



# Niuminco Group Limited

*Suite 50, 14 Narabang Way, Austlink Corporate Centre, Belrose NSW 2085 Australia  
Tel: (02) 9450 0828 Fax: (02)9450 0877 Email: [info@niuminco.com.au](mailto:info@niuminco.com.au)  
ABN 44 009 163 919*

11 March 2019

Ms Violetta Codreanu  
Adviser, Listings  
Australian Stock Exchange

By email [violetta.codreanu@asx.com.au](mailto:violetta.codreanu@asx.com.au)

Dear Ms Codreanu,

## ASX Query Letter dated 21 February, 2019

We refer to your letter dated 21 February, 2019 addressed to Niuminco Limited (which we take to read Niuminco Group Limited – “NIU” or “the Company”) 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.

### **Ability to Raise Capital – Effect of Suspension**

Contrary to the statement in your query letter, the Company is able to raise capital without issuing a prospectus. NIU has the capacity to place up to 675,040,017 shares and as noted below was intending, and still intends, to place shares subject to the current suspension being lifted and its shares being able to be placed and traded.

On 21 February 2019, at around 11.25am, I received your telephone call in which you informed me the ASX intended suspending NIU's securities that day, and that you were forwarding a letter which would be emailed to me shortly thereafter, which would be requesting responses to queries by 14 March, 2019. This letter was received at 11.28 am followed thereafter by another email at 11.48am attaching the ASX release announcing the suspension of NIU's shares.

In that conversation I expressed both surprise and disappointment that firstly, NIU would not have the right to reply before this action was taken and secondly, that this would have an extremely

deleterious effect on NIU's ability to raise capital through share placements, if not make it impossible. I further advised you that NIU was in the process of attempting to raise capital, that I had concluded meetings with two firms of brokers the previous day, and was attending a meeting at 2.00pm that day with a senior manager in Private Banking with one of the four major Australian Banks. I again rang you following that meeting to confirm my earlier fears had been realized and advised you that this gentleman had stated (quite expectedly) that he would not be able to advance a proposal with NIU's shares suspended.

It is our view that it is simply not possible for the Company to place shares, or receive commitments for share placements, whilst NIU shares remain suspended.

In addition, and as discussed in our telephone conversation, NIU has over the past 3 months been in discussions and negotiations with a number of companies in respect of potential joint ventures and/or acquiring their assets by way of share placements, with subsequent capital raisings. Again, whilst some of these negotiations are continuing, the suspension of trading has made a number of the transactions impossible to conclude or advance further at the present time.

#### **“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.**

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 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".

The estimated sales in the footnote versus actual sales, or the estimated cash outflows versus the actual cash outflows were not considered then, or now, to be "material information".

We further note that under the table of "key figures" for the eight Quarters ended 31 March, 2017 to 31 December, 2018 in your Query letter, neither the "Estimated cash outflows for the next quarter" nor the actual "cash outflows from operating activities" for each of those quarters are included.

The estimated cash outflows for that period totaled \$4,600,000, while the actual cash outflows from operating activities figure totaled \$2,969,000. These figures, and the difference of \$1,631,000 (**averaging \$204,000 per quarter**), were also not considered to be "material information" by NIU, nor does it appear by the ASX.

### **NIU as an "exploration entity"**

As you are aware, over the past 5 years the Company has twice requested/proposed (once verbally and once in writing) that the Company be reclassified as a "Mining Producing Entity" rather than an "Exploration Entity" for the reasons outlined in our letter of 12 October 2018, which is reproduced here:

"Dear Ms Codreanu,

Re : RE-CLASSIFICATION OF NIUMINCO GROUP LIMITED TO A "MINING PRODUCING ENTITY"

*As discussed, the Board of Niuminco Group Limited ("NIU", "Niuminco" or the "Company") wishes to have the Company re-classified as a "mining producing entity" as defined in Chapter 19 of the ASX Listing Rules, and herewith makes application.*

*We submit that Niuminco clearly falls within this definition – "an entity whose activities or the principal part of whose activities consist of the extraction of a mineral, oil or gas" – and has done so consistently for at least the past 4.5 years since February 2014, when the Company recommenced its mining and processing operations at Edie Creek.*

*We refer the ASX to the Company's quarterly 5B Reports from March 2014 through to the most recent June 2018 report. Over this period, in 16 of the 18 Quarters sales revenue has exceeded exploration spending, and in all 18 Quarters, spending on "production, development and staff" has far exceeded spending on exploration, with the total mining production spending for this period (\$5,290,000) exceeding the exploration spending (\$490,000) by a multiple of greater than 10.*

*Niuminco's Edie Creek Mine is one of only 8 operating mines in Papua New Guinea and comes under the regulation of the Mineral Resources Authority (MRA) and the PNG Mining Act (1992). The mine consists of 6 granted Mining Leases (MLs), 5 of which are contiguous and currently the subject of a consolidation application into one ML.*

*These MLs were renewed in 2001/2 and again in 2011/12 for 10 years to 2021/2.*

*The company is required to, and provides, statutory monthly production, sales and Royalty Return Reports to the MRA which detail the quantity of "ore" processed, gold and silver produced and sold in that month.*

*With the recent non-renewal of 2 of Niuminco's PNG exploration licences and the floating of its previously controlled TNT Mines Limited on the ASX last year, the Edie Creek mining lease assets now represent 99.55% of Niuminco's total assets.*

*In Papua New Guinea Niuminco employs 52 people, 49 of whom work at the Edie Creek mine and 3 staff who work in an office in Lae, providing logistical and administrative support to the mine and to any exploration programs underway from time to time.*

*The Company uses one local contract geologist on a full-time basis in a management/supervisory role at Edie Creek, and consulting Australian geologists when required.*

*In light of these facts, we respectfully suggest that it is evident that Niuminco Group Limited falls within the Chapter 19 Listing Rules' definition of a "mining producing entity", and that it would be appropriate for the ASX to re-classify the Company accordingly.*

*We look forward to your earliest consideration and response."*

This and the previous request/proposal were rejected by the ASX. As a "mining producing entity" the Company would have been both willing and able to provide the then required "guidance" forecasts and actual production and sales data on a regular basis, or as required. In this regard, we refer you to the Company's ASX release on 17 October, 2018 which was in response to an ASX query in relation to the wording of earlier releases on 14 and 20 September 2018, where actual production and in particular actual grade results had been announced. The release of 17 October 2018 explained in detail the daily mining, processing and recording operations and sales process at the Edie Creek mine, and the daily availability of such figures.

Had the ASX requested or required NIU to report or announce these figures at more frequent intervals, the Company would have been, and remains, willing to do so. We further note that the ASX did not query the "estimated sales and other receipts" footnotes for nearly two years, notwithstanding the fact that they have been included in each Appendix 5B report since March 2017, and had the Company been requested to remove them it would have done so.

The Company is aware, and clearly understands that in the circumstances where a company is classified as a "mining producing entity" then variations in forecast sales and/or production **may** be considered as "material information" and accordingly released to the market.

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

We reiterate, 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 or the ASX.

**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.

As stated above, these major events have been outlined and summarized in the 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.

In particular, the loss of mains power to the site, the following 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.

### **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 as stated above. 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. **NOT FOR RELEASE** – The two broking firms are Curran and Co and MPS Securities. The bank executive is Mr Richard Borysiewicz, Managing Partner – NABprivate. National Australia Bank Limited. Potential JV partners are Harmony Gold and AMD Resources Limited. The four groups of companies/advisors in respect of asset acquisitions/mergers are Asia Pacific Resources Pte Ltd, GBM Resources Ltd (through PCF Capital), Coral Sea Venture Limited, Ballygowan Ltd/Hardrock Ltd.
- b) NIU is 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 quarter if necessary. Under the 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.

2. I refer to our statements above on "Material Information" and "Exploration Entities" and reconfirm that as explained the Company did not consider it had an obligation to release this information other than in the normal course of releasing its quarterly "Activities" and "Appendix 5B" reports.

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 strongly 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 a very key factor and major variable.

As stated in those sections, "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.**", and ;

"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."

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 mobile 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 mobile mining fleet capacity to access and mine previously unmined areas of relatively higher grade material.

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 (24.6 ounces) 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, and 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.** The Company would again point out the negative impact that the ASX suspension has had on its ability to raise capital, and the importance of the suspension being lifted so as to allow NIU to place shares and raise capital, subject to the Company's Half Yearly Report being lodged, which as advised to you last week, will not be completed by 15 March, 2018.

NIU's ability to raise capital has been clearly demonstrated over the past 7 years, and is self-evident from the "key figures" presented in the table in your Query Letter, which totals \$1,673,000 over the past 8 quarters.

Additionally, as outlined above, NIU has been, and is continuing to negotiate the acquisition or merging of assets which could have the potential to significantly expand the Company's asset base, strengthen its future earnings capacity and balance sheet, and further enhance its capital raising capabilities.

**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', written over a light yellow background.

Tracey Lake  
Managing Director and Company Secretary