

7 July 2020

## HGM to Acquire Mongolian Coal Seam Gas Projects

### HIGHLIGHTS

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- **Binding agreement to acquire 100% of the issued capital of Jade Gas Pty Ltd (Jade);**
- **Jade is focused on the emerging coal seam gas (CSG) sector in Mongolia;**
- **The key asset of Jade is:**
  - **A 60% interest in a joint venture with state-owned enterprise, Erdenes Methane LLC (EM), which holds a Production Sharing Agreement with the Mineral Resources and Petroleum Authority of Mongolia (MRPAM) to explore and exploit coal seam gas**
- **HGM to consolidate existing shares, performance shares and options on issue on a 1 for 5 basis, and then issue a prospectus to raise up to A\$6 million at 3c per share;**
- **HGM to issue the Jade shareholders, 826,166,667 fully paid ordinary shares and 68,000,000 options (refer Table 1 below);**
- **Jade to appoint two additional directors to the Board of HGM; and**
- **The Transaction is subject to conditions, including completion of satisfactory due diligence, shareholder approval, ASX approval and the Company's re-compliance with Chapters 1 and 2 of the ASX Listing Rules. The Company's shares will remain voluntarily suspended until such time as the Transaction completes or is terminated.**

### ***Important Note:***

- ***HGM must comply with ASX's admission and quotation requirements and therefore the Transaction may not proceed if those requirements are not met; and***
- ***ASX has absolute discretion in deciding whether to re-admit HGM and to quote its securities.***

High Grade Metals Ltd (ASX: HGM) ("**HGM**" or the "**Company**") is pleased to announce it has signed a binding Term Sheet (the Transaction) to acquire 100% of the issued capital of Jade Gas Pty Ltd (Jade). The key asset of Jade is a 60% interest in a joint venture with the Mongolian State-owned enterprise, Erdenes Methane LLC (EM), a subsidiary of Erdenes Mongol LLC, which holds a Production Sharing Agreement with the Mineral Resources And Petroleum Authority of Mongolia (MRPAM) to explore and exploit coal seam gas over the major coal field known as Tavan Tolgoi.

#### High Grade Metals Ltd

ACN: 062 879 583  
ASX: HGM

#### Issued Capital

452,937,867 Shares  
135,500,000 Options  
240,000,000 Perf Shares

#### Australian Registered Office

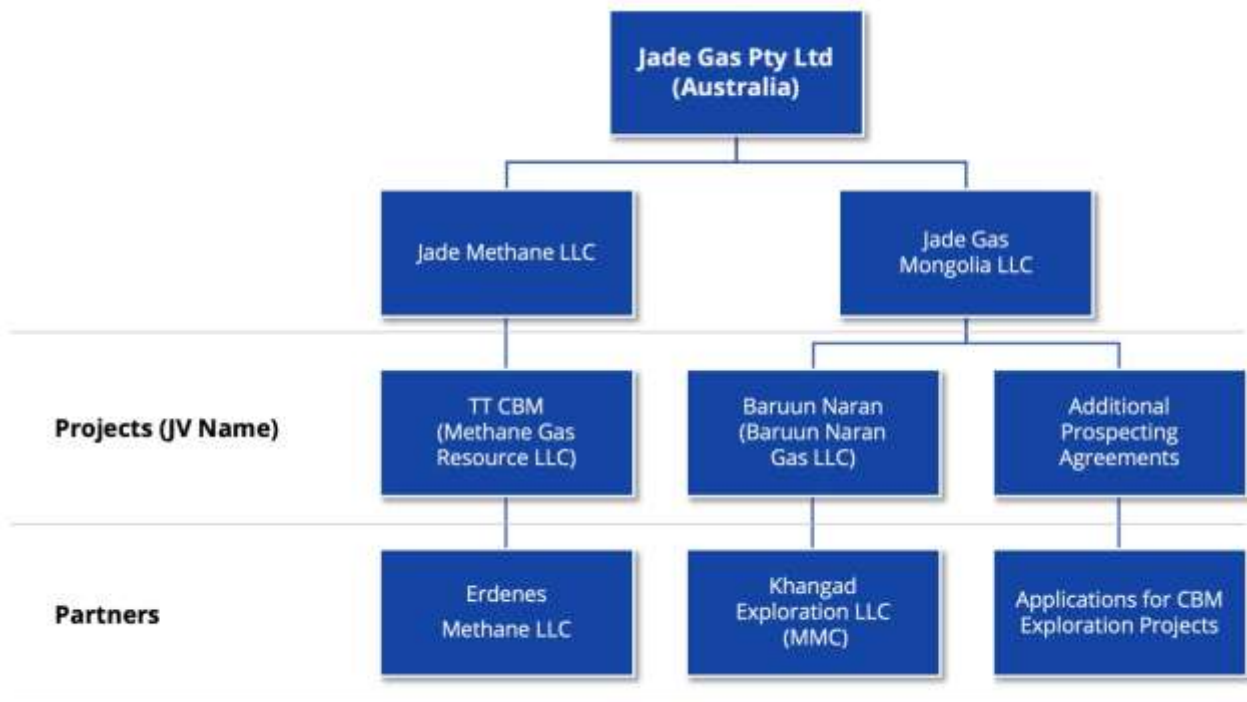
Level 2, 480 Collins Street  
Melbourne VIC 3000

#### Directors

Anthony Hall – Executive Chairman  
Brad Drabsch – Executive Director  
Steve Formica – Non-Executive Director  
Adrien Wing – Non-Executive Director / Company Secretary

### About Jade Gas Pty Ltd

Jade is an Australian company which has been established as the holding entity for various current and proposed coal seam gas projects in Mongolia.



**Figure 1: Jade Gas Corporate and Project Structure**

### Jade Gas Projects & Partners

#### Overview

Jade is focussed on the coal seam gas (CSG) potential of Mongolia. Mongolia is located between Russia to the north and Peoples Republic of China to the south. Jade’s current activities are located in the South Gobi region approximately 200 km from the border with China.



**Figure 2: Mongolia location map**

Executives of Jade have been involved in Mongolian natural resource projects dating back to 2009. In 2018, the team commenced an investigation of the CSG potential in and around the abundant coal resources in the South Gobi region of Mongolia. In May 2019, Jade entered into an Investment Agreement with Erdenes Methane and in 2H CY19 undertook and successfully completed a detailed work program under a Prospecting Agreement held by EM over the licence area. The joint venture with Khangad Exploration LLC (KE) was established in August 2019.

### **Joint Venture with Erdenes Methane LLC (EM)**

A joint venture company, Methane Gas Resource LLC (**MGR**), has been established to undertake the work in Mongolia. MGR is owned 60% by a 100% owned Jade subsidiary (Jade Methane LLC) and 40% by Erdenes Methane LLC, a 100% owned subsidiary of Erdenes Mongol LLC.

The Production Sharing Agreement (**PSA**) with the Mineral Resources and Petroleum Authority of Mongolia (**MRPAM**) provides the right to explore and exploit CSG over the area of the Tavan Tolgoi coal field covered by seven mining licenses MV-016881, MV-016882, MV-016883, MV-011953, MV-011954, MV-011955 and MV-011956 covering a total of 665km<sup>2</sup>.

The PSA has been awarded to Erdenes Methane LLC. Under the joint venture agreement between Jade Methane LLC and Erdenes Methane LLC the PSA must be transferred to MGR. This process is in train and is subject to Government approval.



**Figure 3: Map showing the location of the Projects within Mongolia**

The PSA allows for up to 10 years of exploration and a further 30 years of CSG exploitation.

Under Jade's Investment Agreement with Erdenes Methane, Jade must sole fund the project to the completion of a Definitive Feasibility Study, at which time both parties must continue to fund the project on a pro rata basis, subject to certain conditions.

### **Joint Venture with Khangad Exploration LLC (KE)**

An agreement with Khangad Exploration LLC (an indirectly wholly-owned subsidiary of MMC holding 34%) and Jade Gas Mongolia LLC (a 100% owned Jade subsidiary holding 66%), under which the Jade subsidiary must sole fund the project to the completion of a Definitive Feasibility Study. Subject to the outcome of Definitive Feasibility Study, the parties shall mutually agree involvement in further development of the project, including funding obligations of each party.

The project is also located in South Gobi approximately 10km further west from the license area worked by MGR. The project will be conducted within area covered by mining licenses MV-014493 and MV-017336 granted to Khangad Exploration LLC.

Limited work has been undertaken on the CSG potential of these coal licences.

### **Exploration Data and Studies**

Jade is in possession of exploration data and some applicable studies with respect to the Projects. The due diligence to be conducted by the Company, including an assessment and review of this data is currently being completed and it is anticipated that this data will be the subject of a report in the prospectus to be issued by the Company to raise funds and re-comply with Chapters 1 and 2 of the ASX Listing Rules.

### **Other Proposed Projects**

The Company understands that Jade is pursuing additional corporate development opportunities which may take the form of additional joint ventures or applications for additional exploration licences in Mongolia.

The status and details of the proposed corporate development opportunities will form part of the Company's due diligence investigations and further details and updates will be provided in due course.

### **Acquisition Terms**

<p><b><u>Consideration</u></b></p>	<p>Subject to the satisfaction of the relevant conditions, and on the assumption that the Company conducts and completes a consolidation on 5:1 basis (i.e. that every five existing shares are consolidated to one share), the Company intends to acquire 100% of the issued capital in Jade in consideration of the issue of the following to the shareholders of Jade:</p> <ul style="list-style-type: none"> <li>- 826,166,667 fully paid Ordinary Shares at Completion; and</li> <li>- 68,000,000 Options with a term of four years from 30 June 2019 and a strike price of 4.5c.</li> </ul>
<p><b><u>Conditions</u></b></p>	<p>The Transaction is subject to and conditional upon the satisfaction of certain conditions precedent including:</p> <ul style="list-style-type: none"> <li>- Both parties obtaining all regulatory and shareholder approvals</li> <li>- Completion of the Capital Raising (described below)</li> <li>- Completion of detailed due diligence by the Company</li> <li>- Execution of definitive legal documentation</li> <li>- The Company obtaining confirmation from ASX that the Transaction and the post-completion structure and operations of the Company are suitable</li> </ul>

	<p>for listing and thereafter the Company re-complying with Chapters 1 and 2 of the ASX Listing Rules</p> <ul style="list-style-type: none"> <li>- Various other conditions related to pre-completion actions of Jade including conditions relating to maximum net liabilities, the absence of material adverse events and the status and progression of the proposed projects discussed above.</li> </ul> <p>The Terms Sheet provides that additional conditions may be included in the definitive documentation arising from the outcome of due diligence.</p>
<p><b><u>Proposed Board and Management</u></b></p>	<p>On completion of the Transaction, the Company proposes to appoint two Jade directors to the Board of HGM, being Mr Joseph Burke and Mr Daniel Eddington. Messrs Dennis Morton, Brad Drabsch and Anthony Hall will remain on the Board.</p> <p>Mr Burke has spent 30 years working in Asia and has lived in China, Korea, Japan and Thailand, and has been involved in Mongolian mining enterprises since 2009. He was instrumental in the 2011 US\$500m takeover by Thai energy focused conglomerate Banpu plc of ASX listed Hunnu Coal Limited (ASX:HUN). Mr Burke was a Director and founding partner of Starboard Global, CEO of ASX listed Voyager Resources Limited (ASX: VOR), and a Director of ASX listed Avenue Resources Limited (ASX:AVY) (now Harvest Minerals Limited). He has also undertaken advisory roles with other ASX listed entities including American Pacific Borates Ltd (ASX:ABR), and Black Rock Mining Limited (ASX:BKT).</p> <p>Mr Burke holds an MBA from the Australian Graduate School of Management (AGSM).</p> <p>Mr Eddington has over 20 years' experience in the financial markets with experience across multiple sectors including the resource, energy and industrial sectors. He specialises in equity capital markets and has been responsible for IPO's, placements, reverse takeovers, underwritings, corporate negotiations and corporate advisory for companies predominantly in the resource sector.</p> <p>Mr Eddington has a Bachelor of Commerce Degree from The University of South Australia and a Graduate Diploma in Applied Finance &amp; Investment from the Securities Institute of Australia.</p>
<p><b><u>Other Terms</u></b></p>	<p>The Terms Sheet otherwise contains terms which are typical for an agreement of a similar nature including warranties and representations, requirements on Jade to maintain (or procure the maintenance of) licences, pre-completion activities of the parties, confidentiality and dispute resolution.</p>

### Capital Raising and Consolidation

As part of the re-compliance process, the Company will issue a prospectus to raise up to \$6 million through the issue of ordinary shares at an issue price of 3c per share (post the proposed share consolidation). The consolidation is currently proposed on a 5:1 basis (i.e. every five shares held will consolidate to one share), subject to consultation with ASX.

### Re-Compliance with Chapters 1 and 2 of ASX Listing Rules

The Transaction requires approval under ASX Listing Rule 11.1.2 and therefore may not proceed if that approval is not forthcoming.

The entity is required to re-comply with ASX's requirements for admission and quotation and therefore the transaction may not proceed if those requirements are not met. ASX has an absolute discretion in

deciding whether or not to re-admit the entity to the official list and to quote the securities and therefore the Transaction may not proceed if ASX exercises that discretion. Investors should take account of these uncertainties in deciding whether or not to buy or sell the entities securities.

The issue of the prospectus referred to above will also form part of the requirements for the Company to satisfy the requirements of Chapters 1 and 2 of the ASX Listing Rules.

ASX takes no responsibility for the content of this announcement.

### **ASX Waivers and Confirmations Requirements**

The Company intends to seek a waiver from the requirements of Listing Rule 2.1 (Condition 2) to enable it to issue shares under the proposed capital raising at an issue price of less than \$0.20 (20 cents) per share and a waiver of ASX Listing Rule 1.1 Condition 12 to enable it to have options on issue at the time of re-compliance with an exercise price of less than \$0.20 (20 cents). The Company may also seek a waiver from the requirements of ASX Listing Rule 10.13.5 to allow securities for which shareholder approval may be sought under Chapter 10 of the ASX Listing Rules (for example, if shareholder approval is sought for related parties to participate in the capital raising) to be issued at the same time as other securities to be issued in connection with the Transaction.

The Company also anticipates making an application to ASX that escrow relief be applied to the securities to be issued to the vendors of Jade, who have historically invested in Jade, on a look-through basis such that some of the securities issued to the vendors of Jade will be free-trading at completion of the Transaction. The Company will confirm details of historic investment in Jade, including the relevant investing parties, as part of its due diligence.

Completion of the Transaction is also subject to and conditional upon ASX confirming that the Transaction and the post-completion structure and operations of the Company are suitable for listing and thereafter the Company re-complying with Chapters 1 and 2 of the ASX Listing Rules.

### **Indicative Capital Structure**

The indicative diluted post-Transaction capital structure (assuming a 5:1 consolidation) is set out below:

**Table 1: Indicative Capital Structure post completion**

<b>Revised HGM Capital Structure</b>	<b>Number</b>	<b>Fully Diluted %</b>
<b>Ordinary Shares</b>		
<b>Existing HGM Ordinary Shares</b>	90,587,573	7.19%
<b>Consideration Ordinary Shares</b>	826,166,667	65.58%
<b>Fundraise A\$6m at 3c</b>	200,000,000	15.88%
<b>Sub-total</b>	<b>1,116,754,240</b>	<b>88.65%</b>
<b>Other Equity</b>		
<b>Existing HGM Options*</b>	27,000,000	2.14%
<b>Existing HGM Performance Shares</b>	48,000,000	3.81%
<b>Consideration Options</b>	68,000,000	5.40%
<b>Sub-total</b>	<b>143,000,000</b>	<b>11.3.5%</b>
<b>FULLY DILUTED TOTAL</b>	<b>1,259,754,240</b>	<b>100.0%</b>

\* does not include the proposed 12m options to be issued to Dennis Morton subject to shareholder approval





### **Voluntary Suspension**

The Company intends to continue with a voluntary suspension of its ordinary shares until the earlier of termination of the Transaction or completion of the Transaction and re-compliance with Chapters 1 and 2 of the ASX Listing Rules.

The Company will provide further updates in due course.

Released with the authority of the Board.

**ENDS**

### **For further information, contact:**

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Executive Chairman  
Ph: +61 417 466 039

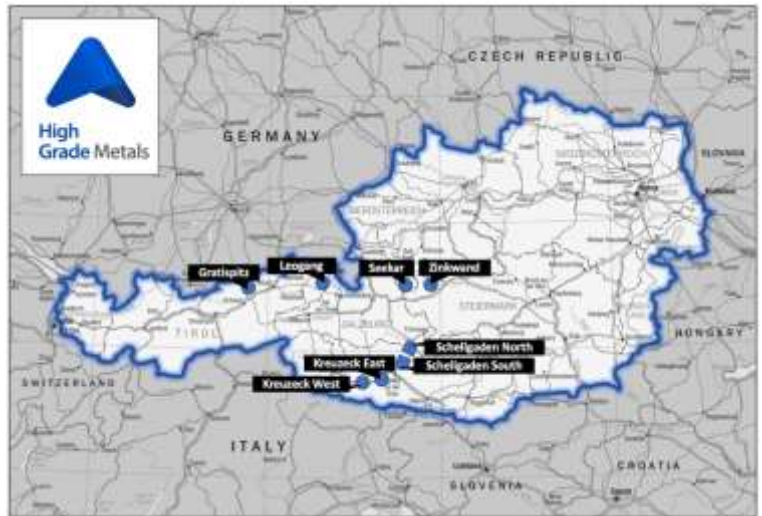
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### About High Grade Metals Ltd

High Grade Metals (ASX: **HGM**) is an ASX listed mineral exploration company with a portfolio of brownfields gold and cobalt projects located in Austria.

The assets comprise nine exploration areas that are considered prospective for gold and cobalt.

The Company is currently completing a review of its nine projects to determine a holistic approach to exploration activities focused on prospectivity and scale.



**Figure 3: Location of High Grade Metals' Projects within Austria**