10 July 2019

Ms Kate Kidson
Principal Adviser
Listings Compliance (Melbourne)
ASX Limited

By email: ListingsComplianceMlebourne@asx.com.au

Dear Ms Kidson

ASX Correspondence

We refer to the letter forwarded by ASX to ViaGold Capital Limited (**VIA**) on 25 June 2019 (**Letter**).

In the Letter, ASX has requested some additional confirmation regarding:

(i) VIA's interest in Shenzhen Xunda Investment Co. Limited (**SXIC**) and in Changzhou Hailin Rare Earth Company Limited (**Changzhou Hailin**); and

(ii) the circumstances surrounding the 'Profit Guidance' released by VIA to the market on 3 June 2019 (including further detail regarding the explanation provided by VIA to ASX on 6 June 2019 in response to the ASX's 'Aware Query' of 4 June 2019).

In respect of the above, ASX has made several requests in the Letter for specific information and the supporting documents. Please see the following responses to the questions asked by ASX:

1. Please confirm that Changzhou Hailin is not the same entity as Jintan Hailin

The references to 'Changzhou Hailin Rare Earth Company Limited' and to 'Jintan Hailin Rare Earth Company Limited' are references to the same entity. While the entity was formerly named 'Jintan Hailin Rare Earth Company Limited', its name was formally changed to 'Changzhou Hailin Rare Earth Company Limited' in late 2016 (i.e. after completion by VIA of the acquisition of Polygoal).

By way of explanation, Jintan, where the rare earth company is based, is a district within the city of Changzhou in People's Republic of China (**PRC**) and, while the company's formal name is 'Changzhou Hailin Rare Earth Company Limited', it is common practice in PRC, because 'Jintan Hailin' is a recognised name in the rare earth sector and the company's primary business is located in Jintan), to refer to the company by either name.

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Note: In recognition of the potential confusion that may have been caused by the use of the former name of the company, in order to avoid future confusion, the Board of VIA has resolved to refer to the company in the future by Changzhou Hailin Rare Earth Company Limited only.

2. Please provide the ASX with the following:

(a) copy of agreement(s) entered into by Viagold to acquire Polygoal:

Please find the following enclosed:

(i) Agreement for the Sale and Purchase of the Entire Issued Share Capital of Polygoal Capital Limited dated 22 January 2016.

(b) copy of agreement(s) which have the effect of giving SXIC 100% control over Hailin RE:

Please refer to the following attached documents:

(i) Exclusive Technology Consulting and Services Agreement dated 31 December 2015;

(ii) Voting Rights Proxy Agreement dated 31 December 2015;

(iii) Call Option Agreement dated 31 December 2015;

(iv) Operating Agreement 31 December 2015; and

(v) Equity Pledge Agreement 31 December 2015.

The above documents are referred to collectively in this response as the '**Changzhou Hailin Agreements**'.

(c) a copy of agreement(s) through which SXIC has a "60% economic interest" in Hailin RE:

Please refer to the Changzhou Hailin Agreements, particularly documents (ii) to (v), listed above in response to Item (b).

(d) a copy of the legal opinion obtained from K-Bright Law Firm regarding the validity of these agreements, referred to in ViaGold's announcement titled "Part 2 of 2 – ViaGold – Notice of EGM (IER), released on MAP on 8 April 2016;

A copy of the Legal Opinion of K Bright Law Firm dated 8 April 2016 is attached.

3. State ViaGold's current percentage of economic interest in Hailin RE and, if different from original 60% stated in the Notice, provide detailed explanation of when, how and why that interest changed.

We note the 'Notice' referred to above is the Notice of Meeting dated 8 April 2016 for the meeting of VIA's shareholders which approved its acquisition of Polygoal Capital Limited.

The Notice referred to SXIC's economic interest in Changzhou Hailin as 60% which, as noted from the above, is held via the rights it holds under the Changzhou Hailin Agreements. SXIC's economic interest in Changzhou Hailin has not changed subsequent to the acquisition in 2016.

Importantly, the Notice did not expressly refer to VIA's indirect interest in Changzhou Hailin.

In VIA's letter to ASX dated 6 June 2019, VIA made the following statement:

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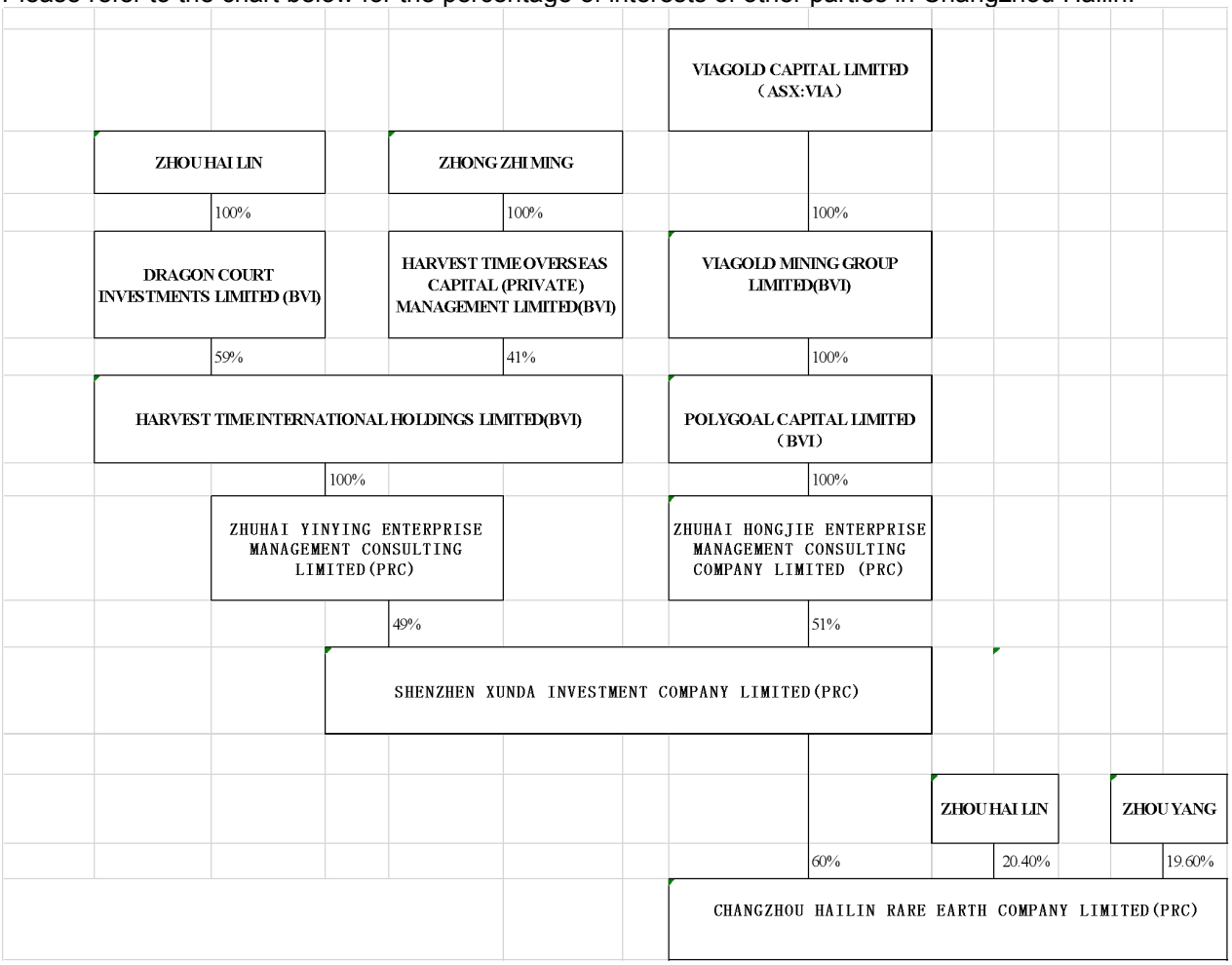
'Changzhou Hailin Mining Rare Earth Company Limited (**Changzhou Hailin**), which is 30.6% owned by VIA'

That statement accurately reflects VIA's indirect interest in Changzhou Hailin as it holds that indirect interest via its 51% subsidiary, SXIC (51% of 60% = 30.6%).

4. Assuming Changzhou Hailin is not the same entity as Jintan Hailin, provide detailed explanation of how, when and why Xunda came to have a 31% interest in Changzhou Hailin and a description of the other parties that have a 69% interest in Changzhou Hailin and how they hold that interest.

As explained above, 'Changzhou Hailin' and 'Jintan Hailin' are references to the same entity. Further, as noted in the 2018 and 2019 Annual Reports, the non-controlling interest (NCI) in Changzhou Hailin of 69% is a reflection (rounded-up) of the interests in that company not held by VIA (i.e. as above, if VIA has an indirect interest in Changzhou Hailin of 30.6%, the NCI will be 69% (rounded up).

Please refer to the chart below for the percentage of interests of other parties in Changzhou Hailin.



5. Explain why, if the inventory incident occurred in late March / early April 2019, VIA was not immediately notified by Changzhou Hailin.

VIA confirms that it became aware of the information concerning the inventory incident on or about 25 April 2019.

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Notification of the incident was by VIA's auditor. From VIA's subsequent investigation of the incident, it would appear that notification to VIA by the management team of Changzhou Hailin was delayed as a result of several intersecting factors:

(i) As the loss occurred as a result of a dispute between two third parties, and off site, the management team of Changzhou Hailin was not immediately aware of either the dispute, the unauthorised actions of the third party or the extent of the loss.

(ii) As the inventory had been removed to the side-walk (beside the external warehouse) and soaked by rain, the primary focus of the management team's efforts immediately after the unauthorised actions of the third party became known was recovery of the remaining stock (i.e. if the owner of the external warehouse was able to move the inventory inside and under cover, management was confident the inventory loss could be minimized). They were also concerned with recovery of lost stock and remediation of damaged stock.

(iii) The secondary focus of the management team was the determination of the value of the loss which has to wait for the wet stock to dry. They wanted to be able to give both VIA and the auditor (whose visit was approaching) a clear understanding of the situation before making a full report.

(iv) In a similar vein, the Changzhou Hailin management team made a unilateral decision not to inform VIA of the incident until all relevant remedial action had been taken, including the notifying of the incident to the local police. This appears to have been motivated by a desire on the part of the Changzhou Hailin management team to fix the problem before reporting it.

6. Explain what oversight and controls Viagold has over the operations of Hailin RE and how these arrangements are consistent with the representations to the market to the effect that VIA's board:

- **'constantly' monitors its operational and financial affairs; and**
- **ensures that VIA has an appropriate internal control environment in place to manage key risks.**

VIA exercises control over Changzhou Hailin in various ways. Representatives of Changzhou Hailin management team are required to report regularly on the business, operations and financial results of Changzhou Hailin. In addition, they must also attend monthly management meetings at VIA and report on the affairs of Changzhou Hailin. In conjunction with these monthly visits, members of VIA management make regular and unscheduled visits to Changzhou Hailin from time to time to assess progress against business plans and budgets and generally oversee the operations of Changzhou Hailin. In terms of financial reporting, Changzhou Hailin provides production reports, management accounts and other reporting (as required) to VIA on a monthly basis. Additionally, the VIA auditor (and his team) pay a minimum of two visits to Changzhou Hailin to assess inventory and formulate reports on Changzhou Hailin.

In VIA's opinion, Changzhou Hailin has a strong, capable and experienced management team. The core team has managed the rare earth refining and processing activities of Changzhou Hailin very efficiently and effectively since VIA's completion of the acquisition of Polygoal Capital Limited in 2016. In that sense, VIA has had no cause to believe, and did not believe, that Changzhou Hailin was being inefficiently or inappropriately managed or that there was any particular reason to interfere in its management.

Further, as the incident was the result of a dispute between the warehouse and a third party, VIA does not believe that either it or the Changzhou Hailin management team could have foreseen it (or

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that Changzhou Hailin was likely to suffer any form of material loss due to a malicious and deliberate act of a third party with no connection to either VIA or Changzhou Hailin).

VIA is very comfortable that its overall supervision of the management of Changzhou Hailin has been careful and considered. It is, as noted above, confident in the management team and skills at Changzhou Hailin. However, unusual and/or totally unexpected incidents can and do occur. The fact that such incidents do occasionally occur does not of itself mean VIA's internal controls are inadequate. Nevertheless, there is always room for improvement and VIA is already looking into enhancements to its internal controls as a result of learnings from the recent incident.

7. If VIA's auditor informed it of the theft and damage of inventory "following completion of its annual stocktake", please explain why:

- **it took over one month from the date of notification (25 April 2019) to 31 May 2019 for VIA to ascertain the impact of the theft and rain damage on Changzhou Hailin's inventory; and**
- **VIA considers that, between 25 April and 31 May 2019, it was not in possession of information which a reasonable person would expect would have a material effect on the price or value of its securities for the purposes of Listing Rule 3.1, given that: I) it would appear that its auditors ought to have been in possession, following the stocktake, to provide a reasonable estimate of the inventory lost / damaged, and ii) VIA ought to have been able to infer the impact on its earnings from the estimated loss of inventory.**

As explained in VIA's letter to ASX on 6 June 2019, the delay in notification to the market (on 31 May 2019) of the impact of the theft and rain damage to Changzhou Hailin's inventory was caused by several factors:

(i) The inventory was not only removed to the side-walk but was also soaked by rain. It was not readily possible to determine the extent of the loss until the inventory was dried (April – June is the 'wet' season in the Yangtze River Delta region of PRC). Investigation of the actual extent of the loss is still continuing.

(ii) It has always been the position of VIA that Changzhou Hailin would recover some of the inventory which had been stolen and be able to remediate some or all of the damaged stock. Further, to the extent that part or all of the stolen stock could not be recovered and/or the damaged stock not remediated, VIA was very confident that it would recover compensation from the third party and/or warehouse owner for its actual loss consequent on the illegal removal of the inventory from the warehouse. As such, VIA was intending to address the issue in its FY19 Financial Statements in a different manner to 'writing off the total inventory' (as was ultimately insisted on by VIA's auditor).

(iii) Notification of the incident to the police was made after shortly the incident. The police visited the site several times and asked the representative of Changzhou Hailin to file a police report which resulted in a formal investigation. The initial investigation reinforced VIA's opinion that Changzhou Hailin would be able to recover compensation from the third party and/or warehouse owner for the actual loss. As a subsequent note:

(A) the police report (received on 4 June 2019) recommends a criminal case be instituted against the offending third party. The investigation established the illegal conduct of the other party and confirms that Changzhou Hailin is in a very good position to recover compensation for its loss; and

(B) the actual loss is still to be determined by the local police.

(iv) It was not until 31 May 2019 that the auditor of VIA finally resolved that the total inventory of Changzhou Hailin ought to be treated as fully impaired and an

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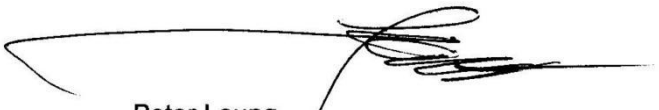
adjustment made accordingly to the Company's consolidated statement of profit and loss for the year ended 31 March 2019. The auditor's decision was not based on an assessment of the remaining inventory (or its value) or what could be recovered or remediated (which assessments are still ongoing at the present date). Rather, the auditor's decision was based on its view that any remaining value, recovery or compensation in the future will be deemed as income in future years (if it is treated as fully impaired for the FY19 year).

(v) While VIA did finally decide to accept the decision of its auditor (and make its market announcement accordingly on 31 May 2019), prior to that date it had been of the view that there was no reason to write off all the inventory (and certainly not beyond the value of the remaining stock plus the value of the stock likely to be recovered and/or remediated). It was VIA's view that the remaining inventory (and its value) plus what could be recovered or remediated and the likely compensation were all relevant factors in determining the financial and accounting impact of the incident and that, accordingly, appropriate notes to and/or provisions in the FY19 financial statements were appropriate (rather than fully impairing all inventory in the FY19 financial report). This view was reinforced by the fact that the extent of the loss (if any and if material) was at that time, and still remains, an unsettled matter.

(vi) Once the Directors of VIA resolved to accept the view of its auditor and to finalise its FY19 accounts accordingly, VIA made an immediate announcement to ASX about the inventory write off and profit downgrade, which, as noted in the announcement, was largely attributable to the inventory write off.

For the reasons stated above, VIA does not believe that it has acted in a manner inconsistent with its disclosure obligations under ASX Listing Rule 3.1.

Yours faithfully



Peter Leung
Director and Company Secretary
ViaGold Capital Limited

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25 June 2019

Mr Peter Leung
Company Secretary
Viagold Capital Limited
53 Bilian Road
Jida District, Zhuhai
GUANGDONG, CHINA

By email only

Dear Mr Leung

Viagold Capital Limited ('VIA')

Background

A. On 8 April 2016, VIA released a notice of extraordinary general meeting and explanatory statement ("**Notice**") on the ASX market announcements platform ("**MAP**"), regarding its proposed acquisition of 100% of the issued capital of Polygoal Capital Limited ("**Polygoal**"). By so doing, VIA would acquire (amongst other interests):

   i. all of Polygoal's 51% interest in Shenzhen Xunda Investment Co. Limited ("**SXIC**"); and

   ii. indirect control of SXIC's "60% economic interest" in Jintan Hailin Rare Earth Co. Ltd ("**Jintan Hailin**") and 50% equity interest in Maoming Jinsheng Minerals Co. Ltd.

   According to the Notice, notwithstanding that SXIC has only a 60% interest in Jintan Hailin, it has "100% control" of it "through a series of agreements permitted under the PRC laws".

B. On 4 June 2019, ASX sent a letter to VIA regarding its announcement titled "Profit Guidance", released on MAP on 3 June 2019.

C. On 6 June 2019, VIA sent ASX its response to that letter. Both letters were released on MAP on 7 June 2019 and are available here:

   https://www.asx.com.au/asxpdf/20190607/pdf/445pf127wmd2cn.pdf

D. In response to questions 3 and 4 from ASX's last letter, VIA disclosed that:

   i. In late March / early April 2019, inventory that had been in the custody of VIA's 30.6% owned associated company, Changzhou Hailin Mining Rare Earth Company Limited ("**Changzhou Hailin**"), was stolen and / or damaged by rain.

   ii. On or about 25 April 2019, VIA became aware of the incident.

   iii. The incident was brought to VIA's attention by its auditor "following completion of its annual stocktake."

   iv. On 31 May 2019, VIA's auditor told VIA that the total inventory of Changzhou Hailin ought to be fully impaired, and VIA's earnings for the period ended 31 March 2019 accordingly reduced.

   v. "*Once notified by its auditor of the stolen and rain-affected inventory, in conjunction with Changzhou Hailin, VIA initiated an investigation to determine the extent of the inventory loss and damage and, second, what, if anything, could be done to recover the stolen inventory and / or remediate the rain-affected inventory*."

E. On 24 June 2019, VIA's annual report for the period ended 31 March 2019 (the "**FY19 Annual Report**") was released on MAP, and contained the following statements:

i. In the Chairman's address to shareholders (page 1):

"*The segment loss in rare earth refining and separation was AUD24,900,000 (2018: loss of AUD170,000) which was mainly attributed to (1) the complicated and ever-changing market environment challenging the rare earth sector and (2) an incident led by theft and illegal move* [sic] *by third party of the inventory at an external warehouse that itself led to a loss of AUD 21,440,000. The rare-earth processing associate entity has already filed the incident with the local police in Changzhou and is going put* [sic] *the external warehouse owner into full responsibility to recover the loss of value of the inventory.*"

ii. In the notes to the consolidated financial statements (page 81) (emphasis added):

"The Company and its subsidiaries do not hold any equity interests in Jintan Hailin Rare Earth Company Limited, nor, [sic] *in any of its subsidiaries. Nevertheless, under the contractual agreements entered into between the Group, Jintan Hailin Rare Earth Company Limited and the ultimate controlling shareholders who are the registered owners of Jintan Hailin Rare Earth Company Limited, the directors of the Company determine that the Group has the power to govern the financial and operating policies of Jintan Hailin Rare Earth Company Limited so as to obtain benefits from their activities. As such, Jintan Hailin Rare Earth Company Limited is accounted for as a subsidiary of the Group for accounting purposes."* [1]

ASX notes that the FY19 Annual Report describes Jintan Hailin as a subsidiary of VIA and that the proportion of ownership interests and voting rights indirectly held by "material non-controlling interests" in Jintan Hailin is 69%,[2] but makes no reference to Changzhou Hailin being an associated entity of VIA.

iii. In the Corporate Governance Statement (page 14), included pursuant to listing rule 4.10.3:

No.	***ASX Key Governance Principles***	***Compliance***	***Non-compliance***
7	***Recognise and manage risk***		
7.1	*Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies*	*The Board is responsible for the Company's system of internal controls. The Board constantly monitors the operational and financial aspects of the Company's activities. Through the Audit Committee, the Board considers the recommendations and advice of external auditors and other advisers on the operational and financial risks that are facing the Company*	*Not applicable*

[1] An equivalent statement is made in note 32 of the FY19 Annual Report and notes 4 and 32 to VIA's annual report for the period ended 31 March 2018 (the "**FY18 Annual Report**"), released on MAP on 27 June 2018.
[2] at page 109.

7.2	*The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reporting to it as to the effectiveness of the Company's management of its material business risks.*	*Where necessary, the Board ensures that its recommendations are investigated and appropriate action is taken to ensure that the Company has an appropriate internal control environment in place to manage the key risks identified. In addition, the Board investigates ways of enhancing existing risk management strategies, including appropriate segregation of duties,* [sic] *the employment and training of suitably qualified and experienced personnel.*	*Not applicable.*

Request for Information

Further to the queries and responses in those letters, ASX asks VIA to respond separately to each of the following questions and requests for information:

1. Please confirm that Changzhou Hailin is not the same entity as Jintan Hailin.
2. Please provide ASX with the following (not for release to the market):
    a. a copy of the agreement(s) entered into by VIA to acquire Polygoal;
    b. a copy of the agreement(s) which have the effect of giving SXIC 100% control over Jintan Hailin;
    c. a copy of the agreement(s) through which SXIC has a "60% economic interest" in Jintan Hailin;
    d. a copy of the legal opinion obtained from K-Bright Law Firm regarding the validity of these agreements, referred to in VIA's announcement titled "Part 2 of 2 – ViaGold – Notice of EGM (IER)", released on MAP on 8 April 2016; and
    e. if and to the extent that any of the documents above are not in English, a certified translation of the document into English.
3. Please state what is VIA's current percentage economic interest in Jintan Hailin and, if it is different from the 60% originally stated in the Notice, provide a detailed explanation of when, how and why that economic interest has changed.
4. Assuming Changzhou Hailin and Jintan Hailin are not the same entity, please provide a detailed explanation of how, when and why VIA came to have a 31% interest in Changzhou Hailin and a description of the other parties that have a 69% interest in Changzhou Hailin and how they hold that interest.
5. Please explain why, if the inventory incident occurred in late March / early April 2019, VIA was not immediately notified by Changzhou Hailin.
6. Please explain what oversight and controls VIA has over the operations of its associate Changzhou Hailin and how these arrangements are consistent with the representations to the market reproduced in paragraph E.iii above to the effect that VIA's board:

- ‘constantly’ monitors its operational and financial affairs; and
- ensures that VIA has an appropriate internal control environment in place to manage key risks.

7. If VIA’s auditor informed it of the theft and damage of inventory “following completion of its annual stocktake”, please explain why:

   a. it took over one month from the date of notification (25 April 2019) to 31 May 2019 for VIA to ascertain the impact of the theft and rain-damage on Changzhou Hailin’s inventory; and

   b. VIA considers that, between 25 April and 31 May 2019, it was not in possession of information which a reasonable person would expect would have a material effect on the price or value of its securities for the purposes of listing rule 3.1, given that: i) it would appear that its auditors ought to have been in a position, following the stocktake, to provide a reasonable estimate of the inventory lost / damaged, and ii) VIA ought to have been able to infer the impact on its earnings from the estimated loss of inventory.

When and where to send your response

This request is made under listing rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **9:30 AM AEST Friday, 12 July 2019**.

You should note that if the information requested by this letter is information required to be given to ASX under listing rule 3.1 and it does not fall within the exceptions mentioned in listing rule 3.1A, VIA’s obligation is to disclose the information “immediately”. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require VIA to request a trading halt immediately.

If you wish to request a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted.

You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

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.

Your response should be sent to me by e-mail at **ListingsComplianceMelbourne@asx.com.au**. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Listing rules 3.1 and 3.1A

In responding to this letter, you should have regard to VIA’s obligations under listing rules 3.1 and 3.1A and also to Guidance Note 8 *continuous disclosure: listing rules 3.1 – 3.1B*. It should be noted that VIA’s obligation to

disclose information under listing rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Suspension

If you are unable to respond to this letter by the time specified above ASX will likely suspend trading in VIA's securities under listing rule 17.3.

Enquiries

If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely

Kate Kidson

Principal Adviser, Listings Compliance (Melbourne)