



Niuminco Group Limited

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1 July 2019

Ms Melissa Lim
Adviser, Listings Compliance
Australian Securities Exchange

By email.

Dear Ms Lim,

ASX Query Letter dated 21 February, 2019

We refer to the ASX letter dated 21 February, 2019 addressed to Niuminco Group Limited ("NIU" or "the Company"), the Company's initial response dated 11 March, 2019 and the ASX email of 25 June, 2019 referencing:

- the Company's Appendix 5B announcements for each quarter between 1 January 2017 and 31 December, 2018,
- ASX query letters issued in response to each of these Appendix 5Bs (with the exception of the September 2017 and December 2018 quarters),
- the Company's responses to those query letters,
- Various NIU "Quarterly Activities Reports",
- other NIU releases in respect of capital raisings and rights issue,
- "Concerns about the Adequacy of NIU's Financial Condition" and,
- a number of questions and requests for information.

We will respond to each of your questions and requests for information in the same order but would first make some general comments/observations.

"Material Information", Appendix 5B reports, "Key figures", Reporting Obligations of "Exploration Entities" and "Mining Producing Entities".

The Appendix 5B report is required to be released by an "exploration entity" and we note that there is no obligation or requirement for such an entity to provide any estimates other than "Estimated cash outflows for the next quarter" and that "Note 1" to the report states that, "The quarterly report provides a basis for informing the market how the entity's activities have been financed **for the past quarter and the effect on its cash position**. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report." (Appendix 5B Note 1)

Following receipt of the first ASX 5B Query Letter in May 2017 the Company took legal advice on the contents of the May 2017 Query response before replying. In that response (and all subsequent responses) the Company stated that "Both current and future cash flows are

dependent on the quantity and grade of ore able to be mined and processed at the Company's Edie Creek Mine.", and that "The **estimated exploration, staff costs and administration expenditures for the current quarter can be curtailed, and therefore significantly reduced, if necessary or required.**"

We note that in the three and a quarter years (thirteen quarters) up to and including the June 2107 quarter, the relevant annual figures for quantity and grade of material (or "ore") processed and sales, are as follows:

- June Quarter 2014 : **53.9** wet tonnes, grade of **52.9 g/t**, sales of **\$237,000**
- 2015 Financial Year : **1526.4** wet tonnes, grade of **23.9 g/t**, sales of **\$1,630,000**
- 2016 Financial Year : **2316.6** wet tonnes, grade of **9.3 g/t**, sales of **\$1,086,000**
- 2017 Financial Year : **3443.2** wet tonnes, grade of **3.8 g/t**, sales of **\$694,000**

The above results clearly demonstrate the relevance and significance of both the **quantity and in particular, the grade** of the material processed in **determining the resultant gold production and sales receipts.**

Furthermore, the quantity and grade of vein material can vary very significantly from day to day, with the result that a month's, and therefore a quarter's sales figures will not be known until the last day's production has been completed.

Whilst preparing the June 2017 Appendix 5B report the Company determined that in light of the earlier ASX May Query letter, the Appendix 5B guidance "Note1" and the Company's cash receipts from "gold, silver and other sales" in each of the previous 13 quarters (totaling some \$3,664,000 or an **average \$282,000 per quarter**), that it would be of assistance to the market (and the ASX) if a footnote was added to the "Estimated cash outflows for the next quarter" section.

This would indicate that, unlike most "exploration entities", Niuminco ran a pilot mining operation and based on its historical and planned production levels, NIU could expect "sales and other" receipts during the next quarter - not only "cash outflows".

However, unlike most mining companies NIU does not have a 2012 JORC Indicated Resource or Probable Reserve, and the estimated grade or quantity of ore planned to be mined in any month was based on the best geological information and sampling available at that time.

Forecasts were provided based in good faith on information available at the time and quarterly updates were provided with detailed explanations of variances compared to actual cash flows. The differences were not considered material at the time, beyond the quarterly explanations provided. It was appropriate to add disclaimers that future cash flows would depend on the grade which was not known in advance and be subject to the quantity of ore being mined in a difficult environment and variable equipment performance.

NIU as an "exploration entity"

As the Company is an "exploration entity", it is the Board's understanding that it is obliged to provide information in respect of its "cash receipts" or "cash outflows" on a quarterly basis.

The Company did not consider that the differences in "actual sales receipts" from "estimated sales" to be "material information", just as the differences between "estimated next quarter cash outflows" and "actual cash outflows" were also not considered to be "material information" by the Company at that time.

However, in light of the points raised in the ASX Query letter on the sales estimates, the Company has determined that in future it will not make any sales estimates at all, or will only provide a sales range to allow for the many unexpected variables. The Company has made no estimates in the most recent March 2019 5B Report.

Quarterly Activities Reports and NIU Appendix 5B Query letter responses.

When the Company has responded to an ASX Appendix 5B query letter, it has been the Company's belief that the response is, and should be considered to be, an "addendum" to the relevant "Quarterly Activities Report" and "Appendix 5B Report" and would be read in conjunction with those reports – not solely as a "stand alone" letter or document.

This is particularly relevant as each of the "Quarterly Activities Reports" outlined in some detail any operational events, setbacks, problems and/or changed circumstances that had occurred during that quarter and the corresponding effect these had on production or may have had on planned future production.

Papua New Guinea and Edie Creek Mine Operating Environment

Papua New Guinea can be an extremely challenging and at times very difficult environment in which to conduct exploration and mining operations. Whilst attempting to make allowances for, and building these into any operational plans, there are often unexpected and unforeseeable events, which when taken in the context of a small operator, can have disproportionate and longer lasting negative consequential effects than on a larger mining operation. In particular, the loss of mains power to the site, the subsequent prolonged delays and finally failure on the part of PNG Power to rectify the problem by reinstating the overhead power cables (despite two attempts with NIU's assistance) led to significant negative flow-on effects on the installation and operations of the processing plant upgrade.

As stated above, these major events have been outlined and summarized in all the relevant Quarterly Activities Reports, without detailing daily operational issues such as highway and road "wash-aways", landslips, flooded river crossings, murders and deaths of staff and local families, illegal miner and landowner issues, and daily logistical challenges.

Edie Creek Mine Development Strategy

The Company has announced a clear strategy since recommencing pilot mining and processing operations in February 2014. In summary, this has been to proceed with a build-up of both its mining and processing capacity in a measured manner, taking into account the availability of capital and other funding, with the aim of achieving a consistent, positive cash flow from Edie Creek operations, even with relatively lower grades of "ore" or vein material than that processed in the 2015 and 2016 financial years.

Parallel with this was the plan of funding the ongoing exploration programmes at Edie Creek and the Company's other exploration licenses using surplus cash receipts from the Edie Creek mining operations, with NIU acquiring four of its own drill rigs to overcome PNG logistic and mobilization problems, and to significantly lower the exploration drilling cost base.

This strategy was based on the historical production results, the historical geological knowledge of the Edie Creek vein systems including assayed drill core and sampling results, and the knowledge that the vein systems exhibit higher grade and coarser gold the deeper down into the veins one mines, with the highest grades and coarsest gold being at the bottom of the oxidized zone.

The Company has steadily increased its mining fleet from one excavator, a tractor and a trailer for hauling material in June 2014, to 3 excavators, 4 bulldozers, 3 tip trucks and a loader at the

present time. Over the same period the mine's **processing capacity** has increased from around 6 wet tonnes per day (tpd) using only three 510kg amalgam barrels/rod mills in June 2014, to approximately 20 tpd by installing a 2 tonne per hour (tph) ball mill in 2016, and now up to 55 tpd following the final installation and successful operation of the upgraded 5 tph ball mill and feed circuit, in July 2018.

Given that this upgrading process was and is, part of a pilot mining operation, the process was an evolving one which necessarily involved (and still involves) ongoing installation, testing, modifications, re-testing, additions to and deletions of plant and equipment, subject to the production performance and results of the processing circuit at each stage.

Additionally, one of the most relevant variables in the Edie Creek, and as in any mining, operation is the grade of the vein material (or "ore) available as feed to the processing circuit. This, as stated above, has been highlighted in each NIU response since May 2017, and remains a critical variable in gold production and sales results at the Edie Creek mine.

Responses to your questions and requests for information in the same order follow.

1. Yes, the company is seeking to raise funds as a priority.

a) The Company had met with two broking firms on 20 February 2019 and a senior executive in the Private banking section of a major Australian bank on 21 February 2019 . The Company has also met and/or held discussions with two potential joint venture partner companies, four groups of companies and/or their advisors in regards to acquiring /merging their assets plus raising capital, two PNG finance companies to arrange longer term funding of existing Company-owned plant and equipment assets and a PNG plant/equipment dealer in respect of selling one or two items of plant/equipment.

b) NIU was seeking to raise an initial \$200,000 to \$300,000 cash, with the ability to raise up to a further \$200,000 to \$300,000 over the following (June) quarter if necessary. Under the then proposed rights issue, up to \$600,000 cash was potentially able to be raised (net of \$300,000 Directors' debt converted to equity), with a realistic expectation based on past issues, that an initial \$200-300,000 cash would be raised. This would then have allowed the shortfall to be placed over the following 3 months if necessary, whilst still leaving our placement capacity at 675 million shares if required for any acquisition or further capital raising.

As a result of the need for a prospectus, the Company subsequently prepared a draft "transaction specific prospectus" to facilitate a non-renounceable entitlement offer to its existing shareholders should it decide to raise capital in this way. However, an alternative funding source was subsequently chosen, and a "Deed of Advance" for \$500,000 was entered into and announced. Additionally, a potential corporate or alternative commercial transaction has been negotiated and announced and it is currently the subject of ASX review.

2. We refer to our statements above on "Material Information" and "Exploration Entities" and reconfirm that the Company considered that it had complied with its continuous disclosure obligations at all times. Notwithstanding this, in order to ensure the market is properly informed at all times the Company is willing to make further disclosures and/or make changes to future disclosures and its disclosure practices and policies based on ASX feedback and guidance.

3. Yes, the Company does believe it had a reasonable basis to make the statements. As outlined in the sections above entitled "Papua New Guinea and Edie Creek Mine Operating Environment" and "Edie Creek Mine Development Strategy", the "Works" were in fact a series of stages of "completion", with further "works" being necessarily required as a result of the ongoing installation, testing, modification, re-testing and/or other unforeseeable external events or

"shocks". Any subsequent delays which inevitably resulted from those events were reported on in detail in each of the relevant Quarterly Activities Reports.

4. We refer to the Company's response to Question 2 which we reconfirm here.

5. We disagree with this conclusion and refer to our comments above in the sections on "Material Information"and "Mining Producing Entities" and "Edie Creek Mine Development Strategy".

As outlined in those sections the Company believes that any reasonable person would have been aware from the Company's statements, reports and releases that the "**grade**" of material mined and processed was also a very key factor and major variable.

6. The Company remains confident that it will be able to mine and process material in sufficient volumes and/or of sufficient grade to achieve production and sales levels that will result in positive cash flow operations at Edie Creek within the next 12 months. This will be subject to a number of key variables, including;

- access to any required funding in a timely manner, including approximately \$200,000 to \$300,000 over the next 30 to 60 days.
- access to higher grade and coarser gold from deeper in the known vein systems and/or discovery and exploitation of new vein/ lode systems and bulk target areas.
- no prolonged abnormal or extreme wet weather events and/or prolonged disruption to supplies which may result from these or other external "shocks" or events.
- no prolonged breakdowns of the key plant and equipment items in the processing circuit.

The Company is of this opinion as a result of;

- the processing circuit now having the demonstrated capacity to process up to 55 tonnes per day,
- the current mining plan and expanded mobile mining fleet now providing the ability and capacity to access relatively higher-grade vein materials as development works allow mining deeper down in the known and previously mined vein systems and areas
- the expanded mobile mining fleet's capacity to access and mine previously unmined areas of relatively higher-grade material.
- the immediate commencement of a planned, 2,600 metre drilling program of 60 relatively shallow drill holes to assist in defining the quantity and grade of "ore" in each of the Main Edie Lode, Karuka vein, Karuka South vein and Enterprise diatreme for mill feed grade control and to advance an intended JORC 2012 resource delineation program.

7. The actual "average" daily production figures, calculated by dividing the total wet tonnes processed in a quarter by the total number of days in that quarter, should not be confused with production "capacity" of the plant in any given quarter.

As outlined in an earlier section of this response, the Edie Creek Mine processing capacity has increased over the past 5 years from three small amalgam barrels/rod mills with a capacity of 6-12 tonnes per day (tpd) in 2014/15, to 20 tpd with the introduction of the 2tph ball mill in 2016 and up to 55 tpd since the September 2018 quarter with the current 5tph ball mill and feeding equipment/system.

In NIU's ASX releases of 14 August and 20 September 2018, examples of daily processing levels were quoted including;

-“On 12 August, 45 wet tonnes of material was processed in 9.5 hours at a rate of 4.7 tonnes/hour, and on 13 August, 36 wet tonnes was processed in 8 hours at a rate of 4.4 tonnes/hour.” from 14 August release, and;

- “Over the five days from 13 to 17 September 2018:

a further 10 tonnes of the vein material has produced 938.6g (30.2 ounces) of gold and 765.9g (24.6ounces) of silver from 3,3814g of wet amalgam.

Waste material from immediately beside the vein was also run through the ball mill on 16 September (38 tonnes) and 17 September (50 tonnes) for testing purposes, producing only 5.9g and 7.9g gold respectively.” from the 20 September release.

From NIU's internal daily production reports it is noted that on both 25 August and 10 September 2018, 55 wet tonnes of material were processed through the circuit in an 11 hour day shift. That is, processing “capacity” of 55 tpd had been achieved and demonstrated.

We would also point out that NIU announced in the September 2018 Quarterly Activities Report that the ball mill was only run on 42 days (giving an average daily processing throughput of approximately 34 tpd) and announced in the December 2018 Quarterly Report that the ball mill was run for only 48 days (giving an average daily processing throughput figure of approximately 34 tpd).

8. These figures are very relevant from two perspectives, Firstly, they demonstrate the level of sales from a recent historical perspective and show what was achieved when the mining and processing capacity was significantly less than at present. Secondly, these figures again demonstrate the importance of the key variable of grade, given the then low volumes of material processed but the relatively high grade which, for that quarter averaged 12.9g/t.

9. NIU's ability to raise capital has been clearly demonstrated over the past 7 years – refer to the “key figures” presented in the table in your Query Letter, which totals \$1,673,000 raised over the past 8 quarters.

Also, over the past 6 months NIU has been negotiating a potential corporate transaction and/or potential joint venture arrangements.

This has resulted in the current funding agreement, and subject to regulatory review, a potential corporate transaction or commercial transaction which could/would have the potential to significantly expand the Company's asset base, strengthen its future earnings capacity and balance sheet, and further enhance its future capital raising capabilities.

Additionally, having considered the ASX observations on the Company's disclosure practices, we have taken appropriate legal advice and have taken, or are actively taking through the above potential corporate transaction, steps to strengthen the Board, management and governance arrangements.

10. The Company confirms that its responses to the questions above have been authorised and approved by the Board of the Company, and further confirms that at no time has any officer or employee of the Company knowingly provided false or misleading information to ASX.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Tracey Lake', is written over a light yellow rectangular background.

Tracey Lake
Managing Director and Company Secretary



21 February 2019

Mr Tracey Lake
Managing Director and Company Secretary
Niuminco Limited
14 Narabang Way
Belrose NSW 2085

By email: tlake@niuminco.com.au

Dear Mr Lake

Niuminco Limited (“NIU”): ASX Query Letter

ASX refers to:

- A. The Appendix 5Bs released by NIU on the ASX Market Announcements Platform (“MAP”) for each quarter between 1 January 2017 and 31 December 2018 in which NIU reported the key figures detailed in the table below:

Quarter ended (Date released on MAP)	Net cash from/ (used in) operating activities	Cash balance	Receipts from customers	Proceeds from issues of shares	Estimated cash inflows from gold/silver/other sales for next quarter
31 March 2017 (28 April 2017)	(\$387,000)	\$39,000	\$177,000	\$600,000	-
30 June 2017 (31 July 2017)	(\$74,000)	\$1,000	\$202,000	-	\$600,000 - \$1,500,000 (gold/silver sales and loan repayments)
30 September 2017 (31 October 2017)	(\$34,000)	\$2,000	\$82,000	-	\$900,000 - \$1,400,000 (gold/silver sales and loan repayments)
31 December 2017 (31 January 2018)	(\$714,000)	\$2,000	\$49,000	\$264,000	\$750,000
31 March 2018 (30 April 2018)	(\$231,000)	\$1,000	\$53,000	\$200,000	\$350,000
30 June 2018 (31 July 2018)	(\$162,000)	\$2,000	\$39,000	\$170,000	\$350,000
30 September 2018 (23 October 2018)	(\$320,000)	\$55,000	\$124,000	\$334,000	\$390,000
31 December 2018 (31 January 2019)	(\$158,000)	\$1,000	\$99,000	\$105,000	\$350,000

- B. NIU's responses to ASX query letters issued in response to each Appendix 5B referred to in the table above (with the exception of the September 2017 and December 2018 quarters) and released on MAP on:
- 10 May 2017 (the “**May 2017 Response**”);
 - 9 August 2017 (the “**August 2017 Response**”);
 - 8 February 2018 (the “**February 2018 Response**”);
 - 9 May 2018 (the “**May 2018 Response**”);

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- v. 31 August 2018 (the “**August 2018 Response**”); and
- vi. 15 November 2018 (the “**November 2018 Response**”).
- C. NIU’s Annual Report for the year ended 30 June 2018 released on MAP on 8 October 2018 which disclosed:
- i. Trade & other payables (current liabilities) of \$2,815,917 which included payroll liabilities of \$1,570,204 and trade creditors of \$1,094,198; and
- ii. A “going concern” paragraph which included the following statements (emphasis added):
- “During the year, **the Group did not meet its planned production targets at Edie Creek mine of 3 to 5 ounces per day** for the reasons outlined in the Quarterly Activities Reports and Review of Operations.*
- Consistent with the nature of the Group’s activities and its ongoing investment of funds into mining and exploration projects, additional funds are likely to be required to continue to support the operational efforts of the group.*
- As a result of these matters, there is a material uncertainty related to events or conditions that may cast significant doubt on whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of the business and at the amounts stated in the financial report.*
- At the date of this report, the Directors are of the opinion that there are reasonable grounds to expect that the Group’s operational and financial performance will continue to improve and will be able to continue as a going concern. It is noted that \$537,000 has been received since 30 June, 2018 from a rights issue and share placements, and production and sales volumes at Edie Creek have increased significantly since 1 August, 2018. As such the financial report is prepared on a going concern basis. In arriving at this conclusion, the Directors considered that:*
- ***The Directors have implemented a plan to ensure that the production targets at Edie Creek can be achieved including making additional investment. The plan anticipates positive cash flows from Edie Creek mine through gold and silver sales.** This level of production is significantly higher than achieved in the year ending 30 June, 2018.*
 - ***The Directors believe that a consistent production rate is now capable of being achieved as a result of the upgrades to both the processing plant and mining fleet completed over the past 12 months at Edie Creek.***
 - *The Group has been successful in the past in managing the balances that are owed to creditors by either deferring payments or negotiating a plan in order to spread repayment to accommodate the Group’s cash flow requirements. The Directors believe that the Group will be able to continue to do so until the increased production from Edie Creek enables creditors to return to normal payment terms.”*
- D. NIU’s Appendix 3B released on MAP on 7 February 2019 disclosing it had issued 20,000,000 shares to raise \$40,000 for the purpose of extinguishing debt.
- E. NIU’s series of announcements released on MAP in February 2019 relating to a planned non-renounceable rights issue encompassing:
- i. an announcement on 12 February 2019 titled "Non-Renounceable Issue" which contained an offer document for the issue of new shares to raise up to \$933,386 with a closing date of 5 March 2019 and included warnings that it was not a prospectus and that the offer was being made without disclosure in accordance with section 708AA of the Corporations Act (the “**Act**”).

The offer document also stated that:

- a. *“The Company will raise gross proceeds of a minimum of \$300,000 through the taken up and underwritten components of the Offer, of which \$300,000 will be applied in repaying monies owing to directors on account of unpaid directors’ and service fees and moneys lent to the Company”* (on pages 7-8);
 - b. *“Up to \$600,000 of the funds raised will be utilised to purchase plant and equipment, continue the Company’s exploration programs, pay creditors and provide working capital”* (on page 5); and
 - c. *“The net proceeds of the Offer after repaying directors \$300,000 in loans (through the conversion of these debts to equity) will be used to enable the Company to repay the costs of the Offer (estimated to be approximately \$30,000) and to continue to pursue its corporate objectives, including carrying out planned exploration drilling in PNG (up to approximately \$200,000), purchasing new plant and equipment (up to \$100,000), repaying creditors/payables and to provide working capital (in the amount of approximately \$300,000)”* (in section 1.2 on page 8);
- ii. an announcement on 13 February 2019 titled “Rights Issue not Proceeding” which disclosed NIU had resolved not to proceed with the non-renounceable rights issue; and
 - iii. an announcement on 14 February 2019 titled “Rights Issue not Proceeding - Additional Information” which advised that the reason NIU had resolved not to proceed with the issue was “the need to issue a Prospectus as a result of the Company not being able to rely on a Section 708AA Notice for a period of 12 months from 17 October 2018.”

ASX also notes the following disclosures by NIU:

- F. The May 2017 Response contained the following statements by NIU in response to ASX’s question in bold:

“1. Does NIU expect that it will continue to have negative operating cash flows for the time being and, if not, why not?”

The Company advises that it may have negative operating cash flows until such time as the installation and commissioning of its new processing plant at its Edie Creek Mine is completed and larger, more consistent volumes of ore are able to be processed.

As advised in the March 5A Quarterly Activities Report the commissioning of this plant, which is currently underway, is scheduled for completion during this quarter with an anticipated four to six-fold increase in processing capacity, and an expected resultant significant increase in gold/silver production and sales.

The following extract is taken from the March 5A Quarterly Activities Report:

“The Company’s short term strategy is to achieve increased, consistent mining and processing throughput of 40 to 60 tonnes per day. In line with this, during the Quarter delivery was taken of new processing equipment items, including a 10-15 tph roller crusher, a 5 tph ball mill and a 2 tph centrifugal concentrator.

At current gold prices and exchange rates the current operating cost break-even production level at Edie Creek is approximately 2580 grams (83 ounces) of gold per month.

Following the installation and commissioning of all the new processing plant and equipment, the Company believes it will achieve these significantly higher production levels during the current quarter. ...

Both current and future cash flows are dependent on the quantity and grade of ore able to be mined and processed at the Company's Edie Creek Mine. We note that in the June 2016 Quarter Niuminco's Edie Creek mine achieved sales of \$526,000 on volumes of only 13 tonnes per day, and that the Company has been progressively increasing its mining and processing capacity over the past 3 years, since recommencing mining operations in February 2014." (emphasis added)

- G. The August 2017 Response contained the following statements by NIU in response to ASX's question in bold:

"1. Does NIU expect that it will continue to have negative operating cash flows for the time being and, if not, why not?"

The Company advises that it may have negative operating cash flows until such time as the installation, commissioning and testing of its new processing plant and circuit at its Edie Creek Mine is completed, and larger, more consistent volumes and/or higher grades of ore are able to be processed.

As advised in the June Quarterly Activities Report the commissioning and testing of this plant is currently underway with an anticipated four to six-fold increase in processing capacity, and an expected resultant significant increase in gold/silver production and sales.

The following extract is taken from the June Quarterly Activities Report:

Production for the period 1 April to 30 June 2017 was 3853g (123.9 ounces) of gold and 4047g (10.1 ounces) of silver for total sales of AUD\$201,930 ...

The 2tph ball mill was removed in late March and whilst the new plant installation and testing work took place over the past three months, limited mining and processing operations continued using the amalgam barrels to process the very small tonnage, high grade material being mined.

A total of 125 wet tonnes of ore was processed at an average grade of 30.9 grams per processed tonne of ore.

Following the successful testing of the new 5tph ball mill and the relocated vibrating screen, installation of the ore feed storage bin, vibrating feeder, conveyor belt and ball mill feed bin has been completed, with testing and commissioning currently being conducted.

The continuing lack of mains power (now for 11 consecutive months), combined with a breakdown of the main back-up site generator in March/April (which required its diesel motor to be replaced) slowed and disrupted the installation and processing operations.

The Company's short term strategy remains focused on achieving increased, consistent mining and processing throughput of 40 to 60 tonnes per day...

Both current and future cash flows are dependent on the quantity and grade of ore able to be mined and processed at the Company's Edie Creek Mine. We note that in the June 2016 Quarter Niuminco's Edie Creek mine achieved sales of \$526,000 on volumes of only 13 tonnes per day, and that the Company has been progressively increasing its mining and processing capacity over the past 3 years, since recommencing mining operations in February 2014.

- H. The February 2018 Response contained the following statements by NIU in response to ASX's question in bold:

"1. Does NIU expect that it will continue to have negative operating cash flows for the time being and, if not, why not?"

The Company advises that it may have negative operating cash flows until such time as the installation, commissioning and testing of its new processing plant and circuit at its Edie Creek Mine is completed, and larger, more consistent volumes and/or higher grades of ore are able to be processed.

As advised in the December Quarterly Activities Report modification works to, and testing of this plant is currently being undertaken, along with the installation of a new generator and upgrading of the mine electrical infrastructure. This will result in an anticipated four to six-fold increase in processing capacity, and an expected resultant significant increase in gold/silver production and sales in coming months.

The electrical upgrading works to the gold room and mill processing area have now been completed with the new generator installation expected to be completed in the coming week.

Both current and future cash flows are dependent on the quantity and grade of ore able to be mined and processed at the Company's Edie Creek Mine. We note that in the June 2016 Quarter Niuminco's Edie Creek mine achieved sales of \$526,000 on volumes of only 13 tonnes per day, and that the Company has been progressively increasing its mining and processing capacity over the past 4 years, since recommencing pilot mining operations in February 2014."

- I. The May 2018 Response contained the following statements by NIU in response to ASX's question in bold:

"1. Does NIU expect that it will continue to have negative operating cash flows for the time being and, if not, why not?"

The Company advises that it may have negative operating cash flows until such time as the installation, commissioning and testing of its new processing plant and circuit at its Edie Creek Mine is completed, and larger, more consistent volumes and/or higher grades of ore are able to be processed.

As advised in the March Quarterly Activities Report modification works to and testing of this plant is continuing, and as announced to the market on 8 May, 2018 the installation of a new, larger vibrating feeder has now been completed. This will result in an anticipated significant increase in processing throughput, with an expected resultant increase in gold/silver production and sales in coming months.

Additionally the Company is expecting to take delivery of two further second-hand D85 Komatsu bulldozers and a 40 tonne articulated tip-truck in the near future which will significantly increase the mining capacity at the Edie Creek Mine.

Both current and future cash flows are dependent on the quantity and grade of ore able to be mined and processed at the Company's Edie Creek Mine. As previously advised, in the June 2016 Quarter Niuminco's Edie Creek mine achieved sales of \$526,000 on volumes of only 13 tonnes per day. Since then the Company has been progressively increasing its mining and processing capacity, notwithstanding disruptions to production as a result of plant and equipment breakdowns and power supply issues as disclosed in recent Quarterly reports."

- J. The August 2018 Response contained the following statements by NIU in response to ASX's question in bold:

"9. Does NIU expect that it will continue to have negative operating cash flows for the time being and, if not, why not?"

The Company advises that it may have negative operating cash flows if its mining and processing operations at its Edie Creek Mine do not consistently process approximately 40-50 tonnes per day

of material at a grade of 1.5-2.0 grams per tonne, to produce 75 – 80g of gold per day or 75-80 ounces of gold per month.

However, as advised in the June 2018 Quarterly Activities Report the installation of a new, larger vibrating feeder has been completed. This, along with the recent delivery and commissioning of two Komatsu D85 bulldozers, a 6 tonne excavator and a loader has resulted in greatly increased mining and processing volumes as previously foreshadowed. This was announced to the market on 29 August, 2018. Gold and silver production and sales have consequently increased, and are expected to increase further in coming months with increasing material grades and volumes, resulting in positive cash flows.

Both current and future cash flows are dependent on the quantity and grade of material able to be mined and processed at the Company's Edie Creek Mine. As previously advised, in the June 2016 Quarter Niuminco's Edie Creek mine achieved sales of \$526,000 on volumes of only 13 tonnes per day. Since then the Company has significantly increased its mining and processing capacity to a current 55 tonnes per day, notwithstanding disruptions to production as a result of plant and equipment breakdowns, and power supply issues as disclosed in past Quarterly reports.

The estimated exploration, staff costs and administration expenditures for the current quarter can again be curtailed, and therefore reduced if necessary or required.

- K. The November 2018 Response contained the following statements by NIU in response to ASX's question in bold:

"1. Does NIU expect that it will continue to have negative operating cash flows for the time being and, if not, why not?"

The Company advises that it may have negative operating cash flows until such time as its Edie Creek Mine consistently processes sufficient vein material volumes and grades to produce a current break-even level of approximately 80g of gold per day at current gold prices and exchange rates.

As reported in the September Quarterly Activities Report and in other recent ASX announcements to the market, with the upgrades to the processing circuit now completed and additions to the mining fleet, there have been significant increases in processing throughput in recent months, which are expected to continue during the current quarter.

Both current and future cash flows are dependent on the quantity and grade of vein material mined and processed at the Company's Edie Creek Mine. As previously advised, in the June 2016 Quarter Niuminco's Edie Creek mine achieved sales of \$526,000 on volumes of only 13 tonnes per day. The Company has now significantly increased its mining and processing capacity to up to 50 tonnes per day, and therefore the potential for consistently increased gold and silver sales levels going forward."

- L. ASX Listing Rule 3.1, which says that a listed entity must immediately give ASX any information of which it is aware and concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.

- M. The definition of 'aware' in Chapter 19 of the Listing Rules, which states that:

"an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity"

as well as section 4.4 in Guidance Note 8 Continuous Disclosure: Listing Rules 3.1 – 3.1B "When does an entity become aware of information."

N. The following extracts from ASX Guidance Note 8 Continuous Disclosure: Listing Rules 3.1 – 3.1B:

- i. *“if an entity does make a statement about the projected revenue to be derived from a customer contract or any other projection that is a proxy for revenue and the entity becomes aware that the projection is materially overstated, that may trigger an obligation under Listing Rule 3.1 to make a corrective announcement.”*
- ii. *“Other financial forecasts (such as forecast operational or capital expenditure) published by entities and exploration and production targets published by mining or oil and gas entities can raise similar considerations to earnings guidance. As forward looking statements, these must have a reasonable basis in fact or else they will be deemed to be misleading, with all the significant legal consequences that entails. For this reason, appropriate due diligence needs to be applied to their preparation and the underlying figures and assumptions should be carefully vetted and signed off at a suitably senior level before they are released.*

If an entity becomes aware that its financial results will differ significantly (downwards or upwards) from any financial forecast it has published, or that its exploration or production results for a period will differ significantly (downwards or upwards) from any target it has published, it may have a legal obligation to notify the market of that fact. This obligation may arise under Listing Rule 3.1 and section 674, if the difference is of such magnitude that a reasonable person would expect it to have a material effect on the price or value of the entity’s securities. It may also arise under section 1041H, because failing to inform the market that its published forecast or target is no longer accurate could constitute misleading conduct on its part.”

Concerns about the Adequacy of NIU’s Financial Condition

Based on the combination of factors listed below, it is possible to conclude that NIU may not have sufficient cash to continue funding its operations and that its financial condition may not be adequate to warrant the continued quotation of its securities and its continued listing, as required under Listing Rule 12.2:

- NIU appears to require approximately \$933,386 of funds in early March 2019 to continue operating (based on the proposed rights issue raising);
- NIU is unable to raise capital through the issue of securities without issuing a Prospectus;
- NIU had a cash balance of \$1,000 at 31 December 2018;
- NIU reported trade & other payables (current liabilities) of \$2,815,917 in its most recent financial statements (as at 30 June 2018);
- NIU has consistently failed to generate quarterly cash receipts from gold sales in line with its quarterly gold sales estimates (for instance, \$99,000 of receipts in the December 2018 quarter compared to its estimate of \$390,000); and
- NIU has failed to reach its targeted levels of gold production (75-80 ounces per month).

Questions and Requests for Information

Having regard to the above, ASX asks NIU to respond separately to each of the following questions and requests for information:

1. Is NIU urgently seeking to raise funds?
If the answer to this question is “yes”:
 - a) Please provide appropriate supporting evidence (not for release to the market).
 - b) Is NIU seeking to raise at least \$933,000? If not, why not?

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2. In its Appendix 5B for the quarter ended 31 March 2018, NIU represented that estimated cash inflows from gold/silver/other sales for the June 2018 quarter would be \$350,000. NIU subsequently reported cash receipts from gold sales of \$39,000 for the June 2018 quarter.

In its Appendix 5B for the quarter ended 30 June 2018, NIU represented that estimated cash inflows from gold/silver/other sales for the September 2018 quarter would be \$350,000. NIU subsequently reported cash receipts of \$124,000 for the September 2018 quarter.

In its Appendix 5B for the quarter ended 30 September 2018, NIU represented that estimated cash inflows from gold/silver/other sales for the December 2018 quarter would be \$390,000. NIU subsequently reported cash receipts of \$99,000 for the December 2018 quarter.

- a) When did NIU first become aware that its cash receipts would be materially lower than forecast for:
- i. the June 2018 quarter?
 - ii. the September 2018 quarter?
 - iii. the December 2018 quarter?
- b) Please explain why NIU did not update the market that its cash receipts would be materially lower than forecast for:
- i. the June 2018 quarter prior to the release of the Appendix 5B for the June 2018 quarter.
 - ii. the September 2018 quarter prior to the release of the Appendix 5B for the September 2018 quarter.
 - iii. the December 2018 quarter prior to the release of the Appendix 5B for the December 2018 quarter.

For each of (i)-(iii) above, please comment specifically on when you believe NIU was obliged to release this information under Listing Rule 3.1.

3. In the May 2017 Response, NIU represented that:

- It expected negative operating cash flows until the installation and commissioning of its new processing plant at its Edie Creek Mine was completed and larger, more consistent volumes of ore are able to be processed.
- Completion of the new plant would lead to a four to six times increase in productivity.
- Completion of the new plant was expected in the current quarter.
- As completion of the new plant was expected in the current quarter, "significant" increases in production were also forecast for the current quarter.

NIU has reported negative operating cash flows in each quarter since the release of the May 2017 Response.

In the August 2017 Response, NIU represented that:

- It expected negative operating cash flows until the installation and commissioning of its new processing plant and circuit at its Edie Creek Mine (the "**Works**") was completed and larger, more consistent volumes and higher grades of ore are able to be processed.

- The commissioning and testing of this plant is currently underway with an anticipated four to six-fold increase in processing capacity and an expected resultant significant increase in gold/silver production and sales.

NIU made comparable representations about the effect of the finalisation of the Works in the February 2018 Response and May 2018 Response.

Given:

- these representations by NIU; and
- that NIU reported negative net operating cash flow of \$158,000 for the quarter ended 31 December 2018,

does NIU believe that it had a reasonable basis to say in the May 2017 Response that:

- a) installation of the new plant would be complete in the current quarter?
- b) production was therefore expected to increase by four to six times with an expected resultant significant increase in gold/silver production and sales?

If the answer to (a) and/or (b) above is "yes", please detail the basis for NIU's belief and how it considers it to be reasonable in light of the fact that the Works were in fact not completed until between May and August 2018 and that NIU has reported negative operating cash flows each quarter since the release of May 2017 Response.

4. Further to the facts outlined with respect to Question 3 above, when did NIU first become aware that the Works would not be completed during the June 2017 quarter? Please comment specifically on whether you believe NIU was obliged to release this information under Listing Rule 3.1.

It appears that NIU did not release any announcement explicitly referring to the fact that it had failed to meet the timeframe in the May 2017 Response. Why wasn't such an announcement released?

5. In each response referred to in paragraphs F to I above, NIU said, when asked whether it expected to continue to have negative operating cashflows, that "it may have negative operating cashflows until such time as the installation, commissioning and testing of its new processing plant and circuit at its Edie Creek Mine is completed, and larger, more consistent volumes and / or higher grades of ore are able to be processed."

NIU also made the following statements in the indicated response (emphasis added):

- The May 2017 Response: "*The Company's short term strategy is to achieve increased, consistent mining and processing throughput of 40 to 60 tonnes per day. ... At current gold prices and exchange rates the current operating break –even production level at Edie Creek is approximately 2580 grams (93 ounces) of gold per month. Following the installation and commission of the new processing plant and equipment, the Company believes it will achieve these significantly higher production levels during the current quarter.*"
- The August 2017 Response: "*the commissioning and testing of this plant is currently underway with an anticipated four to six-fold increase in processing capacity, and an expected resultant significant increase in gold/silver production and sales.*"
- The February 2018 Response said "*modification works to, and testing of this plant is currently being undertaken, along with the installation of a new generator and upgrading of the mine electrical infrastructure. This will result in an anticipated four to six-fold increase in processing capacity, and an expected resultant significant increase in gold/silver production and sales in coming months.*"

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- The May 2018 Response said "*modification works to and testing of this plant is continuing, and as announced to the market on 8 May, 2018 the installation of a new, larger vibrating feeder has now been completed. This will result in an anticipated significant increase in processing throughput, with an expected resultant increase in gold/silver production and sales in coming months.*"

ASX considers that these extracts amount to a representation by NIU in each response referred to that completion of Works:

- was the only contingency on increased production and sales; and
- that this increase would result in positive or break-even operating cash flow.

Given:

- the Works appear to have been completed before the release of the August 2018 Response; and
- NIU has reported negative cash flows in each quarter following the release of the May 2018 Response,

does NIU believe that it had a reasonable basis to represent in the May 2017 Response, the August 2017 Response, the February 2018 Response, and the May 2018 Response that it may have negative cash flows until the completion of the Works?

If the answer to this question is "yes", please detail the basis for NIU's belief and how it considers it to be reasonable.

6. ASX notes that:

- On 29 August 2018, NIU released an announcement titled "Record processing at Edie Creek Mine" disclosing that, between 1 and 23 August 2018, NIU processed 653 wet tonnes of material resulting in 18.7 ounces of gold and 16.5 ounces of silver.
- On 23 October 2018, NIU released a Quarterly Activities Report, in which it disclosed the production of 79.3 ounces of gold and 67.3 ounces of silver for the quarter ended 30 September 2018.
- On 31 January 2018, NIU released a Quarterly Activities Report, in which it disclosed the production of 62 ounces of gold and 54.5 ounces of silver for the quarter ended 31 December 2018.
- These figures remain well short of the target production levels of 75-80 ounces per month referred to in the August 2018 Response and the November 2018 response.

Having completed the Works, does NIU believe that it will achieve the volume and grade of production necessary to produce positive cash flows within the next 12 months?

If the answer is "yes", please explain why NIU considers there to be a reasonable basis for this forecast.

7. Further and in addition to Question 6, the August 2018 Response included the following statement from NIU:

"Both current and future cash flows are dependent on the quantity and grade of material able to be mined and processed at the Company's Edie Creek Mine. As previously advised, in the June 2016 Quarter Niuminco's Edie Creek mine achieved sales of \$526,000 on volumes of only 13 tonnes per day. Since then the Company has significantly increased its mining and processing capacity to a current 55 tonnes per day, notwithstanding disruptions to production as a result of plant and equipment breakdowns, and power supply issues as disclosed in past Quarterly reports."

ASX notes that:

- Over the period between the quarters ended 30 June 2017 and 30 June 2018 inclusive, NIU's quarterly activity reports disclosed, on average, processing of 149.92 wet tonnes per quarter, or approximately 1.63 wet tonnes per day.
- For the quarter ended 30 September 2018, NIU's quarterly activities report disclosed the processing of 1,442 wet tonnes in that quarter, or around 15.7 wet tonnes per day.
- For the quarter ended 31 December 2018, NIU's quarterly activities report disclosed the processing of 1,644.3 wet tonnes in that quarter, or around 17.9 wet tonnes per day.

On ASX's calculations, these figures (which post-date the period to which the August 2018 Response relates) remain significantly below NIU's target of 55 tonnes per day.

In light of the above, on what basis did NIU represent to the market that it had "significantly increased its mining and processing capacity to a current 55 tonnes per day"?

8. In each of its ten Quarterly Activities Report spanning the period from 1 July 2016 to 31 December 2018, NIU has included the following statement or words of equivalent import:

"Both current and future cash flows are dependent on the quantity and grade of material able to be mined and processed at the Company's Edie Creek Mine. As previously advised, in the June 2016 Quarter Niuminco's Edie Creek mine achieved sales of \$526,000 on volumes of only 13 tonnes per day. Since then the Company has been progressively increasing its mining and processing capacity, notwithstanding disruptions to production as a result of plant and equipment breakdowns and power supply issues as disclosed in recent Quarterly reports."

Given NIU has reported processing levels for the September 2016, December 2016, September 2018, and December 2018 quarters well above 13 tonnes per day and sales well below \$526,000 in each of these quarters, why does NIU consider the sales and production figures from the June 2016 quarter to be relevant to the question of whether it will continue to operate with negative cashflows?

9. Please provide any other information that NIU considers may be relevant to ASX forming an opinion on whether NIU is in compliance with its obligation under Listing Rule 12.2 to have an adequate financial condition to warrant the continued quotation of its securities and its continued listing.
10. Please confirm that NIU's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of NIU with delegated authority from the board to respond to ASX on disclosure matters.

Once ASX has received and analysed the information above, it is likely to make further enquiries of NIU.

In providing the information above, ASX would remind you that an officer or employee of a listed entity who gives, or authorises or permits the giving of, materially false or misleading information to ASX:

- knowingly, breaches section 1309(1) of the Corporations Act, which is a criminal offence punishable by a fine of up to 200 penalty units and/or imprisonment for up to 5 years; or
- without taking reasonable steps to ensure that the information was not false or misleading, breaches section 1309(2) of the Corporations Act, which is a criminal offence punishable by a fine of up to 100 penalty units and/or imprisonment for up to 2 years.

When and where to send your response

This request is made under, and in accordance with, Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **12.00 pm AEDT on Thursday 14 March 2019**. If a satisfactory response is not received by then, ASX reserves the right to terminate NIU's listing pursuant to Listing Rules 12.2 and 17.12.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

ASX further reserves the right to remove NIU from the official list pursuant to listing rule 17.12, without further notice to NIU, should NIU fail to respond properly to this letter by the due date.

If you believe you may have difficulties in meeting the 14 March 2019 deadline for response, you should notify me at the earliest opportunity to explain why and to seek an extension. ASX will only grant an extension if it is satisfied with the reasons given for the extension are appropriate and that NIU is using all reasonable endeavours to comply with its obligation under listing rule 18.7 to respond to this letter by the time set by ASX.

Your response should be sent directly to me by e-mail. It should not be sent directly to the ASX Market Announcements Office. This will allow ASX to review your response to confirm that it is in a form appropriate for release to the market, before it is published on MAP.

Should you have any queries in relation to the above, please let me know.

Yours sincerely

Violetta Codreanu
Senior Adviser, Listings Compliance (Sydney)