine closure and allotment of P255M for care and maintenance for ten years • Impact on share price 	3	5	15

		<ul style="list-style-type: none"> • Sale of PXP shares • Explore real estate development options for Padcal 					
4. Padcal (Financial)	Possible Presidential approval of the “Security of Tenure and End of ENDO Act” (Senate Bill No. 1826)	<ul style="list-style-type: none"> • Work with the Chamber of Mines and actively participate in the Tripartite Industry Council to review the definition of core mining activities 	<ul style="list-style-type: none"> • Failure strain cash position due to increased manpower expenses • Retroactive employee regularization from the date of employment 	<ul style="list-style-type: none"> • Estimated cost impact of P1B 	2	5	10
5. Padcal (Financial and Operational)	Possible structural failure or physical damage to TSF3 Consultant GHD proposed to buttress the dam toe to the main dike of TSF3 to mitigate risk of embankment liquefaction during earthquakes	<ul style="list-style-type: none"> • Engaged Australian-based Coffey and local consultant Geotecnica • Initial results of Geotecnica in May 2019 stated that the TSF3 embankment will not liquefy because the grain size and density do not meet the criteria for liquefaction • Coffey initial assessment only suggest partial buttressing work but still needs to be validated with advances studies • Renewed pollution coverage with sub-limit of \$1M for TSF excluding incidents caused by natural catastrophe 	<ul style="list-style-type: none"> • Potential damage to TSF3 during earthquakes may lead to leak or spill • Another tailings incident is not acceptable amidst the 2012 incident 	<ul style="list-style-type: none"> • Per GHD, full buttressing cost of P1.4B • Per Padcal internal estimate, Coffey’s partial buttressing will cost P350M over 3 years 	1	5	5
6. Silangan (Regulatory)	DAO 2019-10 Ban on open pit mining	<ul style="list-style-type: none"> • Complete PFS/DFS of full underground mining method • Pioneer implementation of 	<ul style="list-style-type: none"> • Uncertain status of Silangan project if DFS for underground is not 	<ul style="list-style-type: none"> • P23.7B asset impairment including fair value adjustment of P5.5B 	1	5	5

		<p>international best practices, such as Canada's Towards Sustainable Mining initiative</p> <ul style="list-style-type: none"> Continuous dialogues with critical agencies and personalities to facilitate Silangan's project development 	attractive.	<ul style="list-style-type: none"> Shareholder value erosion and going concern 			
7. Padcal (Regulatory)	Non-conversion of MOA to Special Use Agreement for Protected Areas (SAPA) for TSF3	<ul style="list-style-type: none"> Requirement is merely conversion of the MOA, the Company's position is that an FPIC for the SAPA is not required because it is not a renewal or issuance of a concession, license or lease but a conversion On-going negotiations with Protected Area Management Bureau (PAMB)-CAR 	<ul style="list-style-type: none"> TSF3 works will be delayed Disallow use of TSF, resulting in the disruption of operations 	<ul style="list-style-type: none"> P660M monthly and P8B annual revenue loss (based on 2019 budget) 	1	5	5
8. Poro (Operational)	Stoppage of Poro operation due to non-renewal of foreshore lease	<ul style="list-style-type: none"> Secure provisional/temporary Foreshore Lease Agreement (FLA), which is renewable yearly Provisional FLA is better than a 25-yr lease, considering Padcal's limited mine life (as proposed by DENR) 	<ul style="list-style-type: none"> Significant business Interruptions due to inaccessibility to shipping facility 	Revenue loss of P660M per shipment	1	4	4
9. Irisan and Currimao Land Properties Tuding Property (Financial)	<p>Failure to convert idle properties into performing assets:</p> <ul style="list-style-type: none"> Irisan, Baguio City property (purchased in 1974) 	<ul style="list-style-type: none"> Paid 2019 real property taxes for patented and patentable lots Engaged legal consultant to facilitate property reclassification from mineral land to multi-use zone 	<ul style="list-style-type: none"> Idle and non-performing asset 	<p>Latest appraisal value:</p> <p>Irisan - P45M Currimao - P34M</p>	4	1	4

	<ul style="list-style-type: none"> • Currimao, Ilocos Norte property (purchased in 1976) 	<ul style="list-style-type: none"> • Exploring joint development opportunities with real estate players 					
	<ul style="list-style-type: none"> • Tuding (owned in 1984) 		<ul style="list-style-type: none"> • Idle and non-performing asset 	<ul style="list-style-type: none"> • 2019 appraisal value of P1.55B 			
10. Padcal (Regulatory)	Inclusion of EXPA-78 (Clifton) inside No Go Zone	<ul style="list-style-type: none"> • No Go Zone by MGB has no basis and can only be promulgated by the President of the Philippines • Protest letter filed with ex-MGB Director Jasareno (2014) and refiled with Undersecretary Jacinto (2016) • Issue pending with Mining Industry Coordinating Council 	<ul style="list-style-type: none"> • Cause setback in exploration timetable 	<ul style="list-style-type: none"> • Possible write-off of deferred cost: P135M • Negative impact on the share price 	1	3	3