



# JADE GAS

PROSPECTUS 2021

HIGH GRADE METALS LIMITED  
ACN 062 879 583

**TO BE RENAMED:  
JADE GAS HOLDINGS LIMITED**

This Prospectus is for an offer of 250,000,000 New Shares at an issue price of \$0.03 (3 cents) per New Share to raise \$7.5 million before costs, referred to herein as the Equity Offer.

This Prospectus also contains offers of:

- (a) 846,166,667 New Shares and 68,000,000 New Options as consideration for the acquisition of 100% of the issued capital of Jade Gas Pty Ltd (Vendor Offer);
- (b) 22,000,000 New Options to existing Directors (and/or their nominee(s)) (Incentive Option Offer); and
- (c) 12,000,000 Broker Options to the Lead Manager and/or its nominee(s) (Broker Option Offer).

LEAD MANAGER TO THE EQUITY OFFER:  
CANACCORD GENUITY (AUSTRALIA) LIMITED  
ABN 19 075 071 466 AFSL 234666

THE OFFER IS NOT UNDERWRITTEN

**IMPORTANT INFORMATION**

This is an important document that should be read in its entirety. If you do not understand it you should consult your professional advisers without delay. THE SECURITIES OFFERED UNDER THIS PROSPECTUS SHOULD BE CONSIDERED HIGHLY SPECULATIVE.

COMPLETION OF THE OFFERS IS CONDITIONAL upon satisfaction of certain conditions further details of which are set out in Section 2.

The Company has recently completed a consolidation of its existing issued capital on a 5 for 1 basis at the Shareholder Meeting. All numbers of securities, issue prices and exercise prices included in this prospectus are described on a post-consolidation basis and are subject to rounding.





**JADE GAS**

MONGOLIA: AN EMERGING  
EAST-ASIAN ECONOMY, RICH  
IN NATURAL RESOURCES





## General

This Prospectus (**Prospectus**) is dated 14 July 2021 and was lodged with ASIC on that date. ASIC and its officers take no responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

No person is authorised to give information or make any representation in connection with the Offer that is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by High Grade Metals Limited (**the Company** or **HGM**) in connection with this Prospectus.

It is important you read this Prospectus in its entirety and seek professional advice where necessary. The New Shares the subject of this Prospectus should be considered highly speculative.

## Re—compliance Prospectus

This Prospectus is a re-compliance prospectus for the purposes of satisfying Chapters 1 and 2 of the ASX Listing Rules and to satisfy the ASX requirements for re-admission to the Official List following a change in the nature and scale of the Company's activities. ASX and its officers take no responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

## Investment Advice

This Prospectus does not provide investment advice and has been prepared without taking account of your financial objectives, financial situation or particular needs (including financial or taxation issues). You should seek professional investment advice before subscribing for New Shares under this Prospectus.

## Expiry Date

No securities may be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

## Documents incorporated by reference

The Company's Constitution has been lodged with ASIC and is taken to be included in this Prospectus by operation of section 712 of the Corporations Act. Further detail is set out in section 14.3. Any person may request a copy of the Constitution during the application period of this Prospectus. A copy of the Constitution can also be downloaded at the website of the Company at <https://www.highgrademetals.com.au>

## Company Website

Other than the Constitution which is incorporated by reference as set out above, any other reference to documents included on the Company's website at <https://www.highgrademetals.com.au> are for convenience only. No documents or information available on the Company's website are incorporated by reference into this Prospectus.

## Forward-looking statements

This Prospectus contains forward-looking statements which are identified by words such as 'may', 'could', 'believes', 'estimates', 'targets', 'expects', or 'intends' and other similar words that involve risks and uncertainties.

These statements are based on an assessment of past and present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this Prospectus, are expected to take place.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company, its Directors and management.

Although the Company believes that the expectations reflected in the forward looking statements included in this Prospectus are reasonable, none of the Company, its Directors or officers, or any person named in this Prospectus, can give, or gives, any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur or that the assumptions on which those statements are based will prove to be correct or exhaustive beyond the date of its making. Investors are cautioned not to place undue reliance on these forward-looking statements. Except to the extent required by law, the Company has no intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus.

The forward-looking statements contained in this Prospectus are subject to various risk factors that could cause actual results to differ materially from the results expressed or anticipated in these statements. The key risk factors of investing in the Company are set out in Section 4 of this Prospectus.

## Privacy statement

By completing and returning an application or acceptance form, you will be providing personal information directly or indirectly to the Company, the Share Registry, the Lead Manager and other brokers involved in the Offer and related bodies corporate, agents, contractors and third-party service providers of the foregoing (**Collecting Parties**). The Collecting Parties collect, hold and will use that information to assess your application, service your needs as a Shareholder and to facilitate distribution payments and corporate communications to you as a Shareholder.

By submitting an application form, you authorise the Company to disclose any personal information contained in your application (**Personal Information**) to the Collecting Parties where necessary, for any purpose in connection with the



Offer, including processing your acceptance of the Offer and complying with applicable law, the ASX Listing Rules, the ASX Settlement Operating Rules and any requirements imposed by any public authority.

If you do not provide the information required in respect of your application, the Company may not be able to accept or process your acceptance of the Offer. If the Offer is successfully completed, your Personal Information may also be used from time to time and disclosed to persons inspecting the register of Shareholders, including bidders for your New Shares in the context of takeovers, public authorities, authorised securities brokers, print service providers, mail houses and the Share Registry.

Any disclosure of Personal Information made for the above purposes will be on a confidential basis and in accordance with the Privacy Act 1988 (Cth) and all other legal requirements. If obliged to do so by law or any public authority, Personal Information collected from you will be passed on to third parties strictly in accordance with legal requirements. Once your Personal Information is no longer required, it will be destroyed or de-identified.

Subject to certain exemptions under law, you may have access to Personal Information that the Collecting Parties hold about you and seek correction of such information. Access and correction requests, and any other queries regarding this privacy statement, must be made in writing to the Share Registry at the address set out in the Corporate Directory in Section 16 of this Prospectus. A fee may be charged for access.

#### **Currency**

All financial amounts contained in this Prospectus are expressed as Australian currency unless otherwise stated. All references to "\$" or "A\$" are references to Australian dollars.

#### **Web Site – Electronic Prospectus**

A copy of this Prospectus can be downloaded from the website of the Company at <https://www.highgrademetals.com.au>

The Corporations Act prohibits any person passing onto another person an application or acceptance form unless it is attached to a hard copy of this Prospectus or it accompanies a complete and unaltered version of this Prospectus. You may obtain a hard copy of this Prospectus free of charge by contacting the Company.

The Company reserves the right not to accept an application or acceptance from a person if it has reason to believe that when that person was given access to the application or acceptance form, it was not provided together with the Prospectus and any relevant supplementary or replacement Prospectus or any of those documents were incomplete or altered.

#### **Foreign offer restrictions**

This Prospectus may not be distributed outside Australia. The New Shares may not be offered outside Australia. If you are outside Australia it is your responsibility to obtain any necessary approvals for the Company to allot and issue New Shares to you pursuant to this Prospectus.

#### **Defined terms**

Unless the contrary intention appears or the context otherwise requires, words and phrases contained in this Prospectus have the same meaning and interpretation as given in the Corporations Act and capitalised terms have the meaning given in the Glossary in section 15 of this Prospectus.

#### **Time**

All references to time in this Prospectus are references to Australian Eastern Daylight Time.

#### **Trademarks**

All trademarks are the property of their respective owners and should not be interpreted to mean that any owner or user of a trademark endorses the Prospectus or its content or that a commercial or other relationship between an owner or user of a trademark exists.

#### **Photographs and Diagrams**

Photographs used in this Prospectus which do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses the Prospectus or its contents or that the assets shown in them are owned by the Company. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale.

#### **Enquiries**

If you are in any doubt as to how to deal with any of the matters raised in this Prospectus, you should consult your broker or legal, financial or other professional adviser without delay.

Should you have any questions about any of the Offers or how to accept any of the Offers, please call Adrien Wing, a Director and the Company's Secretary, on +61 3 9614 0600.





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## CHAIRMAN'S LETTER

Dear Investor

On behalf of the Directors, it gives me great pleasure to invite you to become a Shareholder in High Grade Metals Limited, to be renamed Jade Gas Holdings Limited (the **Company** or **HGM**).

I believe that the Tavan Tolgoi CBM Project is one of the most exciting projects I have seen, especially given the importance of decarbonisation within the broader ESG thematic. If we are able to execute on our strategy to develop a project to deliver gas to the Mongolian economy we have a real opportunity to:

1. Power the South Gobi with gas fired electricity as base load as opposed to coal fired electricity resulting in significantly lower carbon emissions; and
2. Aid broader Mongolian transition away from coal to gas fired electricity and heating;.

In July 2019, the Company entered into an agreement with Jade Gas Pty Ltd (ACN 631 515 225) (**Jade**) and certain key shareholders of Jade to acquire 100% of the issued capital of Jade (**the Acquisition**). On 30 June 2021, the transaction was approved by the shareholders of the Company subject to the satisfaction of certain conditions precedent.

Jade is a privately-owned gas exploration company which has entered into two joint ventures for the exploration and exploitation of coal seam gas (**CSG** or **CBM**) resources in Mongolia. The flagship project is the Tavan Tolgoi CBM Project (**TT CBM Project**) which is a 60/40 joint venture with Mongolian State-owned entity Erdenes Methane LLC to explore for and develop the CSG resources in the world class Tavan Tolgoi Coal Field area in the South Gobi region of Mongolia.

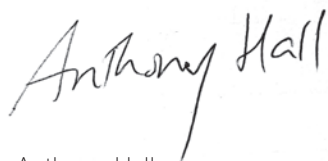
The Directors believe that the Acquisition will provide the opportunity for real value creation. The Board and management team of Jade has extensive experience in project evaluation and development in the resources sector, and has, since inception in early 2019, added significant value to the TT CBM Project and demonstrated an ability to build relationships with key stakeholders and operate efficiently in Mongolia.

This Prospectus is seeking to raise \$7,500,000.

Our focus is on turning the projects into Mongolia's first in country producers of gas.

I look forward to you joining us as a Shareholder and sharing in what we believe are exciting and prospective times ahead for the Company.

Before you make your investment decision, I urge you to read this Prospectus in its entirety, in particular section 5 which identifies circumstances that the Board regards as the major risks associated with an investment in the Company and seek professional advice if required.



Anthony Hall

Chairman

14 July 2021





# JADE GAS

## Active work program to commence post listing

**Importing expertise from Australia**, one of the world's leading CSG jurisdictions

## Operational history in Mongolia

The Jade team commenced assessment of the project in 2019, and carried out **the country's largest coal seam gas drilling campaign** to that point

**Proven ability** to work effectively in country and build and maintain relationships with key stakeholders

## Supporting Mongolia's energy transition

### Success for Jade will result in:

**Improving** the country's energy independence

**Improving** the energy mix with cleaner fuel sources, displacing heavier carbon alternatives

**Environmental**, health and wellbeing benefits for the people and country

### Multiple commercialisation channels to consider

Small scale **power and transport fuel** opportunities

**Longer term opportunities** to satisfy and grow the country's gas market and export potential





## KEY OFFER INFORMATION

### Indicative timetable

Lodgement of Prospectus with ASIC	14 July 2021
Offer Period opens	22 July 2021
Offer Period closes	13 August 2021
Issue of New Shares	30 August 2021
Dispatch of holding statements	31 August 2021
Re-quotation of Shares on ASX	3 September 2021

*The above dates are indicative only and may change without notice. The Company, in consultation with the Lead Manager, reserves the right to extend or shorten the offer period for the Equity Offer or close the Offers in its absolute discretion and without prior notice. The Company also reserves the right to not to proceed with all or part of the Offers prior to issue of New Shares.*

### The Offers

The Offers contained in this Prospectus are:

- The Equity Offer which is an invitation to apply for 250,000,000 New Shares (fully paid ordinary shares in the capital of High Grade Metals Limited (**HGM** or the **Company**)) at an issue price of \$0.03 (3 cents) to raise \$7.5 million before costs.
- The Vendor Offer of 846,166,667 New Shares and 68,000,000 New Options as consideration for the acquisition of 100% of the issued capital (or rights convertible to issued capital) of Jade Gas Pty Ltd (**Jade**). Only vendors of Jade (and/or their respective nominee(s)) (**Jade Vendors**) are eligible to accept the Vendor Offer.
- The Incentive Option Offer of 22,000,000 New Options. The Incentive Option Offer is only made to and capable of acceptance by certain existing Directors (and/or their nominee(s)) who receive a personalised application form from the Company to apply for and receive New Options under the Incentive Option Offer.
- The Broker Option Offer of 12,000,000 Broker Options to the Lead Manager and/or its nominee(s), for aggregate payment of \$50, as consideration for services provided by the Lead Manager in connection with the Equity Offer. The Broker Option Offer is only made to and capable of acceptance by the Lead Manager and/or its nominee(s) who receive a personalised application form from the Company to apply for and receive Broker Options under the Broker Option Offer.

The Equity Offer, Vendor Offer, Incentive Option Offer and Broker Option Offer are referred to collectively as the Offers.

The Offers are conditional upon:

- The Company completing the acquisition of Jade. Further details of the proposed acquisition by the Company of Jade (referred to herein as the **Transaction**) is set out in section 2.1;
- The Company receiving applications and application monies for 250,000,000 New Shares with application monies totalling \$7.5 million under the Equity Offer; and
- ASX giving its conditional approval for the re-admission of the Company to the Official List and quotation of the New Shares issued to successful applicants.

If the conditions above are not met, the Offers will not proceed, no New Shares and/or New Options will be issued pursuant to this Prospectus and application monies will be refunded to applicants in full (without interest) in accordance with the Corporations Act.



## KEY OFFER INFORMATION



**JADE GAS**

### Key statistics of the Equity Offer

#### SHARES

	Capital Raising \$7.5 million	
	Number	Ownership % at relisting
Existing Shares	113,234,664	9.36%
Offer Price per New Share	\$0.03 (3 cents)	
New Shares under Equity Offer	250,000,000	20.67%
Cash proceeds to be received under Equity Offer	\$7.5 million	
New Shares under the Vendor Offer	846,166,667	69.97%
<b>Total Shares of the Company</b>	<b>1,209,401,331</b>	<b>100%</b>
Indicative market capitalisation at the Equity Offer Price of \$0.03	\$36,282,039	

#### Notes to table:

- All percentages are subject to rounding and have been rounded to two decimal places.
- The above table assumes no existing or proposed convertible securities (including New Options) convert to shares.

Shares may not trade at the Equity Offer price upon, or after, reinstatement of the Company's shares to trading on the ASX's Official List.

### CONVERTIBLE SECURITIES

The Company has the following convertible securities either on issue or that are proposed to be issued:

#### Options:

	Number	Exercise price	Expiry date
Existing Options	7,000,000	\$0.15	30 June 2022
New Options under the Vendor Offer	68,000,000	\$0.045	30 June 2023
New Options under the Incentive Option Offer	22,000,000	\$0.045	30 June 2023
Broker Options under the Broker Options Offer	12,000,000	\$0.045	3 years from issue
<b>Total</b>	<b>109,000,000</b>		

#### Performance Shares (all existing and with milestones applicable to the existing Austrian Projects):

	Number	Expiry date
Class A Performance Shares	24,000,000	26 February 2023
Class B Performance Shares	24,000,000	26 February 2023
<b>Total</b>	<b>48,000,000</b>	



## 1. INVESTMENT OVERVIEW

This Section is a summary only and is not intended to provide full information for investors intending to apply for New Shares offered pursuant to Equity Offer made under this Prospectus. This Prospectus should be read and considered in its entirety.

Item	Summary	Further information
<b>A. Company</b>		
<b>Who is the issuer of this Prospectus?</b>	High Grade Metals Limited (ACN 062 879 583) ( <b>HGM</b> or the <b>Company</b> )	
<b>Who is HGM?</b>	<p>The Company was incorporated on 11 January 1994 and was admitted to the official list of ASX on 13 February 1995. The Company initially operated in the communication technology industry but has been operating in the resources section since 2008. Its securities have been suspended from official quotation since 18 July 2019.</p> <p>Most recently, the Company was engaged in exploration activities in respect of cobalt, copper and gold projects located in Austria. Following the results of its exploration program, the Company decided to hold the Austrian Projects on care and maintenance and to seek additional opportunities to create value for shareholders. The Company identified the proposed acquisition of Jade as such an opportunity.</p> <p>Following completion of the acquisition of Jade Gas Pty Ltd, the Company will operate in the gas exploration sector in Mongolia which is a material change in the scale of its activities that requires the Company to re-comply with Chapters 1 and 2 of the ASX Listing Rules. The Company proposes changing its name to Jade Gas Holdings Limited on and from completion of the acquisition of Jade.</p>	Section 3
<b>Who is Jade?</b>	<p>Jade is an Australian proprietary company incorporated on 7 February 2019 whose activities are focussed on the coal seam gas (<b>CSG</b>) potential of Mongolia.</p> <p>At completion of the Transaction, Jade will have two wholly owned subsidiaries domiciled in Mongolia, being Jade Gas Mongolia FILLC (<b>JGM</b>) and Jade Methane LLC (<b>JMM</b>).</p>	Section 3



## 1. INVESTMENT OVERVIEW



**JADE GAS**

Item	Summary	Further information
<b>A. Company</b>		
<b>What is the business of Jade?</b>	<p>Jade is a gas exploration company focussed on the CSG potential of Mongolia.</p> <p><i>Jade holds a 60% interest in the TT CBM Project</i></p> <p>The flagship project of Jade is the 60/40 joint venture between JMM and Mongolian State-owned entity Erdenes Methane LLC (<b>EM</b>) for the exploration and exploitation of the CSG potential in licences over approx. 665 km<sup>2</sup> including and surrounding the Tavan Tolgoi coal field in the South Gobi region of Mongolia, known as the <b>TT CBM Project</b>. The 60/40 joint venture interests between JMM and EM are held in Methane Gas Resource LLC (<b>MGR</b>), the joint venture operating company formed to explore, develop and produce gas from the TT CBM Project.</p> <p>The TT CBM Project involves the exploration and development of the coal seam gas resources of the Tavan Tolgoi coal field in the South Gobi region of Mongolia. The field is located in the Omnigovi Province in southern Mongolia, approximately 550 km from the capital city of Ulaanbaatar and 85km to the east of provincial capital, Dalanzadgad.</p> <p><i>Jade holds a 66% interest in Baruun Naran Gas LLC</i></p> <p>Jade, through its subsidiary JGM, holds a 66% interest in Baruun Naran Gas LLC (<b>BNG</b>), the joint venture operating company formed to explore, develop and produce gas from within a coal mining licence (MV-014493) held by joint venture partner Khangad Exploration LLC, a wholly owned subsidiary of Mongolian Mining Corporation, a company listed on the Hong Kong Stock Exchange. Khangad Exploration LLC holds the remaining 34% equity in BNG. JGM is nominated as the joint venture Operator of BNG. The project is referred to herein as the <b>Baruun Naran Project</b>.</p> <p>Further details of the projects in which Jade holds an interest via its wholly owned subsidiaries are set out in section 3.</p>	Section 3
<b>B. Post-Transaction business</b>		
<b>What is the Transaction?</b>	<p>The Company proposes acquiring Jade through the acquisition of all the equity interests of Jade from the existing equity holders of Jade (<b>Jade Vendors</b>). The Jade Vendors comprise shareholders who will transfer their Jade shares to the Company in exchange for New Shares and New Options and noteholders who will assign the convertible notes they hold in Jade to the Company in exchange for New Shares. The acquisition by the Company of Jade is referred to herein as the <b>Transaction</b>.</p> <p>The aggregate consideration payable by the Company for the acquisition of Jade from the Jade Vendors comprises 846,166,667 New Shares and 68,000,000 New Options.</p> <p>Completion of the Transaction remains subject to and conditional upon various conditions precedent as described in section 2.</p> <p>Following completion of the Transaction, Jade and its multiple Mongolian subsidiaries will form part of the corporate group of the Company. A diagram showing the merged entity following completion of the Transaction is set out in section 3.</p>	Section 2



## 1. INVESTMENT OVERVIEW

Item	Summary	Further information
<b>B. Post-Transaction business</b>		
<b>What are the Company's aims and objectives following the Transaction?</b>	<p>When the Transaction is completed, the Company will have ownership of Jade's interests in the Mongolian projects and intends to support the existing management team of Jade and to continue with the Jade exploration and project development activities in Mongolia.</p> <p>The Company proposes to undertake activities on the Mongolian projects in accordance with the strategic plans of Jade. In particular, the Company will focus on the exploration and development of the TT CBM Project. The Company will also seek to acquire a Prospecting Agreement(s) via BNG in respect of the Baruun Naran Project.</p> <p>Further details of the strategic plans of the Company are set out in section 3.</p>	Section 3
<b>What industry will the Company be operating in following the Transaction?</b>	<p>Following completion of the Transaction and the Offers, the Company will be operating in the oil and gas industry in Mongolia, focussing on exploration and production.</p> <p>Presently the oil and gas sector in Mongolia is small relative to other natural resource-based sectors in the country. No natural gas was recorded to be produced, and gas requirements are met through importation from neighbouring countries Russia and China. It has been a focus of the Mongolian Government over recent years to reduce the country's reliance on importation of energy (electricity) and energy products (oil and gas liquids) from neighbouring countries, and the Mongolian Government established in the State Policy on Energy for 2015-2030 an objective to become a net energy exporter. With Mongolian Government level commitments to global climate change protocols, the level of interest and support for the exploration and development of cleaner fuel sources within the country has increased.</p> <p>Whilst currently an immature market, Jade foresee an increasing role for the use of natural gas in the energy supply mix of Mongolia. It is the strategy of Jade to seek to develop the TT CBM Project so that gas produced may, in the long term, provide a reliable supply option to the oil and gas product market and to the power sector in Mongolia, both to the capital city of Ulaanbaatar and also into regional areas. Achievement of this strategy would partially displace the use of imported gas and gas liquid products, reduce the use of higher carbon emission emitting fuel sources such as coal and diesel, and reduce the reliance on imported electricity.</p> <p>Further details on the history of CSG exploration in Mongolia are set out in section 3.</p>	Section 3



## 1. INVESTMENT OVERVIEW



**JADE GAS**

Item	Summary	Further information
<b>B. Post-Transaction business</b>		
<b>What is the market opportunity for the Company following the Transaction?</b>	<p>Following the Transaction, Jade is planning to undertake exploratory work on the TT CBM Project and the Baruun Naran Project which may lead to the eventual commercialisation of either or both projects through sales of coal seam gas (produced from the Jade projects), primarily into domestic sales channels, and potentially through export channels into the north of China.</p> <p>As there is presently insufficient indigenous production of oil or gas within Mongolia, nor suitable refinery capacity, Mongolia meets its oil and gas requirements through importation of gas and other oil and gas products from neighbouring countries.</p> <p>It is the intention of Jade that if the TT CBM Project and/or the Baruun Naran Project is shown capable to produce coal seam gas economically, that Jade will establish gas sales agreements with customers within the country who are currently meeting their requirements through imports of gas and other petroleum products.</p> <p>Notwithstanding the potential market opportunity outlined above, following completion of the Transaction, the Company is unlikely to generate revenue in the short to medium term while it focuses on the exploration and evaluation of the TT CBM Project for the purposes of determining the feasibility of a future profitable operation and seeks to obtain the Prospecting Agreement(s) for, and conduct preliminary exploration works on, the Baruun Naran Project. Whilst currently planned and future exploratory work on the TT CBM Project and the Baruun Naran Project may lead to the eventual commercialisation of either or both projects, the Company is unable to determine at this time whether production will commence on the TT CBM Project or any other project in the short to medium term, if at all. Furthermore, whilst Jade believes the TT CMB Project and Baruun Naran Project represents a prospective opportunity to deliver value for its shareholders, due to the inherent speculative nature of exploration generally, there can be no guarantee that one or more of the projects will generate any revenue .</p> <p>Further details on the potential future commercialisation opportunity that the Company is seeking to pursue through its activities in Mongolia are set out in section 3.</p>	Section 3



# 1. INVESTMENT OVERVIEW

Item	Summary	Further information
C. Risks		
What are the key risks of an investment in HGM (post-Transaction)?	<p>An overview of some of the key risks applicable to Company's business following completion of the Acquisition are set out below. A further, more detailed summary of key risks is set out in section 5.</p> <p><b>Sovereign and Political Risks Associated with Operating in Mongolia</b></p> <p>Mongolia is a young democratic country which is transitioning to a market economy and is therefore subject to risks and uncertainty. There is also a risk that laws in place in Mongolia may change in future or be applied by the judiciary and regulators in Mongolia in a way that is detrimental to the Company and its proposed operations. The Company may also be adversely affected by the actions of government authorities or others and there can be no guarantee that the rights to be held by the Company following completion of the Transaction will not also be adversely impacted.</p> <p><b>Exploration Success and Operating and Development Risks</b></p> <p>Exploration activities for gas such as those proposed to be undertaken by the Company are inherently risky, with a high chance of failure. The proposed exploration activities of the Company are subject to various risks (such as geological conditions and environmental difficulties) that are outside of the control of the Company. There can be no guarantee that the Company will identify any resource capable of producing hydrocarbons at commercial rates, if at all and even if such a resource was identified that the Company will be in a position to commence production.</p> <p><b>Permit application and permit renewal</b></p> <p>The Company cannot guarantee that itself or its joint venture partner or partners will be able to maintain all required rights to permits or licences needed for the Company to undertake its planned exploration activities. Such permits and licences will be subject to various initial and ongoing conditions that may become too onerous for the Company to meet. No guarantee can be given that any right or rights will be renewed on particular terms, or at all. In addition, there are certain specific risks identified in section 9 of the Solicitors' Report.</p> <p><b>Hydrocarbon Reserve Estimates</b></p> <p>Hydrocarbon reserve estimates are expressions of judgment based on knowledge, experience, interpretation and industry practice. Estimates that were valid when made may change significantly when new information becomes available. In addition, reserve estimates are necessarily imprecise and depend to some extent on interpretations, which may prove inaccurate, which may result in the plans of the Company needing to be adjusted and could adversely affect the operations of the Company.</p> <p><b>Joint Venture risk</b></p> <p>The primary activities of the Company will be undertaken pursuant to joint venture arrangements with third party entities, including those entities formed to represent the interests of the Mongolian Government such as EM. These activities will be subject to risks generally associated with joint venture arrangements, including the risk that the other party(s) may fail to perform their obligations under any joint venture arrangement(s), or may seek to terminate or withdraw from the joint venture arrangement(s). Such risks would also apply to any joint venture the Company enters in future (although there is not current proposal to do so).</p>	Section 5





Item	Summary	Further information
<b>C. Risks</b>		
<p><b>What are the key risks of an investment in HGM (post-Transaction)?</b></p>	<p><b>Risk associated with Drilling</b></p> <p>Gas drilling activities are subject to numerous risks, many of which are beyond the Company's control. The Company's drilling operations may be curtailed, delayed or cancelled due to a number of factors including weather conditions, mechanical difficulties, unforeseen sub-surface hazards (such as unexpected pressures), shortage or delays in the availability or delivery of rigs and/or other equipment, availability of suitable drilling rigs, and compliance with governmental requirements. While drilling may yield some hydrocarbons there can be no guarantee that a gas discovery or accumulation will be sufficiently productive to justify commercial development.</p> <p><b>Insurance</b></p> <p>Exploration, development and production operations on oil and gas properties involve a number of risks and hazards which are beyond the control of the Company. Although the Company will have insurance in place at levels considered appropriate for its operations and in accordance with industry practice, in certain circumstances the Company's insurance may not cover, or be adequate to cover, the consequence of such events which could reduce or eliminate any future profitability, result in increasing costs and have a negative impact on the value of the Company.</p> <p><b>Substitution of Gas</b></p> <p>There are a number of alternative energy sources from oil and gas products, including other non-renewable sources such as coal and oil, and those referred to as renewable energy sources such as wind, solar or hydroelectric, geothermal and biomass, amongst others. If the costs and commercial prices of such alternative energy sources fall or there is a significant shift in consumer sentiment towards such sources, this may have a significant effect upon the Company's overall performance.</p> <p><b>Third Party Risk</b></p> <p>The Company has entered, and will likely in future enter, contractual arrangements with various third parties, including in respect of the joint venture interests forming the Projects. There is a risk that these counterparties may fail to perform their obligations which could lead to delays, increased costs, disputes and even litigation. All these factors could negatively impact the proposed operations of the Company and there can be no assurance that the Company would be successful in seeking remedies or enforcement of its rights through legal actions.</p> <p><b>Environmental</b></p> <p>The rights to be acquired by the Company at completion of the Transaction will be subject to certain Mongolian laws and regulations concerning the environment. It is the Company's intention to conduct its activities to a high standard of environmental obligation, however there is a risk that Mongolian laws and regulations will impose onerous obligations that the Company will not be able to effectively meet, whether due to excessive costs of regulatory compliance or otherwise. In addition, the occurrence of any safety or environmental incident on one or more of the Projects could materially delay or increase the costs of operations or result in a substantial liability being accrued against the Company.</p>	<p>Section 5</p>



## 1. INVESTMENT OVERVIEW

Item	Summary	Further information
<b>C. Risks</b>		
What are the key risks of an investment in HGM (post-Transaction)?	<p><b>Commodity price volatility and exchange rate</b></p> <p>It is expected that any future revenues achieved by the Company, other than sales of assets, will be derived from the sale of CSG. The demand for, and price of, CSG is dependent on a variety of factors beyond the control of the Company, including supply levels of the product, the level of consumer product demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments. Furthermore, the sales prices and contracts of various commodities including CSG are likely to be denominated in United States dollars. This will have the effect of exposing the Company through its source of revenue generation to fluctuations and volatility of the rate of exchange between the United States dollar and the Australian dollar.</p> <p><b>Reliance on Key Personnel</b></p> <p>The success of the Company may depend on its ability to attract and retain key personnel. There is a risk that the Company may not be able to hire or retain such key personnel for different reasons, including matters of compensation. The success of the Company may also be dependent on the contributions from its management team and key technical personnel, the loss of whose services may be difficult to replace.</p> <p><b>Climate change risk</b></p> <p>The Company may be subject to risks arising from climate change. If the government of Mongolia makes additional commitments to future carbon reduction targets, it may impede the ability of the Company to commercialise coal bed methane (although such a change would also impact upon other non-renewable energy sector such as coal). In addition to this, it is currently uncertain how general climate change will alter the global environment and as such there is a risk around this uncertainty as it relates to operating in any jurisdiction globally.</p>	Section 5





Item	Summary	Further information
<b>D. Directors and Key Management Personnel</b>		
<b>Who are the directors of the Company?</b>	<p>The existing Directors of the Company are:</p> <ul style="list-style-type: none"> <li>• Anthony David Hall (Executive Chairman);</li> <li>• Bradley James Drabsch (Executive Director);</li> <li>• Dennis James Morton (Non-Executive Director);</li> <li>• Steven Allen Formica (Non-Executive Director); and</li> <li>• Adrien Michele Wing (Non-Executive Director and Company secretary).</li> </ul> <p>Upon completion of the Transaction the Directors of the Company will be:</p> <ul style="list-style-type: none"> <li>• Anthony David Hall (Non-Executive Chairman);</li> <li>• Bradley James Drabsch (Non-Executive Director);</li> <li>• Dennis James Morton (Non-Executive Director);</li> <li>• Joseph Patrick Burke (Executive Director); and</li> <li>• Daniel William Eddington (Non-Executive Director).</li> </ul> <p>Adrien Michele Wing will continue as Company secretary.</p> <p>The profiles of each of these individuals are set out in section 10.1.</p>	Section 10.1
<b>Who will be the management team of the Company following the Transaction?</b>	<p>It is anticipated that, on and from completion of the Transaction:</p> <ul style="list-style-type: none"> <li>• Joseph Patrick Burke and Daniel William Eddington will join the Board as a Directors;</li> <li>• Anthony David Hall, Dennis James Morton and Bradley James Drabsch will remain as Directors, with both Anthony David Hall and Bradley James Drabsch transitioning to Non-Executive Director positions; and</li> <li>• Steven Allen Formica and Adrien Michele Wing will retire as Directors, with Adrien Michele Wing to remain as Company secretary.</li> </ul> <p>The profiles for the existing and propose Directors are set out in section 10.1.</p>	Section 10



## 1. INVESTMENT OVERVIEW

Item	Summary	Further information																														
	<p>The direct and indirect equity interests of the existing and proposed Directors are set out in the tables below:</p> <p style="text-align: center;"><b>SHARES</b></p> <table border="1"> <thead> <tr> <th colspan="3">Directors (post-completion of the Transaction)</th></tr> <tr> <th>Director</th><th>Shares (current %)</th><th>Shares (% following the Offers)</th></tr> </thead> <tbody> <tr> <td>Joseph Patrick Burke</td><td>Nil</td><td>414,578,664 (34.28%)</td></tr> <tr> <td>Daniel William Eddington</td><td>3,098,202 (2.74%)</td><td>69,424,870 (5.74%)</td></tr> <tr> <td>Bradley James Drabsch</td><td>Nil</td><td>Nil</td></tr> <tr> <td>Anthony David Hall</td><td>3,208,334 (2.83%)</td><td>48,146,670 (3.98%)</td></tr> <tr> <td>Dennis James Morton</td><td>Nil</td><td>Nil</td></tr> <tr> <th colspan="3">Directors (to retire on completion of the Transaction)</th></tr> <tr> <td>Steven Allen Formica</td><td>2,975,000 (2.63%)</td><td>2,975,000 (0.25%)</td></tr> <tr> <td>Adrien Michele Wing</td><td>3,072,223 (2.71%)</td><td>3,072,223 (0.25%)</td></tr> </tbody> </table> <p><i>Notes to table:</i></p> <ol style="list-style-type: none"> <li><i>All percentages are subject to rounding.</i></li> <li><i>Assumes no convertible securities are converted to Shares.</i></li> <li><i>Includes the following New Shares under the Vendor Offer to the following named parties and/or their associates: Joseph Burke: 414,578,664; Daniel Eddington: 66,326,668; Anthony Hall: 44,938,336.</i></li> <li><i>Assumes no participation by named parties and/or their associates in the Equity Offer. The Company has obtained shareholder approval at the Shareholder Meeting for the following named parties (and/or their nominee(s)) to subscribe for up to the following maximum number of New Shares under the Equity Offer: Anthony Hall: 4,000,000; Bradley Drabsch: 833,334; Steven Formica: 6,666,667; Adrien Wing: 6,666,667; Dennis Morton: 1,666,667.</i></li> </ol>	Directors (post-completion of the Transaction)			Director	Shares (current %)	Shares (% following the Offers)	Joseph Patrick Burke	Nil	414,578,664 (34.28%)	Daniel William Eddington	3,098,202 (2.74%)	69,424,870 (5.74%)	Bradley James Drabsch	Nil	Nil	Anthony David Hall	3,208,334 (2.83%)	48,146,670 (3.98%)	Dennis James Morton	Nil	Nil	Directors (to retire on completion of the Transaction)			Steven Allen Formica	2,975,000 (2.63%)	2,975,000 (0.25%)	Adrien Michele Wing	3,072,223 (2.71%)	3,072,223 (0.25%)	
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## 1. INVESTMENT OVERVIEW



**JADE GAS**

Item	Summary	Further information																														
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# 1. INVESTMENT OVERVIEW

Item	Summary	Further information
<b>D. Key Financial Information</b>		
<b>What is the key financial information?</b>	<p>The unaudited pro-forma statement of financial position of the merged entity upon completion of the Transaction as at 31 December 2020 is set out in section 6 and has been reviewed by BDO Corporate Finance (SA) Pty Ltd as part of the Independent Limited Assurance Report on Pro Forma Financial Information presented in section 7.</p> <p>Other detailed financial information is included in section 6, and in the historical audited financial reports of the Company which have been lodged with ASIC and are incorporated in this Prospectus by reference. See section 6 for further details about these financial reports and how to obtain copies of same.</p>	Section 6 and Section 7
<b>How has Jade historically performed?</b>	Historically, Jade has incurred financial losses. Abbreviated historical financial information for Jade is set out in section 6.	Section 6
<b>What is the financial outlook for the Company following completion of the Offer?</b>	<p>The operations of the Company following completion of the Transaction are inherently uncertain.</p> <p>Following completion of the Transaction, the Company's financial performance is dependent on the Company's ability to execute its business model, being a prolonged period of exploration activities potentially leading to a complex resource project development.</p> <p>The Directors have provided an indication of how they will deploy proceeds received under the Equity Offer set out in the Use of Funds table in section 12.7.</p>	Section 12.7
<b>What is the Company's dividend policy?</b>	<p>Following completion of the Transaction, the Company does not, for the foreseeable future, expect to pay a dividend and funds raised (after costs) from the Equity Offer are intended to be applied in accordance with the use of funds tables set out in Section 12.7.</p> <p>The Board of the Company will review the dividend policy on a regular basis. Any future payment of dividends will be at the discretion of the Board.</p>	Section 14.11
<b>How has HGM historically performed?</b>	Historically, HGM has incurred financial losses. Abbreviated historical financial information for HGM is set out in section 6	Section 6
<b>E. Key Offer Information</b>		
<b>What is the Equity Offer?</b>	An offer of 250,000,000 New Shares at an issue price of \$0.03 per New Share to raise \$7.5 million before costs.	Section 12.1
<b>What is the Vendor Offer?</b>	An offer of 846,166,667 New Shares and 68,000,000 New Options as consideration for the acquisition by the Company of all the issued capital of Jade. The Vendor Offer is only made to, and capable of acceptance by, the Jade Vendors. The Company will provide Jade Vendors with a personalised application form to facilitate their participation in the Vendor Offer.	Section 12.2
<b>What is the Incentive Option Offer?</b>	<p>An offer of 22,000,000 New Options to existing Directors of the Company to whom shareholders approved the issue of New Options at the Shareholder Meeting. The proposed recipients of New Options (and/or their nominee(s)) and the number of New Options they are each proposed to receive are:</p> <ul style="list-style-type: none"> <li>Bradley James Drabsch: 8,000,000 New Options.</li> <li>Steven Allen Formica: 2,000,000 New Options.</li> <li>Dennis James Morton: 12,000,000 New Options.</li> </ul> <p>The Incentive Option Offer is only made to and capable of acceptance by the persons named above and/or their nominee(s). The Company will provide each of the persons named above with a personalised application form to facilitate their participation in the Incentive Option Offer.</p>	Section 12.3



## 1. INVESTMENT OVERVIEW



**JADE GAS**

Item	Summary	Further information																					
<b>E. Key Offer Information</b>																							
<b>What is the Broker Option Offer?</b>	An offer of 12,000,000 Broker Options to the Lead Manager and/or their nominee(s), for aggregate payment of \$50, as consideration for services provided by the Lead Manager in connection with the Equity Offer. The Broker Option Offer is only made to and capable of acceptance by the Lead Manager and/or their nominee(s). The Company will provide the Lead Manager and/or their nominee(s) with a personalised application form to facilitate their participation in the Broker Option Offer.	Section 12.4																					
<b>What are the terms of Options?</b>	Each New Option is exercisable at \$0.045 (4.5 cents), expires 30 June 2023 and, upon exercise, entitle the holder to one Share. Broker Options have the same terms as New Options other than the expiry date, which for the Broker Options is three years from issue.  Full terms are set out in section 14.3.	Section 12.3																					
<b>Are the Offers conditional?</b>	The Offers are conditional upon: <ul style="list-style-type: none"> <li>The Company completing the acquisition of all of the issued capital of Jade. Further details of the proposed acquisition by the Company of Jade (referred to herein as the <b>Transaction</b>) is set out in section 2.1;</li> <li>The Company receiving applications and application monies for 250,000,000 New Shares with application monies totalling \$7.5 million under the Equity Offer; and</li> <li>ASX giving its conditional approval for the re-admission of the Company to the Official List and quotation of the New Shares and Options issued to applicants.</li> </ul> <p>If the conditions above are not met, the Offers will not proceed, no New Shares will be issued pursuant to this Prospectus and application monies will be refunded to applicants in full (without interest) in accordance with the Corporations Act.</p>	Section 2.1																					
<b>How will the proceeds of the Equity Offer be used?</b>	<p>The Company intends to use proceeds of the Equity Offer as set out below:</p> <table border="1"> <thead> <tr> <th>Activity</th><th>Year 1</th><th>Year 2</th></tr> </thead> <tbody> <tr> <td>Project evaluation</td><td>\$122,000</td><td>-</td></tr> <tr> <td>Exploration and appraisal activities</td><td>\$2,197,000</td><td>\$2,130,000</td></tr> <tr> <td>Commercial studies</td><td>\$71,000</td><td>\$260,000</td></tr> <tr> <td>Costs of the Offers</td><td>\$650,000</td><td>-</td></tr> <tr> <td>Administration and working capital</td><td>\$940,000</td><td>\$1,130,000</td></tr> <tr> <td><b>Total</b></td><td><b>\$3,980,000</b></td><td><b>\$3,520,000</b></td></tr> </tbody> </table> <p>The above table contains indicative, approximate figures only. For further information refer to section 12.7.</p>	Activity	Year 1	Year 2	Project evaluation	\$122,000	-	Exploration and appraisal activities	\$2,197,000	\$2,130,000	Commercial studies	\$71,000	\$260,000	Costs of the Offers	\$650,000	-	Administration and working capital	\$940,000	\$1,130,000	<b>Total</b>	<b>\$3,980,000</b>	<b>\$3,520,000</b>	Section 12.7
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# 1. INVESTMENT OVERVIEW

Item	Summary	Further information																																														
E. Key Offer Information																																																
What will the Company's capital structure look like post completion of the Offer?	<p>Immediately following completion of the Offers, the capital structure of the Company will be as set out below:</p> <table><tr><th></th><th>Number and %</th></tr><tr><td>Existing Shares</td><td>113,234,664 (9.36%)</td></tr><tr><td>New Shares under the Equity Offer</td><td>250,000,000 (20.67%)</td></tr><tr><td>New Shares under the Vendor Offer</td><td>846,166,667 (69.97%)</td></tr><tr><td><b>Total Shares at reinstatement</b></td><td><b>1,209,401,331</b> <b>100%</b></td></tr></table> <p>Notes to table:</p> <ul style="list-style-type: none"><li>All percentages are subject to rounding and have been rounded to two decimal places.</li><li>The above table assumes no existing or proposed convertible securities (including New Options) convert to shares.</li></ul> <p><b>CONVERTIBLE SECURITIES</b></p> <p>The Company has the following convertible securities either on issue or that are proposed to be issued at completion of the transaction:</p> <p>Options:</p> <table><tr><th></th><th>Number</th><th>Exercise price</th><th>Expiry date</th></tr><tr><td>Existing Options</td><td>7,000,000</td><td>\$0.15</td><td>30 June 2022</td></tr><tr><td>New Options under the Vendor Offer</td><td>68,000,000</td><td>\$0.045</td><td>30 June 2023</td></tr><tr><td>New Options under the Incentive Option Offer</td><td>22,000,000</td><td>\$0.045</td><td>30 June 2023</td></tr><tr><td>Broker Options under the Broker Option Offer</td><td>12,000,000</td><td>\$0.045</td><td>3 years from issue</td></tr><tr><td><b>Total</b></td><td><b>109,000,000</b></td><td></td><td></td></tr></table> <p>Performance Shares (all existing and with milestones applicable to the existing Austrian Project):</p> <table><tr><th></th><th>Number</th><th>Expiry date</th></tr><tr><td>Class A Performance Shares</td><td>24,000,000</td><td>26 February 2023</td></tr><tr><td>Class B Performance Shares</td><td>24,000,000</td><td>26 February 2023</td></tr><tr><td><b>Total</b></td><td><b>48,000,000</b></td><td></td></tr></table>		Number and %	Existing Shares	113,234,664 (9.36%)	New Shares under the Equity Offer	250,000,000 (20.67%)	New Shares under the Vendor Offer	846,166,667 (69.97%)	<b>Total Shares at reinstatement</b>	<b>1,209,401,331</b> <b>100%</b>		Number	Exercise price	Expiry date	Existing Options	7,000,000	\$0.15	30 June 2022	New Options under the Vendor Offer	68,000,000	\$0.045	30 June 2023	New Options under the Incentive Option Offer	22,000,000	\$0.045	30 June 2023	Broker Options under the Broker Option Offer	12,000,000	\$0.045	3 years from issue	<b>Total</b>	<b>109,000,000</b>				Number	Expiry date	Class A Performance Shares	24,000,000	26 February 2023	Class B Performance Shares	24,000,000	26 February 2023	<b>Total</b>	<b>48,000,000</b>		Section 12.8
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Will I be guaranteed a minimum allocation under the Offer?	No, the Board reserves the rights to accept or reject applications for New Shares under the Equity Offer at its discretion.	Section 13.1																																														
Is the Equity Offer underwritten?	No, the Equity Offer is not underwritten.	Section 13.7																																														
What are the terms of the Shares under the Offers?	New Shares issued under the Equity Offer and the Vendor Offer will rank equally with the existing ordinary shares of the Company. A summary of the material rights and liabilities attaching to the shares offered under the Offers is set out in section 14.3(a).	Section 14.3(a)																																														



## 1. INVESTMENT OVERVIEW



**JADE GAS**

Item	Summary	Further information
<b>E. Key Offer Information</b>		
<b>Will any New Shares under the Equity Offer be subject to escrow?</b>	New Shares offered under the Equity Offer to investors pursuant to the Prospectus will not be subject to any escrow requirement by the ASX.	Section 13.5
<b>Will any New Shares under the Vendor Offer be subject to escrow?</b>	The Company anticipates that a portion of the New Shares offered under the Vendor Offer may be subject to mandatory escrow imposed by ASX, however as at the date of this Prospectus, the Company is not aware of the number of New Shares ASX will mandatorily escrow or the length of the escrow imposed by ASX on New Shares offered under the Vendor Offer.	Section 13.5
<b>What are the terms of New Options and Broker Options?</b>	Each New Option has an exercise price of \$0.045 (4.5 cents), expiry date of 30 June 2023 and, upon exercise, entitle the holder to one Share.  Each Broker Option has an exercise price of \$0.045 (4.5 cents), expiry date of 30 June 2023 and, upon exercise, entitle the holder to one Share.  New Options and Broker Options otherwise have the terms set out in Section 14.3(b).	Section 14.3(b)
<b>Will any Options be subject to escrow?</b>	The Company anticipates that the New Options under both the Vendor Offer and the Incentive Option Offer are likely to be subject to mandatory escrow imposed by ASX. While the Company is not aware of what, if any, of the number of New Options under the Vendor Offer ASX will mandatorily escrow or the length of the escrow imposed by ASX on New Options offered under the Vendor Offer, it is anticipated that all of the New Options under the Vendor Offer and Incentive Option Offer will be mandatorily escrowed by ASX for between 12 and 24 months from the reinstatement of the Shares to trading on the ASX. The Company anticipates that the Broker Options will be mandatorily escrowed by ASX for 24 months from reinstatement of the Shares to trading on the ASX. The Company does not anticipate any existing options will be subject to ASX escrow.	Section 13.5
<b>When will the Shares be quoted?</b>	Application for quotation of all Shares (including New Shares) will be made to ASX no later than 7 days after the date of this Prospectus. Applicants should be aware that ASX will not commence Official Quotation of any shares until the Company has re-complied with Chapters 1 and 2 of the ASX Listing Rules. As such, the Shares offered under the Offers may not be able to be traded for some time after the close of the Offers.  The Company is not proposing to seek quotation of New Options. It is expressly not stated or implied that permission will be sought for the official quotation of New Options or that official quotation will be granted within three months or any other period after the date of this Prospectus.	Section Key Offer Information
<b>What are the key dates of the Offers?</b>	The key dates of the Offers are set out in the indicative timetable in the Key Offer Information on page 6.	Section Key Offer Information



## 1. INVESTMENT OVERVIEW

Item	Summary	Further information
<b>F. Additional information</b>		
<b>Is there any brokerage, commission or stamp duty payable by applicants under the Offer?</b>	No brokerage, commission or stamp duty is payable by applicants on acquisition of New Shares under the Equity Offer.	Section 13.8
<b>What are the tax implications of investing in New Shares?</b>	Shareholders may be subject to Australian tax on dividends and possibly capital gains tax on a future disposal of New Shares subscribed for under this Prospectus. Applicants under this Prospectus should seek their own tax advice before applying for securities issued under this Prospectus.	Section 13.10
<b>Where can I find more information?</b>	<p>Additional information can be obtained through the following methods:</p> <ul style="list-style-type: none"> <li>speaking to your broker, solicitor, accountant or other independent professional adviser;</li> <li>reviewing HGM's public announcements which are accessible from the ASX website at <a href="http://www.asx.com.au">www.asx.com.au</a> under the code "HGM";</li> <li>by contacting Mr Adrien Michele Wing, a Director and the Company's Secretary, on +61 (3) 9614 0600; or</li> <li>by contacting the Share Registry on <a href="mailto:admin@advancedshare.com.au">admin@advancedshare.com.au</a>.</li> </ul>	Corporate Directory





JADE GAS

## SUPPORTING MONGOLIA'S ENERGY TRANSITION





## 2. TRANSACTION OVERVIEW

### 2.1 The Transaction

#### *Overview*

On 30 May 2021 the Company entered into an Implementation Agreement with Jade and certain key Jade shareholders and has subsequently entered into binding but conditional sale deeds (**Sale Deeds**) with each of the Jade Vendors under which the Company proposes acquiring all of the issued capital, and rights to issued capital, of Jade. The key terms of the Sale Deed and the Implementation Agreement are summarised in section 14.4.

The Transaction is proposed to be affected by the Company acquiring all the existing Jade shares and convertible notes convertible to shares in Jade from the Jade Vendors.

Following completion of the Transaction, the Company will hold all of the issued capital of Jade and will, as a result, acquire the two Mongolian subsidiaries of Jade that hold the interests in the Projects, JGM and JMM.

#### *Consideration*

The Company proposes acquiring all of the issued capital of Jade from the Jade Vendors for aggregate consideration at completion of the Transaction comprising:

- 846,166,667 New Shares (being the New Shares under the Vendor Offer); and
- 68,000,000 New Options, each with an exercise price of \$0.045 (4.5 cents), expiry date of 30 June 2023 and which, upon exercise, entitle the holder to one fully paid ordinary share in the capital of the Company. The full terms of New Options are set out in Section 14.3.

#### *Board changes*

In addition to the issue of the New Shares and New Options, the Company shall subject to and conditional upon completion of the Transaction:

- Appoint Joseph Patrick Burke and Daniel William Eddington as Directors; and
- Accept the resignations of Adrien Michele Wing and Steven Allen Formica as Directors.

Anthony David Hall, Bradley James Drabsch and Dennis James Morton will remain as Directors and Adrien Michele Wing will remain as Company Secretary following completion of the Transaction. A biography for each of the existing and proposed Directors is set out in section 10.1.

#### *Transaction Conditions*

The Transaction is subject to and conditional upon the satisfaction of certain conditions precedent including:

- The Company and Jade obtaining all required board and regulatory approvals and waivers, including under the ASX Listing Rules and the Corporations Act. These regulatory approvals are anticipated to include, but not be limited to, ASX confirming the Company has successfully re-complied with Chapters 1 and 2 of the ASX Listing Rules subject to the satisfaction of usual conditions (including completion of the Transaction);
- Completion of the Equity Offer included in this Prospectus;
- There being no material adverse change to the financial position of Jade between the date of the initial terms sheet on or about 7 July 2020;
- Jade and its subsidiaries collectively having net liabilities of less than \$200,000; and
- Execution by the Jade Vendors (and their respective nominee(s) as the case may be) of restriction agreements in respect of the New Shares and Options, as required by ASX.

#### *Other material terms*

The Implementation Agreement and Sale Deeds otherwise contain the following terms:

- Jade and certain key Jade Vendors have agreed to certain pre-completion covenants with respect to the activities of Jade including in respect of the capital structure and material contracts of Jade and specific actions to be taken by Jade in connection with the licences it or its subsidiary(ies) hold;
- Warranties from the Company, Jade and the Jade Vendors including with respect to title and power and no insolvency of the parties;
- Provisions relating to confidentiality, dispute resolution and governing law.

As noted above, a more detail summary of the key terms of the Sale Deeds and the Implementation Agreement is set out in section 14.4.



## 2. TRANSACTION OVERVIEW



**JADE GAS**

### 2.2 Shareholder Meeting

On 30 June 2021, the Company obtained the shareholder approvals necessary for implementation of the Transaction at its 2021 Annual General Meeting (being the Shareholder Meeting).

### 2.3 Change of name

The Company has obtained shareholder approval to change its name to Jade Gas Holdings Limited and for alterations to the Constitution to reflect the change of name effective from completion of the Transaction. The Company also proposes changing its ASX ticker code to "JGH" on and from completion of the Transaction and successful relisting of the Company.



### 2.4 Consolidation

The Company has completed a consolidation of its securities on a 5 for 1 basis. Unless otherwise stated, the numbers, issue prices and exercise prices in this Prospectus are on a post-Consolidation basis.

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

The Transaction will substantially change the scale of the activities of the Company and therefore requires the Company to re-comply with Chapters 1 and 2 of the ASX Listing Rules.

The securities of the Company have been suspended from trading since 18 July 2019. In accordance with ASX guidelines, the securities of the Company will remain suspended from trading until such time as the Company re-complies with Chapters 1 and 2 of the ASX Listing Rules. Key requirements of Chapters 1 and 2 of the ASX Listing Rules which are applicable to the Company's re-compliance are:

- the Company must satisfy the shareholder spread requirements relating to the minimum number of shareholders and the minimum value of the shareholdings of those shareholders.
- The Company must satisfy the assets test as set out in ASX Listing Rule 1.3.

The above do not, and are not proposed to, constitute a full list of the requirements under the ASX Listing Rules that the Company may need to satisfy.

The existing and proposed Directors expect that completion of the Transaction and the Equity Offer will enable the Company to satisfy the requirements for re-compliance with Chapters 1 and 2 of the ASX Listing Rules. Applicants should, however, be aware that ASX will not reinstate existing Shares or admit New Shares to Official Quotation until the Company re-complies with Chapters 1 and 2 of the ASX Listing Rules. If the Company does not receive condition approval for reinstatement of the Shares and admission of the New Shares to Official Quotation, the Transaction will be terminated and the Offers will not proceed. In these circumstances, the Company would repay all application monies received from applicants under the Equity Offer (without interest).



## 2. TRANSACTION OVERVIEW

### 2.6 ASX Waivers

The Company has sought and obtained the following waivers from ASX of the ASX Listing Rules:

- Waiver of ASX Listing Rule 1.1 Condition 12 to permit each of the New Options to have an exercise price of less than \$0.20 (20 cents).
- Waiver of ASX Listing Rule 2.1 Condition 2 to permit the issue of the New Shares under the Equity Offer at an issue price of less than \$0.20 (20 cents) per New Share.
- Waiver of ASX Listing Rule 10.13.5 to permit the issue of securities to Directors (being the elective right of participation of certain Directors up to maximum approved amounts under the Equity Offer and the issue of New Options under the Incentive Options Offer) to be issued no later than the date of issue of New Shares under the Equity Offer.

The Company has made an application to ASX that escrow relief be applied to the securities to be issued to the vendors of Jade, who have historically invested by way of genuine cash subscriptions in Jade, on a look-through basis such that some of the Vendor Shares issued to the Jade Vendors will be sought to be free-trading at completion of the Transaction. The escrow treatment of the vendor consideration securities will be subject of an ASX release prior to the Company's reinstatement to trading.

### 2.7 ASX automatic delisting

The ASX policy as set out in section 3.4 of ASX Guidance Note 33 is to, amongst other matters, remove an entity from the Official List whose securities have been suspended from quotation for a continuous period of 2 years (**Long Term Suspended Entity**). The securities of the Company were suspended from quotation on 18 July 2019 and therefore the Company will become a Long Term Suspended Entity on 18 July 2021.

ASX Guidance Note 33 indicates that ASX may grant a short extension of this two year deadline if an entity can demonstrate to the satisfaction of ASX that it is in the final stages of implementing a transaction that will lead to the resumption of trading of the entities securities. The Company will seek an extension of the de-listing deadline following lodgement of this Prospectus.

Following completion of the Transaction and the Offers, the Company will be operating in the oil and gas industry in Mongolia, focussing on exploration and production.





### 3. INDUSTRY OVERVIEW



JADE GAS

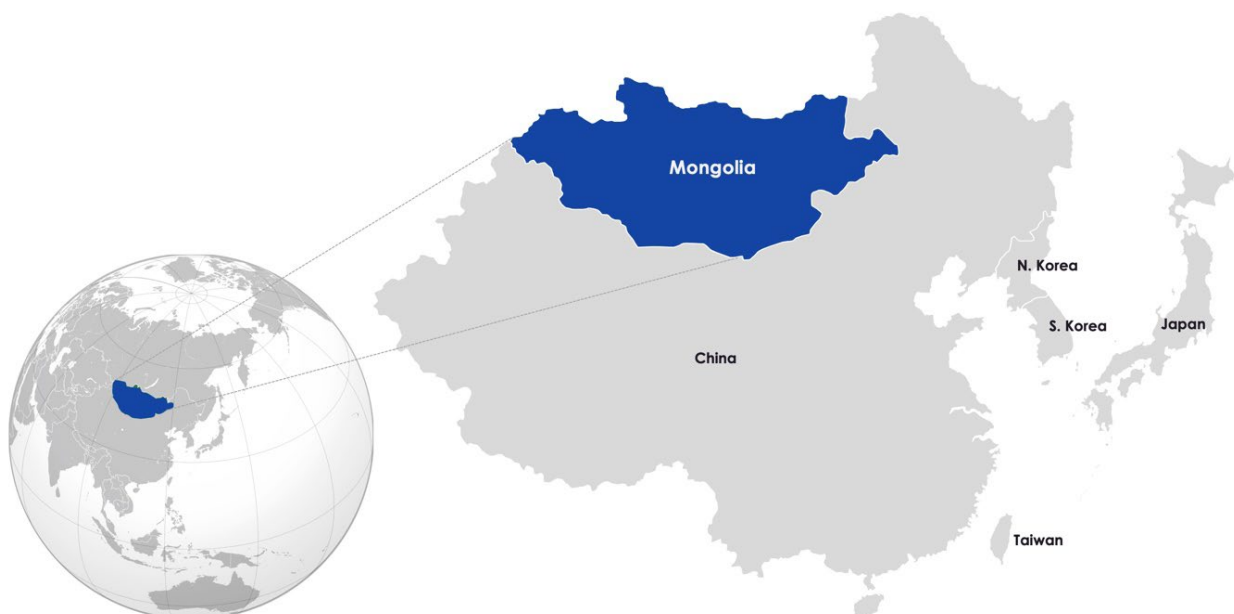
#### Mongolia Country Overview



Mongolia is a landlocked country in Asia, bordered by Russia to the north and China to the south, east, and west. The country is divided into 21 provinces, with the capital city of Ulaanbaatar hosting approximately 45% of the population. The official language is Mongolian (Khalkh Mongol) which is spoken by 90% of the population, with Russian widely spoken and the use of English growing strongly. The currency is the Mongolian Tugrik (MNT). With a population of 3.2M and a land surface area of over 1.5M km<sup>2</sup>, it is the seventh largest country in Asia, the 18th largest country in the world, and the world's least densely populated country.

Having achieved independence from the Chinese Qing Dynasty in 1921, the Mongolian People's Republic was declared in 1924, at which time the Mongolian political system was heavily influenced by that of Russia. The country operated under a Soviet dominated communist regime for almost 70 years until 1990. Following the collapse of the communist regimes in Eastern Europe, and the perestroika and glasnost in the Soviet Union, a peaceful democratic revolution in 1990 led to a multi-party system, a new constitution in 1992, and a transition to a market economy. Mongolia remains one of just a few democracies in Asia.

On 24 June 2020, the country held its eighth democratic parliamentary election since 1992, and the country voted to confirm a government for the first time, voting in by an overwhelming majority the governing Mongolian People's Party (MPP).





### 3. INDUSTRY OVERVIEW



#### Economy

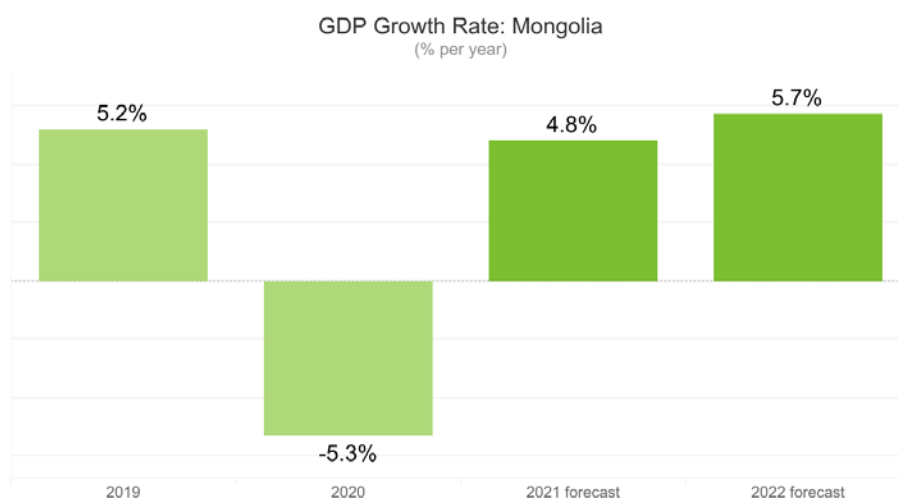
Mongolia has been experiencing a period of strong economic development. According to the World Bank Mongolia has tripled its gross domestic product (GDP) per capita since 1991.

Economic activity has traditionally been based on agriculture. The country's extensive mineral deposits have continuously attracted foreign investors, particularly in the years following a commodities boom around 2010. The country holds significant resources of copper, gold, coal, molybdenum, fluor spar, uranium, tin, and tungsten deposits. Following a decline in commodity prices due to the global financial crisis, the Mongolian economy slowed between 2014 and 2017. With GDP growth in 2016 of 1.2%, the economic situation improved through 2017 and 2018 with GDP growth rates of 5.4% and 7.2%. In 2019 growth weakened to 5.2% predominantly due to weaker performance of the mining sector following falls in commodity prices. Due largely to the impact of the COVID-19 pandemic, in 2020 the Mongolian economy contracted by 5.3%, with a sharp decline in global demand for key commodities and closure of the border with China attributed to slowing the mining led economy. There is potential for the economy to recover in 2021 with increasing efforts to control the COVID-19 pandemic and stimulus measures to strengthen domestic demand being enacted.

Being landlocked, the country relies heavily on imports from its neighbours. Mongolia purchases approximately 95% of its petroleum products and a substantial amount of electric power from Russia, its neighbour to the north, east and west. Trade with China represents more than half of Mongolia's total external trade, and China receives about two-thirds of Mongolia's exports. Mongolia joined the World Trade Organization (WTO) in 1997.

Mongolia ranks 81 out of 190 countries in the World Bank's 2020 Ease of Doing Business report.





Source: Asian Development Bank. Asian Development Outlook (ADO) 2021 (April 2021)

Whilst the growth outlook is positive driven by a rebound in private consumption and mining sector investment, the risks to the outlook include prolonged impacts of COVID-19 on the economy, political uncertainty, commodity price uncertainty, potential for inefficiencies in cross-border trade relationships, implementation delay of infrastructure projects, and slower implementation of banking sector reforms.

#### Australia-Mongolia Diplomatic Relations

Australia established diplomatic relations with Mongolia on 15 September 1972. Bilateral engagement accelerated following the democratic and free-market reforms in Mongolia in the early 1990s.

Mongolia opened an Embassy in Canberra in 2008. The Australian Trade Commission (Austrade) opened a trade office in Ulaanbaatar to serve the needs of Australian business in 2011. The Australian Embassy in Ulaanbaatar was opened in December 2015.

According to the Department of Foreign Affairs and Trade, business is continuing to develop between Australia and Mongolia. There are more than 50 Australian companies currently operating in Mongolia, most of which are engaged in the mining sector, with the most prominent being Rio Tinto (a leading investor and development partner in the Oyu Tolgoi copper-gold project).

The Australian Chamber of Commerce Mongolia, a non-government organization, was established in 2013 and promotes the interests of Australian and Mongolian business in the region, which it pursues through business-to-government relations with the support of the Australian Embassy, Austrade, leading institutions, professionals and thought leaders.

#### Oil and Gas Industry in Mongolia

Presently the oil and gas sector in Mongolia is small relative to other natural resource-based sectors in the country. No natural gas was recorded to be produced in the country in 2020, and gas requirements are met through importation from neighbouring countries Russia and China. It has been a stated focus of the Mongolian Government over recent years to reduce the country's reliance on importation of energy (electricity) and energy products (oil and gas liquids) from neighbouring countries, and the Mongolian Government established in the State Policy on Energy for 2015-2030 an objective to become a net energy exporter. With the introduction of Mongolian Government level commitments to global climate change protocols, the level of interest and support for the exploration and development of cleaner fuel sources within the country has increased.

Whilst currently an immature market, Jade foresees the potential for an increasing role for the use of natural gas in the energy supply mix of Mongolia. It is the strategy of Jade to seek to develop the TT CBM Project so that gas produced may, in the long term, provide a reliable supply option to the oil and gas product market and to the power sector in Mongolia, both to the capital city of Ulaanbaatar and also into regional areas. Achievement of this strategy would partially displace the use of imported gas and gas liquid products, reduce the use of higher carbon emission emitting fuel sources such as coal and diesel, and reduce the reliance on imported electricity.



### 3. INDUSTRY OVERVIEW

#### Mongolia and Global Climate Change Commitments



Figure 4: Mongolia's capital Ulaanbaatar

Mongolia joined the United Nations Framework Convention on Climate Change (NFCCC) in 1993, the Kyoto Protocol in 1999, and the Paris Agreement on Climate Change in 2016. In March 2017, the Mongolian Government approved a National Program on Reduction of Air and Environmental Pollution. This national program aims to decrease air pollutants by 80%, prohibit the use of unprocessed coal anywhere except for thermal power plants in Ulaanbaatar, and reduce air and environmental pollution by at least 50% by 2025. Alongside many other signatories, in November 2019, Mongolia revised its commitment under the Paris Agreement to carbon emission reductions of 22.7% by 2030 under a new Nationally Determined Contribution, increased from its original commitment of a 14% reduction defined in 2015.

#### Energy Sector in Mongolia

##### Petroleum Laws and Regulations

The Petroleum Law of Mongolia was adopted on 18 January 1991. The law was revised in 2014 creating a clear and transparent legal environment and more favourable conditions for investors. The law regulates the operations of Mongolian and foreign entities or individuals on exploration, production, transportation, storage and marketing of petroleum in Mongolia.

The Mineral Resources and Petroleum Authority of Mongolia (**MRPAM**) is the government agency overseeing the implementation of the Petroleum Law of Mongolia and relevant regulations.

The Solicitor's Report set out in section 9 contains a high-level overview of the Mongolian regulatory and legal framework relating to petroleum at section 7 of that report.

##### Exploration and Production

The upstream exploration segment of the Mongolian energy sector is immature, and with no natural gas production, little oil production and no substantial oil refining capacity currently, the country relies almost entirely on imports of oil and gas products from its neighbours.

According to MRPAM, 33 prospective petroleum blocks have been identified for petroleum exploration, and currently PSAs have been signed over 27 of these blocks.

There are a number of international oil and gas exploration companies active in the sector, including Petro China (China's largest oil company), AIM listed Petro Matad plc (focussed on oil exploration), and ASX listed Elixir Energy Limited focussed on exploration for coal seam gas. In 2019, Petro Matad announced two oil discoveries at Heron-1 and Gazelle-1 wells in Block XX in eastern Mongolia proximate to Petro China producing fields. In 2020, Elixir Energy Limited announced the first coal seam gas discovery at Nomgon-1 in the South Gobi region.

Crude Oil is commercially produced from three blocks with two operated by Petro China, and one operated by Dongsheng Petroleum (Mongol) LLC. According to the Ministry of Mining and Heavy Industry, 6.88 million barrels of oil (approximately 19,000 barrels per day) were produced in 2019, an increase of approximately 500,000 barrels over 2018. Petro China produces





up to 95% of the oil production in the country. The volume of proved reserves plus cumulative production for the three producing Production Sharing Contract blocks was estimated at approximately 320 million barrels in 2011/12.

Demand for refined oil products in the country was reported in 2019 as approximately 25,000 barrels of oil per day, and until refining capacity is available in the country oil produced is transported to China for processing. In October 2019, work commenced on a joint Mongolia-India oil refinery project in the Dornogovi Province. The refinery is to have a processing capacity of 1.5 million tonnes per year and is expected to be completed by 2022.

#### Coal Seam Gas Exploration

With a well-known abundance of coal in the country, exploration for coal seam gas in Mongolia has been underway since the early 2000's, with a number of studies and limited field activities undertaken to understand the resource potential.

In 2015, the journal article titled '*The Potential for Methane Gas Development in Mongolia*' published by the Economic Research Institute for Northeast Asia (ERINA)<sup>1</sup> provided a summary of coal seam gas exploration activities. An overview of aspects of that summary is set out at paragraphs (a) – (f) below. It should be noted that authors of the above journal article have not provided their consent to inclusion of the overview below in the Prospectus.

#### (a) 2004 Storm Cat Energy, Nemegt-VI and Borzon VII PSC

The first comprehensive research was done by Storm Cat Energy (**SCE**), a Canadian company, which entered into a 49,000 km<sup>2</sup> production sharing contract (**PSC**) with MRPAM in February 2004. The PSC granted SCE exclusive rights to explore and develop CBM resources in parts of the Nemegt-VI and Borzon VII petroleum exploration blocks, which included the Nariin Sukhait coal mine.

The investigation area covered approximately 2,100 km<sup>2</sup> of relatively steeply dipping, folded and faulted Upper Permian, Triassic and Jurassic strata to the surface. Six preliminary geological maps, covering a 900 km<sup>2</sup> area, were compiled. In addition to the geological mapping, SCE drilled a series of 11 core holes to evaluate the location and quality of coals in the six mapped areas. Five additional deep core holes were drilled to better determine the thickness and gas content of the coal. Four of the core holes were drilled and cored in the Central Nariin Sukhait area. The fifth core hole was drilled and cored in the Erdene Bulag (Khuree Del) area over 200 kilometers to the east. The results of the coring and desorption were reported as follows:

- Total coal thickness of 50 meters, locally up to 70 meters;
- Vitrinite reflectance Ro=0.62% to 0.87%;
- 15 coal seams found to be present in the Nariin Sukhait area coal measures;
- The main seam is 20 meters to 50 meters thick;
- The coal rank is high-volatile C bituminous to high volatile A bituminous;
- Ash content is low, 8–15%;
- Gas content ranges from 2.4 cubic meters /tonne to 11.9 cubic meters /tonne.

#### (b) 2005 Storm Cat Energy, Tsaidam Mongolia CBM Project

SCE acquired a 22,400 km<sup>2</sup> CBM PSC over Block Tsaidam-XXVI. Under the PSC, SCE was to drill three exploration wells and to undertake geological, geophysical and other technical studies. The three exploration wells were located in central Mongolia south of Ulaanbaatar with ten coal-bearing basins. Following this exploration work, SCE ceased activity in Mongolia.

#### (c) 2010, Korea Gas Corporation (KOGAS), Nalaikh

In 2010, Korea's largest, publicly owned oil and gas corporation KOGAS and PAM (Petroleum and Minerals Authority) signed a 'Joint Geological Survey of Coalbed Methane' contract concerning the Nalaikh coal mine, approximately 40km from Ulaanbaatar. KOGAS drilled three wells and prepared a total of 17 gas analysis samples. Each well depth was around 350 meters with unsatisfactory results. The estimated gas content of the coal seam in the Nalaikh coal mine was considered not economically viable for CBM development because it was below 5 cubic meters /tonne.

#### (d) 2013, US Environmental Protection Agency

The US Environmental Protection Agency has been active in this area and has published various reports on the CBM sector of Mongolia, including "Pre-feasibility Study for Coal Mine Methane Recovery and Utilization at Nariin Sukhait Mine, Mongolia" and "Pre-feasibility Study for Coal Mine Methane Recovery and Utilization at Baganuur Mine, Mongolia" both in 2013. Both studies estimated gas production capabilities, CO<sub>2</sub> emission reductions, and related capital expenditure.

<sup>1</sup> The Potential for Methane Gas Development in Mongolia, ECONOMIC RESEARCH INSTITUTE FOR NORTHEAST ASIA (ERINA), ERINA Report No.127, DECEMBER 2015, Ch. Otgochuluu Chief Economist, Erdenes Mongol LLC, R. Bold-Erdene, Specialist, Geology, Oil and Gas Sector Development, Erdenes Mongol LLC



### 3. INDUSTRY OVERVIEW

(e) 2014, Mineral Resource Authority

In 2014 the Mineral Resource Authority combined data from both Mongolian Government and private sector sources on the coal deposits in the country and associated gas-in-place estimates. The compilation included the Tavan Tolgoi coal deposit, the Nalaikh coal deposit, the Kharkhiraa deposit and the Onghi River deposit. In total, the compilation estimated gas-in-place estimate of up to 68 billion cubic metres.

(f) 2014 Erdenes Tavan Tolgoi and KOGAS, Borteeg, Tavan Tolgoi

In 2014, KOGAS extended its activities in the country and conducted a coal-bed methane survey in the Borteeg block of Tavan Tolgoi coal deposit. The Tavan Tolgoi coal deposit is considered the largest deposit in Mongolia with total reported estimated resources of six billion tonnes of coal, of which, 4.6 billion tonnes is estimated as thermal coal and 1.4 billion tonnes is estimated as coking coal. Currently the coal from this deposit is exported to China after being extracted by the open-pit mining method. Research work on methane has been performed at Borteeg, a mineral exploration licensed site located in the southern part of the deposit. KOGAS drilled two boreholes to depths of 780 and 930 meters. Data obtained from these investigations formed the basis of a number of preliminary technical and economic feasibility studies for CBM development at the Tavan Tolgoi coal field.

The preliminary studies covered various aspects of a CBM development project, including:

- Exploration and production techniques;
- Gas processing for each coal seam gas well;
- Central gas processing plant;
- Pipelines and re-compressor stations to transport gas;
- Commercial studies; and
- Environmental benefits.

These reports, whilst preliminary, offer a useful guide to Jade in assessing the exploration, appraisal and production pathway for the TT CBM Project.

In addition to the above, in September 2018, Australian private company Golden Horde Pty Ltd (**Golden Horde**) was awarded a PSC over the Nomgon IX licence area in the South Gobi region. The 30,000 km<sup>2</sup> PSC covers the major Permian coal bearing basin of Tavan Tolgoi, *but excludes the area of the Tavan Tolgoi coal field, which is covered by the licences operated by Jade subsidiary MGR*. In November 2018, Golden Horde announced a Prospective Resource for the Nomgon IX PSC, undertaken by independent geological consultant ERC Equipose Pte Ltd (ERCE), using 2018 SPE PRMS standards. In December 2018, Elixir Petroleum Limited (**Elixir**) [ASX:EXR] completed the acquisition of Golden Horde and subsequently changed its name to Elixir Energy Limited. During 2021, Elixir remains actively exploring in the Nomgon IX PSC.

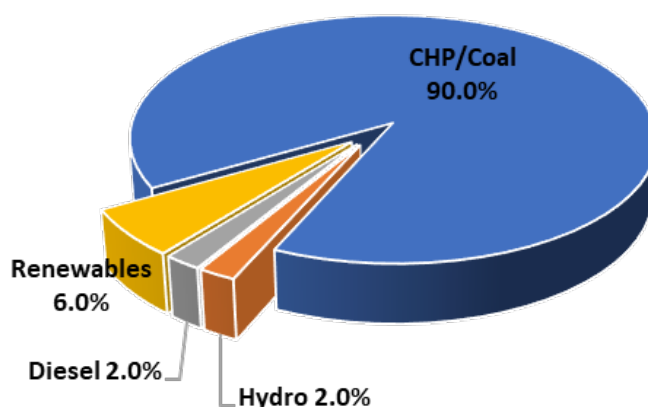
#### Power Sector

Since 2000, the demand for energy in Mongolia has increased faster than its economic growth, with peak electricity demand reported to have doubled from 570 megawatts (MW) in 2005 to 1,099 MW in 2014. The country's electricity supply capacity of approximately 901 MW is generated by five power systems, predominantly coal fired.

Power generated by thermal power plants accounts for 90% of total domestic generation, almost all of which is produced by Soviet-era coal fired plants.





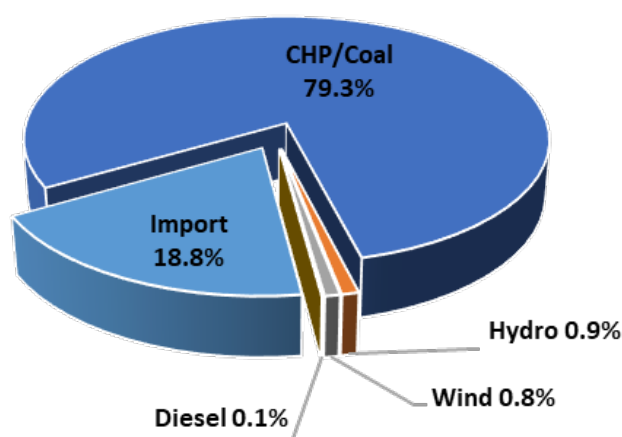


**Figure 5:** Electricity Generation, Installed Capacity %

*Ministry of Energy, Energy Sector of Mongolia Country Report, August 2018*

Only 728 MW of the Mongolian coal fired generating assets is considered reliable due to losses related to the ageing nature of the plants and the transmission infrastructure, and an overall lack of investment in the sector since 1985.

On a production measure, almost all power generated within the country is from the Combined Heat and Power plants (CHP) (coal fired), with minor contributions from hydro and wind sources. Losses in the transmission and distribution system are reported as up to 15.5% on average. Consequently, the country must import power from Russia and China in order to satisfy the country demand. The share of imported electricity in total electricity consumption is reported to have risen from 5% in 2001 to 20% in 2016.



**Figure6:** Electricity Production %

*Ministry of Energy, Energy Sector of Mongolia Country Report, August 2018*

Electricity and district heating provided to the city of Ulaanbaatar is generated from three thermal power plants located to the north of the city, within the Central Energy System. Combined, the output of these three power plants provide heating and hot water for approximately 80% of the city's apartment residences. (Each of these plants are performing at an undesirable efficiency and with inadequate emission control systems.)



### 3. INDUSTRY OVERVIEW

Figure 7: Description of the power plants supplying Ulaanbaatar

Existing Power Plants	Installed Capacity (MW)	Available Capacity (MW)	Installation Year	Efficiency (in 2009)	Current Age (2020)
CHP2	21.5	18	1961	21.0%	59
CHP3	136	105	1968	38.6%	52
CHP4	560	452	1983	40.1%	36

The ageing and inefficient nature of the plants in the Central Energy System together with their low-quality fuel source contribute strongly to a heavily polluted environment in and around the capital city of Ulaanbaatar. Several health issues in Ulaanbaatar, have been attributed to air pollution. An assessment (Allen, Ryan W., et al. "An assessment of air pollution and its attributable mortality in Ulaanbaatar, Mongolia." *Air Quality, Atmosphere & Health* 6.1 (2013): 137-150) indicates that air pollution in Ulaanbaatar has been estimated to account for a significant portion of mortality in Mongolia; about 10% of city's all-cause mortality rate with 29% of cardiopulmonary deaths and 40% of lung cancer deaths.

#### Renewables – Wind, Solar, Hydro

According to the Asian Development Bank, the country has an abundance of renewable energy sources, and renewables production is increasing from a low base and accounted for circa 6% of total electricity production in 2019. Both solar and wind generators have faced difficulties integrating into a traditional power grid that has stability issues when feeding in variable power, and difficulty in achieving traction from consumers due to higher tariff requirements. There are a number of hydroelectricity projects (2% of production) in the country although these cannot operate year round due to the freezing winter temperatures, and encounter other issues such as water resources across borders as well as the delicate environment which they impact. Since the adoption of Renewable Energy Law in 2007, Government policy has been supportive of renewable energy developments, including the Green Development Policy in 2014, Mongolia's Sustainable Development Vision 2030 in 2016, and has facilitated the establishment of the Mongolia Green Finance Corporation and the Green Development Fund under the Development Bank of Mongolia, in 2017.

#### Energy Demand

Mongolia's capital city Ulaanbaatar and surrounding areas has a population of approximately 1.4 million people (Ministry of Energy, August 2018) accounting for over 40% of the country's population. The growth of the population in the urban area has caused a corresponding increase in the demand for electricity for use in heating and for industrial activities. Ulaanbaatar's population is forecast to continue growing and as such it is expected that energy demand will continue to increase.

In 2015, the State Policy on Energy 2015-2030 was adopted by the Mongolian Government. The objectives of the policy are to build energy security in the country, assure sustainability of the energy sector development and to create the basis for increased development of the renewables sector.

Phase 1 of the policy covering years 2015-2023 includes objectives:

- Doubling of installed capacity;
- At least 10% of new generation to be produced from hydro sources;
- Increase the reserve capacity to more than 10%
- DC transmission lines to be installed; and
- Install CBM projects and energy storage.

#### Demand in South Gobi

The major source of demand for power outside of the capital city is in the South Gobi region, where one of the country's largest mining projects is the Oyu Tolgoi gold and copper project operated by a joint venture of the Government of Mongolia and Canadian minerals exploration company Turquoise Hill Resources Limited, 50.8% owned by Rio Tinto.

The project is one of the world's largest known copper and gold deposits and is located approximately 135km to the south east of Tavan Tolgoi in the South Gobi province, and approximately 100 km from the border with China. The mining operation commenced in 2011 and employs approximately 13,800 workers. Presently, the operation has demand of up to 300 MW of electricity which is satisfied through a combination of diesel-powered generation and coal generated electricity imported via high voltage transmission line from China.





In June 2020, the Government of Mongolia announced an agreement to develop a new state-owned coal fired power station near Tavan Tolgoi. The plant will have a capacity of 450 MW and be supplied with high quality coal from the open pit mining operation at Tavan Tolgoi. A power purchase agreement between the Government and the consortium was expected to be completed by March 2021, with construction to commence by no later than 1 July 2021, with the power station to be fully operational by 2025. The mining operation at Oyu Tolgoi will continue to import electricity from China until the new plant is able to provide stable, reliable, and continuous power.

The development of this domestic power station to supply the Oyu Tolgoi mining operation will reduce the proportion of electricity imported from China thereby improving the energy independence of the country but increase the proportion of electricity supplied by domestic coal fired power stations.

#### Environmental Issues in Ulaanbaatar

According to a study conducted by KOGAS in 2017, Ulaanbaatar had one of the worst air quality ratings globally, especially in the winter months. Geographical and climatological factors contribute to the severe winter air quality condition as Ulaanbaatar is in a valley surrounded by a mountainous terrain suppressing vertical and horizontal dispersion of pollutants. During the extreme cold conditions of the winter months, the city can be exposed to temperature inversions which traps the air plumes within the city, reducing the circulation of air.

#### Competing Priorities for the City

With the continuing population growth in the city of Ulaanbaatar, in part from urbanisation and socio-economic development of the country, and the growth of electricity demand, Mongolia is focussed on the competing priorities of:

- Increasing electricity generation; and
- Improving the environment.

With these competing priorities, the key challenge for Mongolia is to increase the capacity of domestically produced electricity, whilst meeting public concern on air pollution, and satisfying the country's commitments on global climate change action.

#### **The role for Natural Gas in Mongolia**

Jade anticipate an increasing role for the use of natural gas in the energy supply mix of Mongolia. It is the strategy of Jade to develop the TT CBM Project so that gas produced may, in the long term, provide a reliable supply option to the oil and gas product market and to the power sector in Mongolia, both to the capital city of Ulaanbaatar and also into regional areas, displacing the use of imported gas and gas liquid products, reducing the use of higher carbon emission emitting fuel sources such as coal and diesel, and reduce the reliance on imported electricity.







## 4. COMPANY OVERVIEW

High Grade Metals Limited was incorporated as Westel Group Limited on 11 January 1994 and was admitted to the official list of the ASX on 13 February 1995. The Company was undertaking the development and marketing of telecommunications and telecommunications related products and services at the time of its initial listing on the ASX, including in the secure wireless communications market.

The Company subsequently changed its name to IC2 Global Limited in July 2004. The Company continued its activities in the communications technology industry and sought to diversify its interest in the communications technology whilst building the distribution and product offerings of its wireless business, including continued involvement in and development of the business previously operated by the Company when it was Westel Group Limited.

The Company changed its name to Quest Minerals Limited in December 2008. The nature of the business of the Company changed from the communications technology industry to focus on engaging in mineral exploration and investment in mineral exploration entities generally.

In February 2018, the Company completed the acquisition of Austrian Projects Corporation Pty Ltd. Following completion of this acquisition, the Company changed its name to High Grade Metals Limited and focused on the exploration of cobalt, nickel and copper property at Leogang and the gold property at Schellgaden, both located in Austria.

Following on from the results of the exploration program on the Austrian portfolio, the Directors of the Company resolved to search for additional investment opportunities that could provide the opportunity to more efficiently create value for shareholders. An extensive review and assessment program ensued, with the Directors concluding that the potential to add significant value for shareholders was apparent via the acquisition of Jade.

The Company currently intends to hold its existing Austrian projects on care and maintenance while it seeks to identify a joint venture partner.

Noting the above, the Company is proposing to pursue the Jade business as its main undertaking following completion of the Transaction, however it will continue to seek a partner to fund exploration of its existing Austrian projects and will assess the results of such exploration as and when available.

Further information in relation to the Austrian project interests of the Company was set out in the Company's Annual Report for the period ended 31 December 2018 (pages 9 to 14). That report has been lodged with ASX and the overview of the Austrian projects at pages 9 to 14 are incorporated by reference into this Prospectus for the purposes of section 712 of the Corporations Act. Any shareholder who requires a copy of that report to consider the information contained in them regarding the Austrian project interests of the Company should contact the Company using the details set out on page 2.

### Company Acquisition

#### Jade Gas Pty Ltd

Jade Gas Pty Ltd is a gas exploration company focussed on the coal seam gas potential of Mongolia. The flagship project of Jade is the 60/40 joint venture with Mongolian State-owned entity Erdenes Methane LLC (**EM**) for the exploration and exploitation of the CSG potential in licences over approximately 665 km<sup>2</sup> including and surrounding the Tavan Tolgoi coal field in the South Gobi region of Mongolia, known as the TT CBM Project.

#### Ownership Structure

At the time of the Transaction, Jade has two 100% owned subsidiaries: Jade Gas Mongolia FILLC (**JGM**) and Jade Methane FILLC (**JMM**).

*Jade (via its subsidiary MGR) holds a 60% interest in the TT CBM Project*

Jade, through its subsidiary Jade Methane FILLC, holds a 60% interest in Methane Gas Resource LLC (**MGR**), the joint venture operating company formed to explore, develop and produce gas from the TT CBM Project. The remaining 40% interest in the joint venture entity is held by Erdenes Methane LLC (**EM**), a Mongolian Government entity. In May 2019, Jade and EM entered into a Shareholders Agreement and an Investment Agreement with EM, further details of which are summarised in section 14.

Jade's joint venture partner, EM, was awarded a PSA over the TT CBM Project licence area in April 2020, after completion of the requirements of a Prospecting Agreement it held at that time over the licence area. In accordance with the joint venture agreements, Jade managed, fully funded and operated the fulfillment of the PSA requirements during 2019. Following approval of the Cabinet of Mongolia on 14 October 2020, the PSA was transferred from EM to the joint venture company MGR.

The TT CBM Project is focussed on the coal resource of the Tavan Tolgoi coal field.



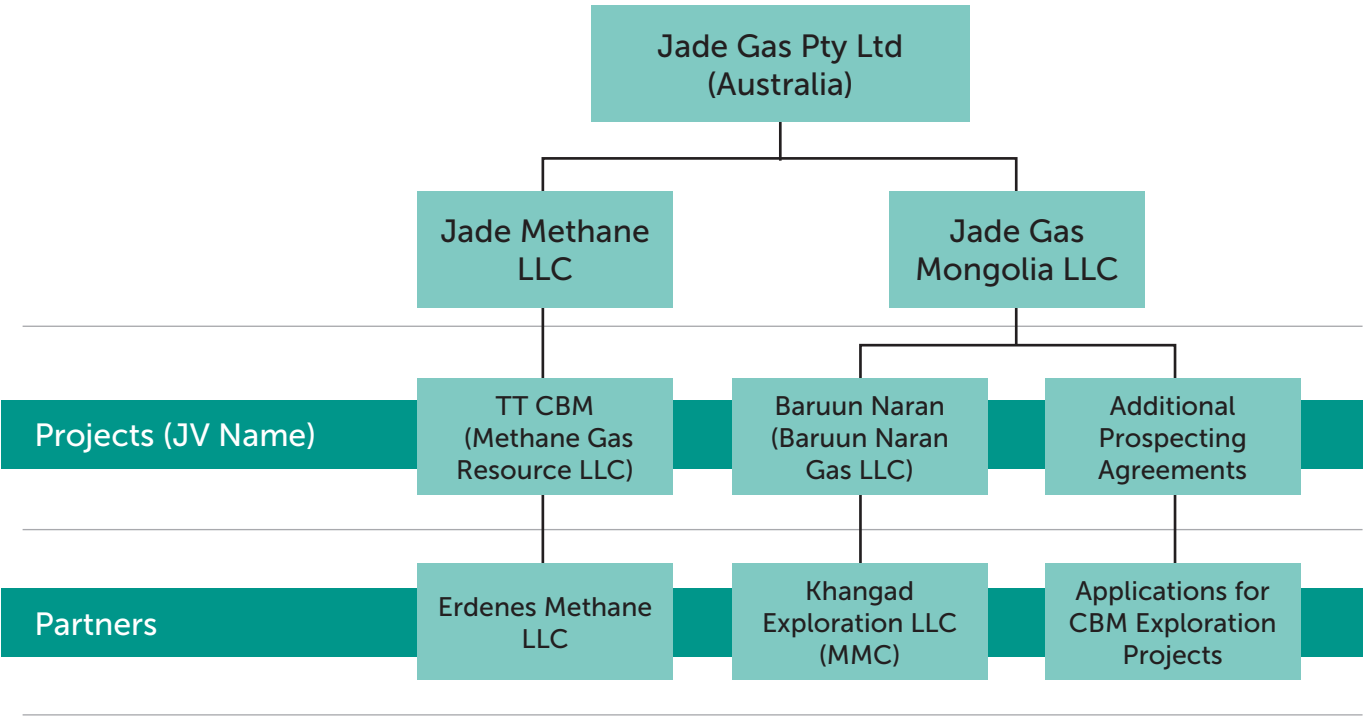
For further details on the status of the Company’s tenure in respect of the TT CBM Project please refer to the Solicitor’s Report set out in section 9.

*Jade holds a 66% interest in Baruun Naran Gas LLC*

Jade, through its subsidiary Jade Gas Mongolia FILLC, holds a 66% interest in Baruun Naran Gas LLC (**BNG**), the joint venture operating company formed to explore, develop and produce gas from within a coal mining licence held by joint venture partner Khangad Exploration LLC, a wholly owned subsidiary of Mongolian Mining Corporation, a company listed on the Hong Kong Stock Exchange. Khangad Exploration LLC holds the remaining 34% equity in BNG. Jade is nominated as the joint venture Operator of BNG. As at the date of this Prospectus, BNG has not yet applied to MRPAM for a PSA to the Baruun Naran Project.

*Future Opportunities*

Although Jade does not currently have any other project opportunities, it may in the future seek to pursue additional joint venture arrangements for CBM opportunities and, should such opportunities arise, it is currently anticipated that they would be pursued on a similar structure and model to that which applies to the TT CBM Project and the Baruun Naran Project.



**Figure 8:** Jade Project Structure (current and potential future opportunities)



## 4. COMPANY OVERVIEW

### TT CBM Project

The TT CBM Project involves the exploration for and, subject to exploration success, the development of the coal seam gas resources of the Tavan Tolgoi coal field in the South Gobi region of Mongolia. The field is located in the Omnigovi Province in southern Mongolia, approximately 550 km from the capital city of Ulaanbaatar and 85km to the east of provincial capital, Dalanzadgad.

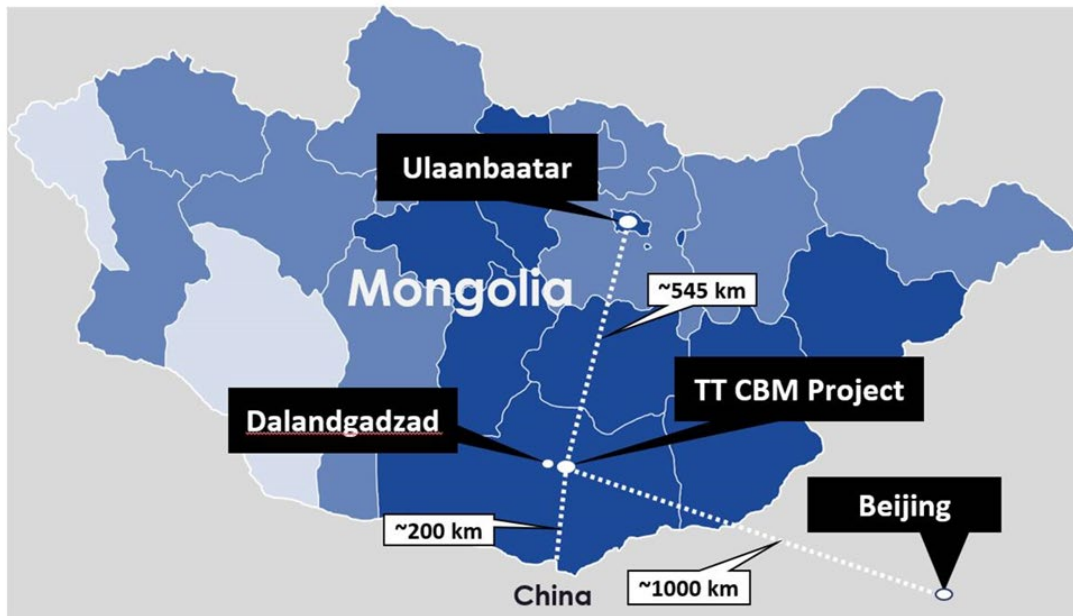


Figure 9: Map showing the location of the TT CBM Project

### Tavan Tolgoi Coal Field

The Tavan Tolgoi coal field is regarded as one of the largest global coal fields, with reported measured, inferred and indicated estimated coal reserves and resources in excess of 7 billion tonnes, of which up to 1.9 billion tonnes is high quality coking coal.

The Tavan Tolgoi coal field covers an area of approximately 220 km<sup>2</sup> in the Ulaan Nuur Valley of the Gobi Desert of south-central Mongolia. Six separate sub coalfields form Tavan Tolgoi: Tsankhi, Southwest, Borteeg, Ukhaakhudag, Eastern and Bortolgoi.

The coals contained within the Tavan Tolgoi field are Permian age, with similarities to the productive coal measures contained in the Bowen and Surat Basins in Queensland, from which the majority of Australia's coal seam gas is produced.

Erdenes Tavan Tolgoi JSC is currently operating the Tavan Tolgoi coal mine. Geographically, it lies 98 km to the east of Dalanzadgad, the capital of South Gobi Province, and 15 km southwest of Tsogtsetsii town.







## Geology

### Regional Structural Geology

Mongolia and Northern China were formed by a series of accretionary terrains that range in age from Proterozoic to Late Palaeozoic as shown in Figure 10.

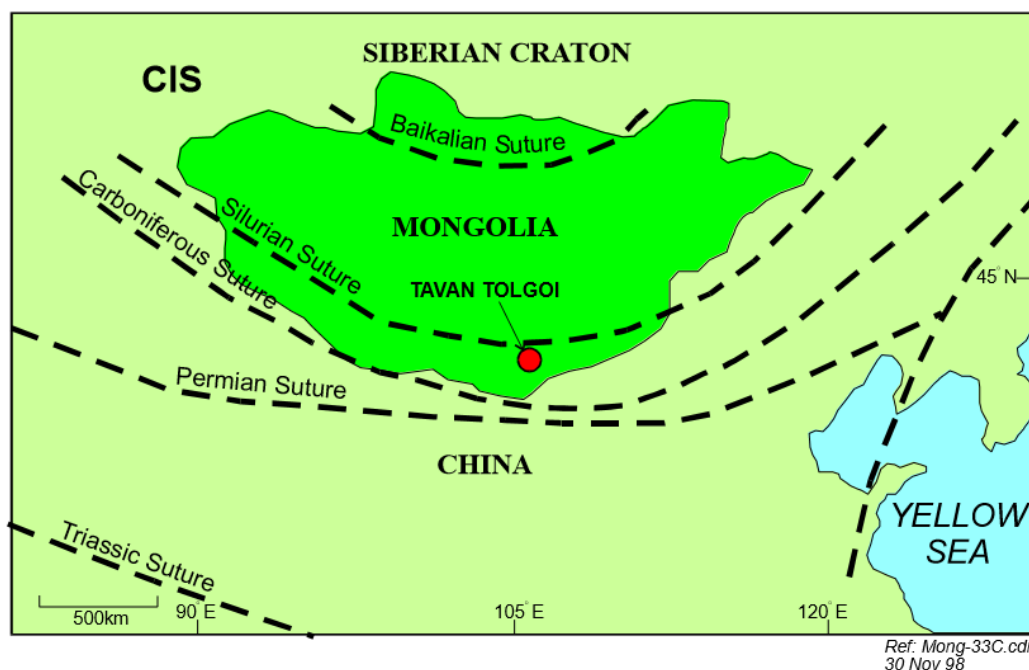


Figure 10: Regional Tectonic Setting

Each successive accretionary belt was added from the south and wrapped around the Siberian Craton to the north, forming a series of concave north-wrapping arcs separated by ophiolitic suture zones. Two suture zones are present in Mongolia, the Baikalian Lineament in the north, which represents late Proterozoic accretion and the Main Mongolian Lineament in the south, which represents Silurian accretion. In southern Mongolia, the oldest rocks are of late Precambrian to middle Palaeozoic age and were deposited as shallow marine carbonate and clastic facies, on passive continental margins. Mid-Palaeozoic orogenesis is associated with the collision of the Altai microplate in western Mongolia and the accretion of the central Mongolian microplate onto the Siberian Craton. Renewed sedimentation in the Altai foreland and also perhaps in marginal rift or back arc basins is represented by Devonian and Carboniferous continental and marine clastic and volcanic formations.

A Late Carboniferous to Early Permian orogenic phase marks accretion of the Gobi microplate onto the enlarged Mongolian-Siberian Craton, giving rise to a third suture which more or less coincides with the location of the present day Mongolian-Chinese border.

Late Permian to Early Jurassic sediments in southern Mongolia comprise a very thick sequence of coarse continental clastic formations overlain by locally occurring finer clastic, coal, and lacustrine sequences possibly deposited in foreland basins. These sediments were subsequently deformed during the Triassic to Middle Jurassic, when the Qiantang block (in China), collided with the growing Mongolian-Siberian Craton.

Later periods of continental rifting occurred resulted in thick sequences of fluvial conglomerate and sandstone, floodplain coal, and lacustrine shale to be deposited in the rift basins through the Late Jurassic and Early Cretaceous. The southern Mongolia area was affected by significant tectonism and volcanic activity throughout the Late Cretaceous and Tertiary periods.

### Local Structural Geology

The coal seams of the Tavan Tolgoi district accumulated in the Ulaan Nuur Trough, an intra-cratonic basin. The basin, generally regarded as a broad synclorium, is the result of crustal subsidence of the basement rock adjacent to a large scale east to northeast trending fault system (mega-shear) that bounds the district to the north. Upper Permian coals accumulated in the subsiding basin and were subsequently faulted and folded from a moderate to intense degree by post-depositional tectonic events.



## 4. COMPANY OVERVIEW

The Tavan Tolgoi coalfield is comprised of a series of east-west trending synclines and anticlines which are overprinted by a north-south trending anticline. While much of the Tavan Tolgoi is gently to moderately inclined, dips in the flanks of these structures can exceed 40°. Numerous east-west trending normal faults bisect the coalfield. Significant east-west trending thrust faults form the coalfield boundaries throughout much of Tavan Tolgoi, bringing underlying, older volcanics and non-coal-bearing formations to the surface and truncating the coal resource areas.

### TT CBM Project: Licence Area

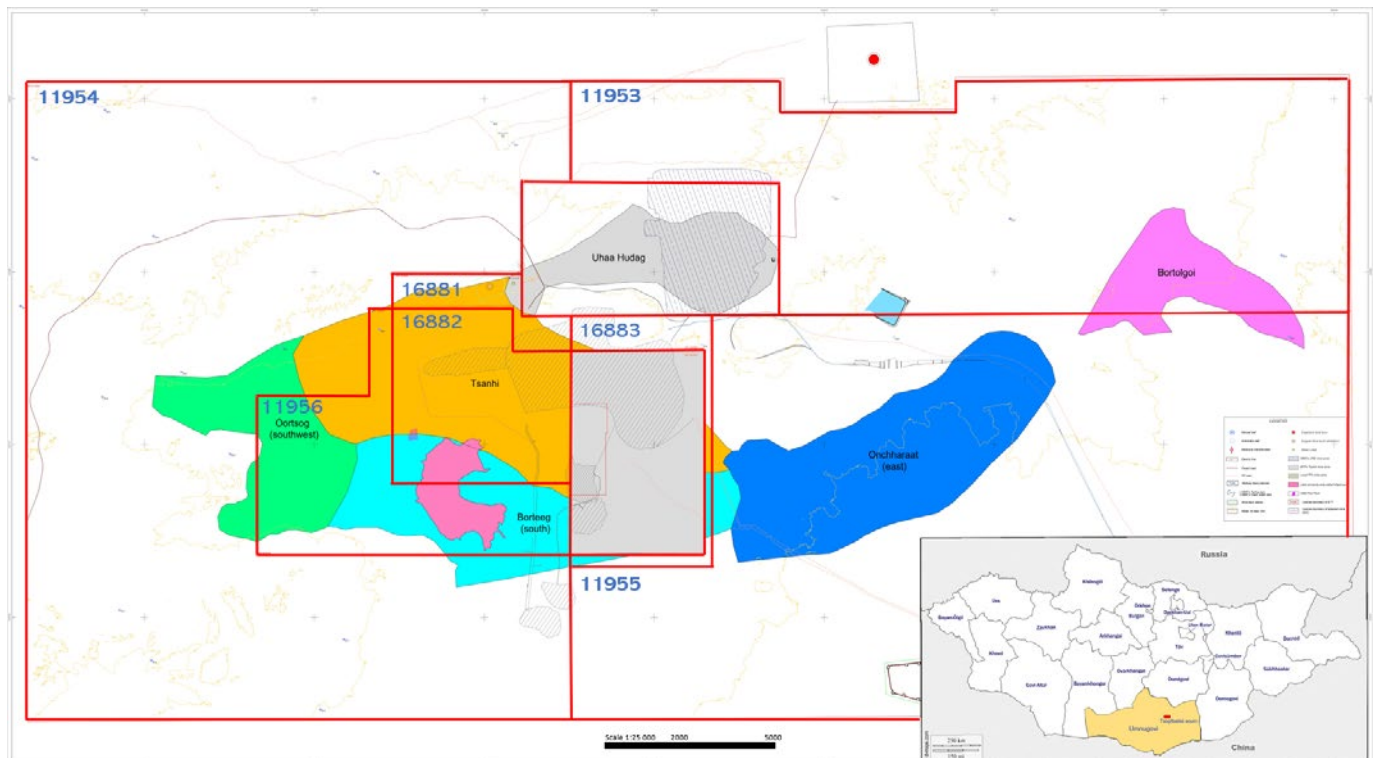


Figure 10: The licence outlines over the Tavan Tolgoi coal field and surrounding areas





## 4. COMPANY OVERVIEW



**JADE GAS**

The licences and approximate area covered by the PSA are set out in the table below.

Licence Number	Area (km <sup>2</sup> )
MV- 016881	6
MV- 016882	24
MV- 016883	7
MV- 011953	129
MV- 011954	229
MV- 011955	238
MV- 011956	32
Total:	665

Whilst there is extensive knowledge on the shallower sections of the coal deposit itself there is limited data regarding the deeper coal formations and coal gas properties.

Data has previously indicated the presence of CSG in the Tavan Tolgoi coal field (including a series of pilot CSG wells drilled by KOGAS (Korean Gas Corporation) in 2014) (see section 3), however no definitive assessment has been undertaken to date regarding gas content, permeability or other factors that may be important to the ability to define a CSG resource beyond the Prospective Resource Estimate as defined by PRMS.

To quantify the potential CSG resource at the Tavan Tolgoi field, a detailed exploration effort of international standard is required. It is the intention of Jade to undertake that exploration and this commenced during 2H 2019 with work undertaken by 60% subsidiary MGR as part of the requirements defined by the Prospecting Agreement held by Jade joint venture partner Erdenes Methane LLC.

In order to successfully explore in the vicinity of the operating coal mine, EM has a Co-operation Agreement in-place with Erdenes Tavan Tolgoi JSC (ETT, a subsidiary of Erdenes Mongol LLC, the parent entity of EM LLC) which majority owns and operates the Tavan Tolgoi coal mine (**ETT Co-operation Agreement**). The purpose of the ETT Co-operation Agreement is to allow for co-ordination of surface activities between MGR and ETT so that MGR can effectively explore for CSG within the licence area. Further details of the ETT Co-operation Agreement are set out in section 14.4.

### Recent Activity on the TT CBM Project by Jade

Under the agreements between JMM and EM, Jade is responsible for funding 100% of the activities pertaining to exploration of CSG on the TT CBM Project licence area until a detailed feasibility study has been completed on TT CBM Project. Further details on the arrangement between JMM and EM in respect of the TT CBM Project are set out in section 14.4.

The initial phase of work under the joint venture agreements was to satisfy the requirements defined under a Prospecting Agreement held by EM. This work program was undertaken by Jade during 2H 2019. The key results of the work program were to confirm the presence and depths of coal formations within a 20 km<sup>2</sup> area of the Tavan Tolgoi field, known as the Borteeg area. It included the drilling of eight core holes (over 5000m in total) to confirm location and characteristics of various coal seams. Approximately 95% of the core was recovered and was analysed.

As part of its commitment to the development of the local Mongolian workforce capability, Jade (via MGR) conducted an extended field training workshop whilst undertaking the initial drilling phase of the work program. Under this program, up to 16 local Mongolian Nationals were able to work alongside the Jade management team and specialist contractors to improve skills and understanding in the areas of coal core retrieval, sampling, and testing.

The Company has engaged RISC Advisory Pty Ltd to prepare an Independent Technical Specialist Report (**ITSR**) in respect of the TT CBM Project which is set out in section 8.

The ITSR included a Prospective Resource Estimate which is set out below. Further details are set out in section 8.

**Figure 11:** Prospective Resource Range (Gross) estimated by RISC

Prospective Resource Range (Gross)	Unit	Low	Best	High
Tavan Tolgoi (TT CBM Project)	Bcf	216	1,044	3,062





## 4. COMPANY OVERVIEW

*Cautionary Note to Prospective Resource Estimate and Important Note: The estimated quantities of petroleum that may potentially be recovered by the application of a future development project relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. The ITSR contains further detail regarding sources of and information in respect of the Prospective Resource Estimate above, which has been extracted from the ITSR for the convenience of readers. The additional information includes the basis of the estimates, further activities to be undertaken in respect of the TT CBM Project and an assessment of risks associated with the estimates. Readers are encouraged to read the ITSR in full.*

Following presentation and discussion of the data retrieved through the 2019 work program, MRPAM concluded that the requirements under the Prospecting Agreement had been satisfied, and that, in accordance with Article 17 of the Laws of Petroleum of Mongolia, the joint venture was able commence the application process for the PSA over the TT CBM Project licence area.

The PSA was awarded to joint venture partner EM on 22 April 2020, and shortly thereafter the process to transfer the PSA to joint operating company and 60% owned Jade subsidiary Methane Gas Resource LLC was initiated. On 14 October 2020, the transfer of the PSA from EM to MGR was completed.

Further details of the PSA and an overview of the Mongolian regulatory and legal framework applicable to petroleum rights is set out in the Solicitor's Report in section 9.

Jade, as operator of MGR, intends to move rapidly into an advanced exploration phase to provide further data on the coal seams likely to be targeted for future gas exploitation. Further details on the proposed use of funds is set out in section 12.7.

### Strategy for TT CBM Project

Through its exploration work at the TT CBM Project, Jade intends to firstly improve understanding of the Prospective Resource Estimate at the TT CBM Project. To achieve this, Jade will continue with further technical studies and field activities which are likely to involve the drilling of wells, and the sampling and testing of various coal measures contained within the TT CBM Project licence area.

As more data is gathered and analysed from the TT CBM Project, it is the intention of Jade to seek further classification of the resource to seek to report in a reserve category in accordance with PRMS 2018 Reserves Classification Guidelines. To achieve this, Jade intend to establish a multiple well production pilot to seek to confirm production rates at commercial level. Planning for the production pilot will commence during late-2021/early 2022 after additional data has been analysed from the 2021 work program.

Achievement of an appropriately sized reserve may permit Jade to progress the TT CBM Project through to a FEED process (Front End Engineering and Design). FEED defines more detail on the technical requirements and improves understanding of project costs. FEED can be divided into separate packages covering different portions of a project, and will cover activities such as: drilling and completion designs, optimisation of well spacing and water management options, design of the gathering systems, dehydration and compression facilities, and pipeline design.

Ultimately, Jade is seeking to progress the TT CBM Project to a financial investment decision point, whereby a completed field development plan may be able to attract sufficient funding (whether through debt or equity) which will enable the TT CBM Project to enter the development phase.

If the FEED process is completed, a detailed feasibility study is to be undertaken on the TT CBM Project by MGR. At completion of the detailed feasibility study, each of JMM and EM will be responsible for future funding based on equity participation (60% JMM and 40% EM) and the parties have reciprocal options regarding increasing or decreasing equity in the Project, subject to certain terms and conditions. Further details of the terms of the TT CMB Project agreements is set out in section 14.4.





### Baruun Naran Project

In addition to the TT CBM Project, Jade has entered into a joint venture with a subsidiary of Mongolia Mining Corporation (**MMC**), a public company listed on the Hong Kong Stock Exchange (HKSE:0975) in respect of the Baruun Naran Project.

Jade, through its subsidiary Jade Gas Mongolia FILLC (**JGM**), holds a 66% interest in Baruun Naran Gas LLC (**BNG**), the joint venture operating company formed to explore, develop and seek to produce coal seam gas from a coal mining licence (MV-014493) held by joint venture partner Khangad Exploration LLC (**Khangad Exploration**), a wholly owned subsidiary of MMC. Khangad Exploration holds the remaining 34% equity in BNG. JGM has entered a Shareholders Agreement and an Investment Agreement with Khangad Exploration. JGM is nominated as the operator of BNG and must sole fund the project to the completion of a definitive feasibility study. Subject to the outcome of definitive feasibility study, the joint venture parties shall mutually agree involvement in further development of the project, including funding obligations of each party.

Further detail on the contractual agreements described above are set out in section 14.4.

MMC is a coking coal producer and exporter in Mongolia. MMC owns and operates two open-pit coking coal mines, namely the Ukhaa Khudag (UHG) deposit located within the Tavan Tolgoi coal formation and the Baruun Naran deposit, both located in South Gobi province of Mongolia. According to MMC, it is the only fully integrated washed coking coal exporter in Mongolia, comprising of mining, processing, transportation, and sales and marketing platform.

A significant amount of borehole and seismic data has been acquired over the licence area by MMC, which provides surface control of known coal seams. Whilst permeability and gas adsorption isotherm data is not yet available, the ITSR has provided a Prospective Resource Estimate as set out below.

**Figure 12:** Prospective Resource Range (Gross) estimated by RISC

Prospective Resource Range (Gross)	Unit	Low	Best	High
Baruun Naran Project	Bcf	13	65	186

*Cautionary Note to Prospective Resource Estimate and Important Note: The estimated quantities of petroleum that may potentially be recovered by the application of a future development project relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. The ITSR contains further detail regarding sources of and information in respect of the Prospective Resource Estimate above, which has been extracted from the ITSR for the convenience of readers. The additional information includes the basis of the estimates, further activities to be undertaken in respect of the Baruun Naran Project and an assessment of risks associated with the estimates. Readers are encouraged to read the ITSR in full.*

Through the joint venture entity BNG, will seek to initially acquire a Prospecting Agreement(s) in respect of the MV-014493 for the exploration and exploitation for CSG potential therein. The initial phase of a Prospecting Agreement would likely require detailed review and further analysis of data regarding the coal deposit at Baruun Naran Project, which would likely lead to the drilling of core holes and testing of samples.

Whilst exploration is at an early stage, the management of Jade believe that the prospectivity for a CSG resource at this location warrants an initial low-cost exploration program.





## 4. COMPANY OVERVIEW

### Market Opportunity for Jade

Following the Transaction, Jade is planning to undertake exploratory work on the TT CBM Project and the Baruun Naran Project which may lead to the eventual commercialisation of either or both projects through sales of coal seam gas, primarily into domestic sales channels, and potentially through export channels into the north of China.

As there is presently insufficient indigenous production of oil or gas within Mongolia, nor suitable refinery capacity, Mongolia meets its oil and gas requirements through importation of gas and other oil and gas products from its neighbours. Furthermore, as described in section 3, the switching from coal to natural gas to supply Mongolia's growing energy requirements needs is expected to align, with the Mongolian Government's push for an alternative source of future energy production to its traditional supply.

It is the intention of Jade that if the TT CBM Project and/or the Baruun Naran Project is shown capable to produce coal seam gas economically, that Jade will establish gas sales agreements with customers within the country who are currently meeting their requirements through imports of gas and other petroleum products. Furthermore, Jade intend to expand the market for natural gas into other areas of the economy not currently using gas, by providing a reliable and long-term supply source.

Such sales opportunities may include, but are not limited to:

- Compressed natural gas (CNG) for delivery via truck to local towns for small scale commercial use;
- CNG or LNG to be delivered via truck into the capital city of Ulaanbaatar to be used in the transport sector as fuel for heavy vehicle and other transport vehicles;
- Sales of coal seam gas to regional mining projects via newly established pipeline(s) to be used as fuel for heavy mining fleet and/or gas fired power generation to meet the needs of the mining operation(s);
- Sales of coal seam gas into the capital city of Ulaanbaatar, via the establishment of a c.540km pipeline. This gas could be used as fuel supply for heavy vehicle and other transport fleet as well as for fuel for natural gas fired power station(s). This would require the establishment of gas fired power generation in the city or conversion of the existing power generation capacity from coal fuelled to natural gas fuelled; and
- Sales of coal seam gas via a yet to be constructed pipeline into the north of China, linking with the existing and extensive transmission network in the region.

Jade highlight that the investigation into and/or development of these potential commercial sales opportunities is at an early stage, and that there is no certainty that any/all of these channels will provide viable commercial options for the TT CBM Project or the Baruun Naran Project nor that those projects will, upon further exploration, result in a commercially viable operation.

It should be noted that, the Company is unlikely to generate revenue in the short to medium term while it focuses on the exploration and evaluation of the Project for the purposes of determining the feasibility of a future profitable operation. Accordingly, the above should be viewed as indicative of the long term strategy of the Company. The Company is unable to determine at this time whether production will commence on the TT CBM Project or any other project in the short to medium term, if at all. Furthermore, whilst Jade believes the projects represents a prospective opportunity to deliver value for its shareholders, due to the inherent speculative nature of exploration generally, there can be no guarantee that one or more of the projects will generate revenue for the Jade at any time in the future.

### Business Development

Jade will continue to assess the prospectivity of Mongolia for additional CSG resource opportunities. Should viable opportunities arise Jade may pursue additional joint ventures or acquisitions.





### 5.1 Introduction

Any securities offered under this Prospectus are considered highly speculative. An investment in the Company carries risk.

This section identifies some of the circumstances that the existing and proposed Directors regard as the major risks associated with an investment in the Company and which may, either alone or in combination, have a material adverse impact on the financial performance of the Company and the market price of the Company's securities, should they arise.

The Directors strongly recommend potential investors consider the risk factors described below, together with information contained elsewhere in this Prospectus, before deciding whether to apply for New Shares or any other securities offered under this Prospectus and consult their professional advisers.

The business, assets and operations of the Company following completion of the Transaction are subject to certain commercial, operational and financial risk factors that, alone or in combination with other factors, have the potential to influence the operating and financial performance of the Company in the future (refer section 5.2). In addition, there are other general investment risks, many of which are largely beyond the control of the Company and are difficult to predict or anticipate (refer section 5.3).

The Board aims to manage these risks by carefully planning the Company's activities and implementing risk control measures. However, as noted above, some of the risks identified below are highly unpredictable and the Company may be limited to the extent to which it can effectively manage them.

The following risk factors are not intended to be an exhaustive list of the risk factors to which the Company is exposed or will, following completion of the Transaction and relisting, be exposed. Before applying for New Shares, you should be satisfied that you have a sufficient understanding of the risks identified in this section 5 and their potential impact on the value of your investment in the Company, so that you can fully consider whether or not an investment in the Company is suitable for you. In addition, you should note that this section has been prepared without considering an applicant's individual financial objectives, financial situation and particular needs. Applicants should seek professional investment advice if they have any queries in relation to making an investment in the Company.

### 5.2 Company Specific Risks

#### **Sovereign and Political Risks Associated with Operating in Mongolia**

Mongolia is a young democratic country which is transitioning to a market economy and is therefore subject to risks and uncertainty. There is also a risk that laws in place in Mongolia may be applied by the judiciary and regulators in Mongolia in a way that is detrimental to the Company and its proposed operations. There can be no assurance that joint ventures, licences (or licence applications), permits (or permit applications) or other legal arrangements will not be adversely affected by the actions of government authorities or others and the effectiveness of the enforcement of such arrangements cannot be guaranteed. There is also a risk that the laws and regulations in place in Mongolia may change in future in a way that is detrimental to the Company and/or the Projects.

#### **Exploration Success and Operating and Development Risks**

Exploration activities for gas such as those proposed to be undertaken by the Company are inherently risky, with a high chance of failure. There can be no guarantee that the Company will identify any resource capable of producing hydrocarbons at commercial rates, if at all.

The future exploration activities of the Company may be affected by a range of factors including limitations on activities due to geological conditions, technical difficulties, changes in cost structures in the industry, geopolitical factors, seasonal weather patterns, delays in timing of operations, industrial accidents, environmental difficulties, changing regulatory conditions, and many other factors beyond the control of the Board or the Company.

The costs associated with exploration and development of coal seam gas projects are based on assumptions relating to the methods and timing of exploration. By their nature, these assumptions are subject to significant uncertainties and the actual costs may differ materially from these assumptions. No assurance can be given that any cost estimates or other assumptions regarding costs will reflect actual costs.

If the exploration of the Projects is unsuccessful the value of the Projects will diminish.





## 5. RISK FACTORS

### Permit application and permit renewal

The Company cannot guarantee that itself or its joint venture partner or partners will be able to maintain all required rights to permits or licences needed for Jade to undertake exploration activities.

The right(s) held by Jade, its subsidiaries and/or joint venture partners will be subject to various initial and ongoing conditions that must be satisfied for the rights to remain in place. These conditions are likely to include, but not be limited to, the requirement to pay certain fees and to meet certain filing and expenditure requirements. It is also likely that the rights forming the Projects will be subject to periodic renewal.

The Company cannot guarantee the terms of the conditions that will be imposed for grant and/or renewal of these rights, including that such conditions will not become too onerous for the Company to continue to meet them. There can also be no guarantee that any right or rights will be renewed on particular terms, or at all.

Section 9 of the Solicitor's Report contains certain qualifications and risks identified by the author of the report. The majority of those risks are assessed by the independent author as 'low'. Furthermore, it is noted that Jade has, on or about 9 July 2021, obtained an extension of the Co-operation Agreement referred to in section 9.3 of the Solicitor's Report and has advised the Company that it intends to pay the Development Bonus Fee noted in section 9.15 pending execution of related documents by local district authorities.

### Hydrocarbon Reserve Estimates

Hydrocarbon reserve estimates are expressions of judgment based on knowledge, experience, interpretation and industry practice. Estimates that were valid when made may change significantly when new information becomes available.

In addition, reserve estimates are necessarily imprecise and depend to some extent on interpretations, which may prove inaccurate. Should the Company encounter gas deposits, accumulations or geological formations different from those predicted by previous exploration activities, including past drilling, sampling and other examinations, reserve estimates may be revised and adjusted, and consequently development and production plans may have to be adjusted which could adversely affect the Company's existing or planned operations. Where possible, the Company will seek to have any such estimates verified or produced by an independent party with sufficient expertise in their chosen field.

### Joint Venture Risk

The primary activities of the Company will be undertaken pursuant to joint venture arrangements with third party entities, including those entities formed to represent the interests of the Mongolian Government such as EM. Accordingly, the activities of the Company will be subject to risks generally associated with joint venture arrangements, including the risk that the other party(s) may fail to perform their obligations under any joint venture arrangement(s), or may seek to terminate or withdraw from the joint venture arrangement(s). There is also a risk that the Company may not be able to enter future joint venture arrangement(s) on commercially viable terms, if at all.

The joint venture arrangements typical in the gas industry often include provisions that require certain decisions relating to the activities of the joint venture to be passed with unanimous or majority approval of all participants. Where a joint venture partner does not act in the best commercial interest of the joint venture, it could have a material adverse effect on the interests of the Company.

The Company is unable to predict the risk of:

- financial failure, non-compliance with obligations or default by a participant in any venture to which the Company is, or may become, a party; or
- insolvency or other managerial failure by any of the contractors used by the Company in any of its activities; or
- insolvency or other managerial failure by any of the other service providers used by the Company for any activity,

all of which could have a material adverse effect on the operations and financial performance of the Company.

### Risk associated with Drilling

Gas drilling activities are subject to numerous risks, many of which are beyond the Company's control. The Company's drilling operations may be curtailed, delayed or cancelled due to a number of factors including weather conditions, mechanical difficulties, unforeseen sub-surface hazards (such as unexpected pressures), shortage or delays in the availability or delivery of rigs and/or other equipment, availability of suitable drilling rigs, and compliance with governmental requirements.

Completion of a well does not assure a profit on the investment or recovery of drilling, completion, and operating costs. While drilling may yield some hydrocarbons there can be no guarantee that a gas discovery or accumulation will be sufficiently productive to justify commercial development.





### **Insurance**

Exploration, development and production operations on oil and gas properties involve a number of risks and hazards which are beyond the control of the Company, including unexpected or unusual geological conditions, environmental hazards, technical and equipment failures, extended interruptions due to inclement or hazardous weather or other physical conditions, unavailability of drilling equipment, unexpected shortages of key personnel, labour, consumables or parts and equipment, fire, explosions and other incidents. It is not always possible to insure against all such risks or the Company may decide not to insure against certain risks because of high premiums or other reasons. Although the Company will have insurance in place at levels considered appropriate for its operations and in accordance with industry practice, in certain circumstances the Company's insurance may not cover, or be adequate to cover, the consequence of such events which could reduce or eliminate any future profitability, result in increasing costs and have a negative impact on the value of the Company.

### **Substitution of Gas**

There are a number of alternative energy sources from oil and gas products, including other non-renewable sources such as coal and oil, and those referred to as renewable energy sources such as wind, solar or hydroelectric, geothermal and biomass, amongst others. If the costs and commercial prices of such alternative energy sources fall or there is a significant shift in consumer sentiment towards such sources, this may have a significant effect upon the Company's overall performance.

### **Third Party Risk**

The Company may enter contractual arrangements with various third parties. There is a risk that these counterparties may fail to perform their obligations which could lead to delays, increased costs, disputes and even litigation. All these factors could negatively impact the proposed operations of the Company and there can be no assurance that the Company would be successful in seeking remedies or enforcement of its rights through legal actions.

The Company will also likely be required to enter further contractual arrangements with third parties in future which will be subject to similar risks. There is also a risk that such contractual arrangements will be able to be entered on reasonable commercial terms, if at all.

### **Environmental**

The rights held by Jade, its subsidiaries and joint venture partner(s) will be subject to certain Mongolian laws and regulations concerning the environment. It is the Company's intention to conduct its activities to a high standard of environmental obligation, however there is a risk that Mongolian laws and regulations will impose onerous obligations that the Company will not be able to effectively meet, whether due to excessive costs of regulatory compliance or otherwise.

In addition, the occurrence of any safety or environmental incident on one or more of the Projects could materially delay or increase the costs of operations or result in a substantial liability being accrued against the Company.

### **Commodity price volatility and exchange rate**

It is expected that future revenues of the Company, other than sales of assets, will be derived from the sale of coal seam gas. The demand for, and price of coal seam gas is dependent on a variety of factors beyond the control of the Company, including supply levels of the product, the level of consumer product demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments.

The market price of hydrocarbon products is volatile and outside the control of the Company. Oil and gas prices have fluctuated widely in recent years. If the price of hydrocarbons should drop significantly and remain depressed, the economic prospects of the projects which the Company has an interest in could be significantly reduced or rendered uneconomic. There is no assurance that, even if significant quantities of hydrocarbon products are discovered, a profitable market may exist for their sale.

The marketability of hydrocarbons is also affected by numerous other factors beyond the control of the Company, including government regulations relating to royalties, allowable production and importing and exporting of oil and gas and petroleum products, the effect of which cannot be accurately predicted. Restrictions on the Company's ability to market production from projects that the Company has an interest in may have a material adverse effect on the Company's overall financial performance.

Furthermore, the sales prices and contracts of various commodities including coal seam gas are likely to be denominated in United States dollars. This will have the effect of exposing the Company through its source of revenue generation to fluctuations and volatility of the rate of exchange between the United States dollar and the Australian dollar.

### **Reliance on Key Personnel**

The success of the Company may depend on its ability to attract and retain key personnel. There is a risk that the Company may not be able to hire or retain such key personnel for different reasons, including matters of compensation. The success of





## 5. RISK FACTORS

the Company may also be dependent on the contributions from its management team and key technical personnel, the loss of whose services may be difficult to replace.

### **Adverse taxation changes may occur**

There is the potential for changes to tax laws. Any change to the type or current rates of taxes imposed on the Company is likely to affect returns to Shareholders.

An interpretation of taxation laws by the relevant tax authority that is contrary to the Company's view of those laws may increase the amount of tax to be paid or cause changes in the carrying value of tax assets or liabilities in the Company's financial statements. In addition, any change in tax rules and tax arrangements could have an adverse effect on the level of any dividend declared in the future and Shareholder returns.

With operations in Australia and Mongolia, the Company is potentially exposed to changes in taxation law legislation or interpretation in each of those jurisdictions.

### **Currency movements may be unfavourable**

The Company will following completion of the Transaction conduct business in Australia and Mongolia. Adverse movements in the exchange rate between the AUD and currencies of countries in which the Company operates in or has business dealings with may cause the Company to incur foreign currency losses. Such losses may impact and reduce the Company's profitability or ability to pay dividends in the future.

### **COVID-19 pandemic related risks**

Events related to the ongoing COVID-19 pandemic have resulted in significant global uncertainty and market volatility. The future response of customers, governments, and authorities globally to address and manage the pandemic via lockdowns, shutdowns and travel restrictions are fluid and difficult to forecast, as are the ongoing effects of the COVID-19 pandemic on the economies of the jurisdictions in which the Company operates. Accordingly, the scope of the impact or potential impact of the ongoing COVID-19 pandemic on the Company's operations cannot be determined with any meaningful degree of accuracy and, therefore, there is a risk that events related to the pandemic may have a material adverse effect on the Company's financial and/or operating performance.

Despite vaccination programs underway globally, there is a risk that the Company's operations could be adversely affected by the COVID-19 pandemic. This could arise from an infection or cluster of cases at a Company site or amongst staff, if the ability to transport products between countries is disrupted due to border closures, or key suppliers are negatively affected. A disruption to the Company's operations or supply chain may have a material adverse effect on the Company's financial and/or operating performance.

### **Climate Change Risk**

The Company may be subject to risks arising from climate change. If the government of Mongolia makes additional commitments to future carbon reduction targets, it may impede the ability of the Company to commercialise coal bed methane (although such a change would also impact upon other non-renewable energy sector such as coal). In addition to this, it is currently uncertain how general climate change will alter the global environment and as such there is a risk around this uncertainty as it relates to operating in any jurisdiction globally.

## **5.3 General Investment Risks**

### **Completion Risk**

The Company has agreed to acquire all of the issued capital of Jade, completion of which is subject to the fulfilment of certain conditions. There is a risk that some or all of the conditions for completion are not met or waived, in which case completion of the Acquisition may not occur.

### **Re-quotations of Shares on the ASX**

The Acquisition of Jade constitutes a significant change in the nature and scale of the Company's activities and the Company is required to re-comply with Chapters 1 and 2 of the ASX Listing Rules as if it were seeking an admission to the Official List of ASX.

Trading in the Company's shares is currently suspended and will remain suspended until the Company re-complies with Chapters 1 and 2 of the ASX Listing Rules following completion of the Acquisition. The Acquisition is conditional on the Company obtaining all necessary regulatory and Shareholder approvals to effect the Acquisition and satisfying all other requirements of ASX for the reinstatement to Official Quotation of the Company's shares on the ASX.





There is a risk that the Company may not meet the requirements of the ASX for re-quotation of its securities on the ASX. If this occurs, the Securities will not be able to be traded on the ASX until such time as those requirements are met. Shareholders may be prevented from trading Shares until such time that the Company re-complies with the ASX Listing Rules.

### **Dilution Risk**

The Company currently has 113,234,664 shares on issue. Under the Offers, the Company intends to issue:

- 250,000,000 New Shares under the Equity Offer;
- 846,166,167 New Shares and 68,000,000 New Options under the Vendor Offer;
- 22,000,000 New Options under the Incentive Option Offer; and
- 12,000,000 Broker Options under the Broker Option Offer.

As a result of the New Shares listed above, and assuming that no options are exercised:

- The participants in the Offer will hold approximately 20.67% of the Company's issued share capital;
- The existing Shareholders of the Company will hold approximately 9.36% of the Company's issued share capital; and
- The Jade shareholders will hold approximately 69.97% of the Company's issued share capital.

Any exercise of convertible securities, including New Options, will result in the dilution of all shareholders other than the holder of Shares issued upon exercise of the relevant convertible securities.

### **Additional capital requirements**

The ability of the Company to effectively implement its proposed exploration and development plans in the future may depend in part on its ability to raise additional funds. While the Company is proposing to raise funds to meet its short to medium term plans, there is a risk that the Company will require additional funding to further progress its operations.

The Company's activities following completion of the Transaction are also likely to be subject to general risks such as currency fluctuations, market conditions and taxation.

### **Government License and Approvals**

Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, foreign currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and site safety.

Failure to comply strictly with applicable laws, regulations and local practices could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the operations or profitability of the Company.

### **Risks of Litigation, Claims and Disputes**

The Company is exposed to the risk of actual or threatened litigation or legal disputes in the form of claims by joint venture partners, personal injury and property damage claims, environmental and indemnity claims, employee claims and other litigation and disputes. There is a risk that such litigation, claims and disputes could materially and adversely affect the Company's operating and financial performance due to the cost of defending and/or settling such claims, and could affect the Company's reputation.

### **General Economic and Political Risks**

Changes may occur in the general economic and political climate in the jurisdictions in which the Company or Jade operates which could have an impact on economic growth, oil and gas prices, interest rates, the rate of inflation, taxation, tariff laws and domestic security which may affect the value and viability of any oil and gas activity that may be conducted by the Company.

### **Economic and Financial Markets Risk**

General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's activities, as well as on its ability to fund those activities.

Further, share market conditions may affect the value of the Securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- general economic outlook;





## 5. RISK FACTORS

- interest rates and inflation rates;
- currency fluctuations;
- changes in investor sentiment toward particular market sectors;
- the demand for, and supply of, capital; and
- terrorism or other hostilities.

The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equity securities in general. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

### **Share Market Risk**

The market price of the Shares could fluctuate significantly. The market price of the Company's Shares may fluctuate based on a number of factors including the Company's operating performance and the performance of competitors and other similar companies, the public's reaction to the Company's press releases, other public announcements and the Company's filings with securities regulatory authorities, changes in earnings estimates or recommendations by research analysts who track the Company's Shares or the shares of other companies in the sector, changes in general economic conditions, the number of the Company's Shares publicly traded and the arrival or departure of key personnel, acquisitions, strategic alliances or joint ventures involving the Company or its competitors.

In addition, the market price of the Company's Shares is affected by many variables not directly related to the Company's success and are therefore not within the Company's control, including other developments that affect the market for all energy sector shares, the breadth of the public market for the Company's Shares, and the attractiveness and availability of alternative investments.

### **Force Majeure**

The Company, now or in the future, may be adversely affected by risks outside the control of the Company including labour unrest, civil disorder, war, subversive activities or sabotage, extreme weather conditions, fires, floods, explosions or other catastrophes, epidemics or quarantine restrictions.

### **Competition**

The Company may in the future compete with other companies in the coal seam gas sector. Some of these companies may have greater financial and other resources than the Company and, as a result, may be in a better position to compete for future business opportunities. There can be no assurance that the Company will be able to compete effectively in this situation.

### **Risks of Future Profitability**

The Company has incurred losses in the past and it is therefore not possible to evaluate the Company's future prospects based on past performance. The Company expects to make losses in the foreseeable future. Factors that may determine the Company's future profitability are its ability to manage its costs and its development and growth strategies, the success of its activities in a competitive market, and the actions of competitors and regulatory developments. As a result, the extent of future profits, if any, and the time required to achieve sustainable profitability, is uncertain. In addition, the level of any such future profitability (or loss) cannot be predicted and may vary significantly from period to period.

### **5.4 Speculative investment**

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above risk factors, and other not specifically referred to above, may materially affect the future financial performance of the Company and the value of the securities offered under this Prospectus.

There may be other risks which the existing and proposed Directors are unaware of at the time of issuing this Prospectus which may impact the Company, its operations and/or valuation and performance of the Shares.

The New Shares issue pursuant to this Prospectus therefore carry no guarantee with respect to the payment of dividends, returns of capital or market value. The Company does not expect to declare any dividends for the foreseeable future and in any event during the first two years following relisting.

Potential investors should consider that investment in the Company is highly speculative and should consult their professional advisors before deciding whether to apply for New Shares pursuant to the Equity Offer made under this Prospectus.





### 6.1 Introduction

This Section sets out the Historical and Pro-Forma Financial Information. The basis for preparation and presentation of this information is also set out below.

The Historical and Pro-Forma Financial Information has been prepared by management and adopted by the Board. The Board is responsible for the inclusion of all financial information in the Prospectus. BDO Corporate Finance (SA) Pty Ltd has prepared an Independent Limited Assurance Report in respect of the Historical and Pro-Forma Financial Information. A copy of the report is contained in Section 7.

The Historical and Pro-Forma Financial Information has been prepared in accordance with the recognition and measurement criteria of Australian Accounting Standards and the significant accounting policies set out in Note 5 in Section 6.5 below. The Historical and Pro-Forma Financial Information comprises financial information of High Grade Metals Limited ("**HGM**" or "**the Company**") and of Jade Gas Pty Ltd ("**Jade**") (the **Combined Entity**). The Historical and Pro-Forma Financial Information is presented in an abbreviated form insofar as it does not include all the disclosures and notes required in an annual financial report prepared in accordance with Australian Accounting Standards and the Corporations Act 2001.

HGM has entered into a conditional share sale agreement with the shareholders of Jade to acquire all of the issued share capital in Jade (**Acquisition**). The Acquisition is conditional upon HGM successfully completing an Equity Offer (to raise capital of a minimum of \$7,500,000 by way of the issue of 250,000,000 Shares) at an issue price of \$0.03 each (**Equity Offer**).

This section has been prepared on the basis of the Company raising a minimum of \$7,500,000 through the issue of 250,000,000 Shares at an issue price of \$0.03 per Share.

### 6.2 Historical Financial Information

The Historical Financial Information for both HGM and Jade set out below comprises:

- The audited Consolidated Statement of Financial Position as at 31 December 2019 and 31 December 2020 of HGM;
- The audited Consolidated Statement of Financial Position as at 30 June 2020 and 31 December 2020 of Jade;
- The audited Consolidated Statements of Profit or Loss and Other Comprehensive Income for the years ended 31 December 2019 and 31 December 2020 of HGM;
- The audited Consolidated Statement of Profit or Loss and Other Comprehensive Income for the periods ended 30 June 2020 and 31 December 2020 of Jade;
- The audited Consolidated Statements of Cash Flows for the years ended 31 December 2019 and 31 December 2020 of HGM; and
- The audited Consolidated Statements of Cash Flows and for the periods ended 30 June 2020 and 31 December 2020 of Jade

hereafter referred to as the **Historical Financial Information**.

The Historical Financial Information does not include a Statement of Comprehensive Income or a Statement of Changes in Equity.

The Company's consolidated financial statements for the years ended 31 December 2019 and 31 December 2020 have been subject to an audit by BDO Audit (SA) Pty Ltd.

Jade's consolidated financial statements for the periods ended 30 June 2020 and 31 December 2020 have been subject to an audit by BDO Audit (SA) Pty Ltd.





## 6. FINANCIAL INFORMATION

### 6.3 Pro-Forma Financial Information

The Pro-Forma Financial Information set out below comprises the unaudited Pro-Forma Statement of Financial Position as at 31 December 2020 of the Combined Entity showing the impact of the proposed capital raising and the effects of the acquisition.

The Pro-Forma Financial Statement of Financial Position reflects the following events that have occurred subsequent to 31 December 2020 for Jade (**Subsequent Events**):

- i. The Company received a short-term loan totalling \$100,000 from entities associated with Directors.
- ii. The issue of 5,000,000 Jade shares to Jade shareholders raising \$600,000.

The unaudited Pro-Forma Statement of Financial Position has been derived from the audited consolidated Statement of Financial Position as at 31 December 2020 of HGM and the audited consolidated Statement of Financial Position of Jade as at 31 December 2020 adjusted for the following transactions as if they had occurred at 31 December 2020 (**Pro-Forma Transactions**):

- 1) A 1:5 Consolidation of the Company's existing ordinary shares;
- 2) Issue of 846,166,667 New Shares to Jade Vendors in part consideration for the acquisition of 100% of the issued shares in Jade (Vendor Offer);
- 3) Issue of 68,000,000 New Options to Jade Vendors in part consideration for the acquisition of 100% of the issued shares in Jade (Vendor Offer);
- 4) Issue of 250,000,000 Shares pursuant to a capital raising at a Price of \$0.03 per Share to raise \$7,500,000 cash before expenses of the Equity Offer;
- 5) Issue of 22,000,000 Incentive Options to Directors;
- 6) Broker Options to the Cannacord Genuity (Australia) Ltd as part remuneration for professional services rendered in relation to the Equity Offer;
- 7) the effects of the acquisition; and
- 8) total costs expected to be incurred in connection with the Equity Offer are approximately \$842,064 based on the minimum subscription (being \$192,064 settled in options and charged to equity, \$466,764 settled in cash and charged to equity and \$183,236 settled in cash and charged to the Profit or Loss).



## 6. FINANCIAL INFORMATION



**JADE GAS**

### 6.4 Historical and Pro-Forma Financial Information

#### 6.4.1 Unaudited Pro-Forma Statement of Financial Position of the Combined Entity as at 31 December 2020

	Notes	HGM Audited Historical 31-Dec-20 \$	Jade Audited Historical 31-Dec-20 \$	Subsequent Events \$	Pro-forma Adjustments \$	Pro-forma \$
<b>Current assets</b>						
Cash and cash equivalents	2	82,637	162,140	700,000	6,850,000	7,794,777
Trade and other receivables		29,022	424	-	-	29,446
Other assets		95,167	7,216	-	-	102,383
Total current assets		206,826	169,780	700,000	6,850,000	7,926,606
<b>Non-current assets</b>						
Property, plant and equipment		-	357,268	-	-	357,268
Exploration and evaluation assets		-	1,611,976	-	-	1,611,976
Right-of-use asset		-	19,833	-	-	19,833
Intangible assets		-	1,140	-	-	1,140
Total non-current assets		-	1,990,217	-	-	1,990,217
<b>TOTAL ASSETS</b>		206,826	2,159,997	700,000	6,850,000	9,916,823
<b>Current liabilities</b>						
Trade and other payables		190,667	162,655	-	-	353,322
Borrowings		-	70,000	100,000	-	170,000
Lease liabilities		-	19,144	-	-	19,144
Total current liabilities		190,667	251,799	100,000	-	542,466
<b>TOTAL LIABILITIES</b>		190,667	251,799	100,000	-	542,466
<b>NET ASSETS</b>		<b>16,159</b>	<b>1,908,199</b>	<b>600,000</b>	<b>6,850,000</b>	<b>9,374,358</b>
<b>Equity</b>						
Contributed equity	3	10,740,921	822,558	600,000	24,882,286	37,045,765
Unissued share capital		-	2,610,000	-	(2,610,000)	-
Convertible note		-	820,000	-	(820,000)	-
Reserves	4	118,598	(831,937)	-	1,770,557	1,057,218
Accumulated losses		(10,843,360)	(1,559,224)	-	(16,372,843)	(28,775,427)
Non-controlling interest		-	46,802	-	-	46,802
<b>TOTAL EQUITY/(DEFICIT)</b>		<b>16,159</b>	<b>1,908,199</b>	<b>600,000</b>	<b>6,850,000</b>	<b>9,374,358</b>



## 6. FINANCIAL INFORMATION

### 6.4.2 Consolidated Statement of Profit or Loss – Jade Gas Pty Ltd

	17 Months Ended 30-Jun-20 Audited \$	6 Months Ended 31-Dec-20 Audited \$
<b>Other income</b>		
Interest income	9,670	1,095
Other income	2,600	4,804
<b>Total other income</b>	<b>12,270</b>	<b>5,899</b>
<b>Expenses</b>		
General and administration expense	1,227,585	49,065
Salaries and wages expense	-	238,206
Depreciation and amortization expense	-	36,557
Interest expense	12,070	2,925
Gain/(Loss) on disposal of property, plant and equipment	17,312	781
<b>Total expenses</b>	<b>1,256,967</b>	<b>327,534</b>
<b>Loss before income tax</b>	<b>(1,244,697)</b>	<b>(321,634)</b>
<b>Income tax expense</b>	<b>(1,492)</b>	<b>54</b>
<b>Loss after income tax</b>	<b>(1,246,189)</b>	<b>(321,579)</b>
<b>Other comprehensive income</b>		
Foreign exchange on the translation of subsidiaries	56,267	(317,002)
<b>Total other comprehensive income</b>	<b>56,267</b>	<b>(317,002)</b>
<b>Total comprehensive loss for the period</b>	<b>(1,189,922)</b>	<b>(638,581)</b>



## 6. FINANCIAL INFORMATION



**JADE GAS**

### 6.4.3 Consolidated Statement of Financial Position – Jade Gas Pty Ltd

	30-Jun-20 Audited \$	31-Dec-20 Audited \$
<b>Current assets</b>		
Cash and cash equivalents	564,759	162,140
Trade and other receivables	61,166	424
Inventories	1,990	198
Prepayments	8,030	7,018
<b>Total current assets</b>	<b>635,945</b>	<b>169,780</b>
<b>Non-current assets</b>		
Property, plant and equipment	436,765	357,268
Right-of-use asset	50,270	19,833
Exploration and evaluation expenditure	1,614,665	1,611,976
Intangible assets	1,041	1,140
Deferred tax assets	919	-
<b>Total non-current assets</b>	<b>2,103,660</b>	<b>1,990,217</b>
<b>Total assets</b>	<b>2,739,605</b>	<b>2,159,997</b>
<b>Current liabilities</b>		
Trade and other payables	251,603	162,655
Lease liabilities	45,271	19,144
Borrowings	300,000	70,000
<b>Total current liabilities</b>	<b>596,874</b>	<b>251,799</b>
<b>Total liabilities</b>	<b>596,874</b>	<b>251,799</b>
<b>Net assets</b>	<b>2,142,731</b>	<b>1,908,199</b>
<b>Equity</b>		
Share capital	822,508	822,558
Unissued share capital	2,610,000	2,610,000
Convertible note	416,000	820,000
Foreign exchange reserve	56,267	(260,735)
Other reserves	(571,202)	(571,202)
Retained profits	(1,237,790)	(1,559,224)
Equity attributable to the owners of Jade Gas Pty Ltd	2,095,783	1,861,397
Non-controlling interest	46,948	46,802
<b>Total equity</b>	<b>2,142,731</b>	<b>1,908,199</b>



## 6. FINANCIAL INFORMATION

### 6.4.4 Consolidated Statement of Cash Flows – Jade Gas Pty Ltd

	17 months ended 30-Jun-20 Audited \$	6 months ended 31-Dec-20 Audited \$
<b>Cash flows from / (used in) operating activities</b>		
Payments to suppliers and employees	(891,240)	(309,505)
Income taxes paid	(1,478)	-
<b>Net cash flows from / (used in) operating activities</b>	<b>(892,719)</b>	<b>(309,505)</b>
<b>Cash flows from / (used in) investing activities</b>		
Payments for property, plant and equipment	(544,067)	(12,118)
Payments for Exploration and evaluation assets	(1,614,665)	(200,852)
Payments for intangible assets	(2,183)	(720)
Proceeds from disposal of plant and equipment	28,080	-
Income from Interest	9,043	1,035
<b>Net cash flows from / (used in) investing activities</b>	<b>(2,123,792)</b>	<b>(212,655)</b>
<b>Cash flows from / (used in) financing activities</b>		
Proceeds from issue of shares	822,508	50
Proceeds from issue of convertible note	416,000	404,000
Proceeds from borrowings	300,000	70,000
Proceeds from issue of shares in subsidiaries	2,092,149	-
Payment of Borrowings	-	(300,000)
Payments for Finance Leases	(44,372)	(22,584)
<b>Net cash flows from / (used in) financing activities</b>	<b>3,586,285</b>	<b>151,466</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>569,775</b>	<b>(370,694)</b>
Cash and cash equivalents - beginning of period	-	564,759
Impact of exchange rate changes	(5,015)	(31,925)
<b>Closing cash balance</b>	<b>564,759</b>	<b>162,140</b>



## 6. FINANCIAL INFORMATION



**JADE GAS**

### 6.4.5 Consolidated Statement of Profit or Loss – High Grade Metals Ltd

	Year ended 30-Dec-19 Audited \$	Year ended 31-Dec-20 Audited \$
<b>Other income</b>		
Financial income	6,128	651
Sale proceeds from disposal of exploration asset	847,500	-
Costs associated with disposal of exploration asset	(310,146)	(1,108)
Investment SRN gain/loss	-	26,000
Carrying value of exploration asset disposed	(155,911)	-
Miscellaneous income	4,317	-
<b>Total other income</b>	<b>391,888</b>	<b>25,543</b>
<b>Expenses</b>		
Corporate expenses	1,161,181	542,404
Impairment - APC Austria Assets	4,689,565	-
Administrative expenses	108,269	91,229
Project Cost Expensed	-	145,538
<b>Total expenses</b>	<b>5,959,015</b>	<b>779,171</b>
<b>Loss before income tax</b>	<b>(5,567,127)</b>	<b>(753,628)</b>
<b>Income tax expense</b>	<b>(73,791)</b>	<b>73,791</b>
<b>Other comprehensive income</b>		
Foreign exchange on the translation of subsidiaries	(9,780)	(6,215)
<b>Total other comprehensive loss</b>	<b>(9,780)</b>	<b>(6,215)</b>
<b>Total comprehensive loss for the period</b>	<b>(5,650,698)</b>	<b>(686,052)</b>



## 6. FINANCIAL INFORMATION

### 6.4.6 Consolidated Statement of Financial Position – High Grade Metals Ltd

	30-Dec-19 Audited \$	31-Dec-20 Audited \$
<b>Current assets</b>		
Cash and cash equivalents	230,142	82,637
Trade and other receivables	49,485	29,022
Other assets	137,169	95,167
Investment in listed companies	172,500	-
<b>Total current assets</b>	<b>589,296</b>	<b>206,826</b>
<b>Non-current assets</b>		
Exploration and evaluation expenditure	4,689,565	4,689,565
Accumulated impairment losses	(4,689,565)	(4,689,565)
<b>Total non-current assets</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>	<b>589,296</b>	<b>206,826</b>
<b>Current liabilities</b>		
Trade and other payables	459,028	190,667
<b>Total current liabilities</b>	<b>459,028</b>	<b>190,667</b>
<b>Total liabilities</b>	<b>459,028</b>	<b>190,667</b>
<b>Net assets</b>	<b>130,268</b>	<b>16,159</b>
<b>Equity</b>		
Contributed equity	10,184,747	10,740,921
Reserves	109,043	118,598
Accumulated losses	(10,163,522)	(10,843,360)
<b>Total equity</b>	<b>130,268</b>	<b>16,159</b>



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**JADE GAS**

### 6.4.7 Consolidated Statement of Cash Flows – High Grade Metals Ltd

	Year ended 30-Dec-19 Audited \$	Year ended 31-Dec-20 Audited \$
<b>Cash flows from / (used in) Operating Activities</b>		
Payments to suppliers and employees	(874,679)	(903,796)
Interest received	6,128	651
<b>Net cash flows from / (used in) operating activities</b>	<b>(868,551)</b>	<b>(903,145)</b>
<b>Cash flows from / (used in) investing activities</b>		
Payment for exploration assets	(902,524)	-
Sale of exploration assets	200,000	198,500
<b>Net cash flows from / (used in) investing activities</b>	<b>(702,524)</b>	<b>198,500</b>
<b>Cash flows from / (used in) financing activities</b>		
Proceeds from issue of ordinary shares and options	-	566,175
Share issue expenses	-	(10,000)
<b>Net cash flows from / (used in) financing activities</b>	<b>-</b>	<b>556,175</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(1,571,075)</b>	<b>(148,470)</b>
Cash and cash equivalents - beginning of period	1,802,663	230,142
Impact of exchange rate changes	(1,446)	965
<b>Closing cash balance</b>	<b>230,142</b>	<b>82,637</b>



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### 6.5 Notes to and Forming Part of the Pro-Forma Financial Information

#### Note 1

The proposed acquisition of Jade will result in the Jade shareholders holding a controlling interest in HGM after the transaction. This proposed transaction does not meet the definition of a business combination in Australian Accounting Standard AASB 3 *Business Combinations* (AASB 3). The transaction has therefore been accounted for in the unaudited Pro-Forma Statement of Financial Position of the Combined Entity in accordance with Australian Accounting Standard AASB 2 *Share-based Payments* and has been accounted for as a continuation of the financial statements of Jade together with a deemed issue of shares. The deemed issue of shares is, in effect, a share-based payment transaction whereby Jade is deemed to have received the net assets of HGM, together with its listing status.

Because the unaudited Pro-Forma Statement of Financial Position of the Combined Entity represents a part of the continuation of the financial statements of Jade, the principles and guidance on the preparation and presentation of the consolidated financial statements in a reverse acquisition set out in AASB 3 have been applied as follows:

- fair value adjustments arising at acquisition are made to HGM's assets and liabilities, not those of Jade. As the carrying value of all assets and liabilities held by HGM at 31 December 2020 approximated their fair value, no adjustments were required;
- the equity structure (the number and type of equity instruments issued) at the date of the acquisition reflects the equity structure of HGM, including the equity instruments issued to effect the acquisition;
- accumulated (losses)/ profits and other equity balances at acquisition date are those of Jade;
- the cost of the acquisition, and amount recognised as contributed equity to affect the transaction, is based on the deemed number of shares that Jade would have needed to issue to give the shareholders of HGM the same shareholding percentage in the Combined Entity that results from the transaction; and
- a share-based payment transaction arises whereby Jade is deemed to have issued shares in exchange for the net assets of HGM (together with its listing status). The listing status does not qualify for recognition as an intangible asset and the relevant costs have therefore been expensed in profit or loss as a listing expense.

The fair value of the deemed number of shares that Jade would have needed to issue is estimated to be \$3,397,035.

The fair value of HGM's net liabilities as at 31 December 2020, adjusted for the costs associated with the acquisition, is estimated to be \$16,159. Deducting the fair value of HGM's net liabilities from the deemed consideration results in a notional listing expense of \$3,380,876.

As the proposed acquisition, if implemented, will be effected at a future date, the actual financial position of the Combined Entity post completion will differ from that presented above.

#### Note 2

Reconciliation of movements in Pro-Forma cash and cash equivalents	Cash and cash equivalents \$
HGM Historical Statement of Financial Position 31 December 2020	82,637
Issue of 250,000,000 shares at \$0.03 each pursuant to the capital raising	7,500,000
Loan proceeds received	100,000
Issue of Jade shares	600,000
Costs expected to be incurred in connection with the Equity Offer settled in cash	(650,000)
Jade Historical Statement of Financial Position 31 December 2020	162,140
<b>Unaudited Pro-forma Statement of Financial Position of the Combined Entity 31 December 2020</b>	<b>7,794,777</b>

No pro-forma adjustments have been made to reflect cash flow movements from operating activities between 1 January 2021 and the date of this document. The cash balance of the Combined Entity as at 31 December 2020 is \$244,777.

As at 8 July 2021 the unaudited cash balance of the Combined Entity decreased by approximately \$137,000 to \$107,858.



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### Note 3

The pro-forma contributed equity includes the following assumptions:

- 1) A 5:1 consolidation of HGM's existing ordinary shares;
- 2) Issue of 846,166,667 shares to Jade vendors in part consideration for the acquisition of 100% of the issued shares in Jade;
- 3) Issue of 250,000,000 Shares pursuant to a capital raising at an Offer Price of \$0.03 per Share to raise \$7,500,000 cash before expenses of the Equity Offer;
- 4) The effects of the Acquisitions as described in section 6.5;
- 5) total costs expected to be incurred in connection with the Equity Offer are approximately \$842,064 based on the minimum subscription (being \$192,064 settled in options and charged to equity, \$466,764 settled in cash and charged to equity and \$183,236 settled in cash and charged to the Profit or Loss).

Reconciliation of movements in pro-forma contributed equity	Number of shares equity #	Contributed \$
HGM Historical Statement of Financial Position 31 December 2020	566,172,490	10,740,921
Effect of Share Consolidation	(452,937,826)	-
Issue of shares to Jade shareholders in consideration for the acquisition of 100% of the issued shares in Jade	846,166,667	25,385,000
Issue of shares pursuant to the prospectus	250,000,000	7,500,000
Reversal of HGM shares on acquisition		(10,740,921)
Jade Historical Statement of Financial Position 31 December 2020		822,558
Jade deemed issue of shares for HGM		3,397,035
Issue of Jade shares		600,000
Costs expected to be incurred in connection with the issue		(658,828)
<b>Unaudited Pro-Forma Statement of Financial Position of the Combined Entity 31 December 2020</b>	<b>1,209,401,331</b>	<b>37,045,765</b>

### Note 4

The pro-forma reserves include the following assumptions:

- 1) Issue of 68,000,000 New Options to Jade vendors in part consideration for the acquisition of 100% of the issued shares in Jade;
- 2) Effects of the acquisition
- 3) Issue of 22,000,000 Incentive Options to Directors;
- 4) Broker Options to Cannacord Genuity (Australia) Ltd in part consideration for services in relation to the Equity Offer.

Reconciliation of movements in pro-forma reserves	Number of options #	Reserves \$
HGM Historical Statement of Financial Position 31 December 2020		118,598
Elimination of HGM reserves on acquisition		(118,598)
Reduction of Jade Other reserve on acquisition		571,202
Issue of New Options to Jade Vendors	68,000,000	850,000
Issue of Incentive Options to Directors	22,000,000	275,889
Issue of Broker Options to Cannacord Genuity (Australia) Ltd in part consideration for services in relation to the capital raise	12,000,000	192,064
Jade Historical Statement of Financial Position 31 December 2020		(831,937)
<b>Unaudited Pro-forma Statement of Financial Position of the Combined Entity 31 December 2020</b>	<b>102,000,000</b>	<b>1,057,218</b>



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Options to be issued	Broker Options	New Options	Incentive Options
Number of options	12,000,000	68,000,000	22,000,000
Underlying share price	\$0.030	\$0.030	\$0.030
Exercise price	\$0.045	\$0.045	\$0.045
Expected volatility	100%	100%	100%
Expiry date (years)	3.0	2.0	2.0
Expected dividends	Nil	Nil	Nil
Risk free rate	0.07%	0.07%	0.07%
Value per option	\$0.016	\$0.013	\$0.013
<b>Total value</b>	<b>\$192,064</b>	<b>\$850,000</b>	<b>\$275,889</b>

[Note 5](#)

### Significant accounting policies of the Combined Entity

#### a. Basis of preparation

The Pro-Forma Statement of Financial Position has been compiled to illustrate the impact of the acquisition of Jade and associated transactions on the financial position of HGM as at 31 December 2020, as if the acquisition and associated transactions had taken place at that date.

The Pro-Forma Statement of Financial Position comprises the unaudited Pro-Forma Statement of Financial Position as at 31 December 2020 of the Combined Entity, comprising HGM and Jade, adjusted for certain subsequent events and showing the impact of the proposed capital raising and the effects of the acquisition.

The unaudited Pro-Forma Statement of Financial Position has been derived from the unaudited consolidated statements of financial position as at 31 December 2020 of HGM and Jade, adjusted for the following transactions as if they had occurred at 31 December 2020:

- A 1:5 Consolidation of the Company's existing ordinary shares;
- Issue of 846,166,667 New Shares to Jade Vendors in part consideration for the acquisition of 100% of the issued shares in Jade (Vendor Offer);
- Issue of 68,000,000 New Options to Jade Vendors in part consideration for the acquisition of 100% of the issued shares in Jade (Vendor Offer);
- Issue of 250,000,000 shares pursuant to a capital raising at a price of \$0.03 per Share to raise \$7,500,000 cash before expenses of the Equity Offer;
- Issue of 22,000,000 Incentive Options to Directors;
- Issue of 12,000,000 Broker Options to Cannacord Genuity (Australia) Ltd in part consideration for services in relation to the Equity Offer;
- the effects of the acquisition; and
- total costs expected to be incurred in connection with the Equity Offer are approximately \$842,064 based on the minimum subscription (being \$192,064 settled in options and charged to equity, \$466,764 settled in cash and charged to equity and \$183,236 settled in cash and charged to the Profit or Loss).

The Pro-Forma Statement of Financial Position reflects the following events that have occurred subsequent to 31 December 2020:

- The Company received a short-term loan totalling \$100,000 from entities associated with Directors.
- The issue of 5,000,000 Jade shares for \$600,000.

The Pro-Forma Statement of Financial Position has been prepared in accordance with the recognition and measurement requirements specified by the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB'). Monetary amounts are expressed in Australian dollars.

The Pro-Forma Statement of Financial Position has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

Material accounting policies adopted in the preparation of the Pro-Forma Statement of Financial Position are presented below. The Pro-Forma Statement of Financial Position has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.





#### b. Reverse acquisition

The proposed acquisition of Jade will result in the Jade shareholders holding a controlling interest in HGM after the transaction. This proposed transaction does not meet the definition of a business combination in Australian Accounting Standard AASB 3 *Business Combinations* (AASB 3). The transaction has therefore been accounted for in the unaudited Pro-Forma Statement of Financial Position of the Combined Entity in accordance with Australian Accounting Standard AASB 2 *Share-based Payments* and has been accounted for as a continuation of the financial statements of Jade together with a deemed issue of shares. The deemed issue of shares is, in effect, a share-based payment transaction whereby Jade is deemed to have received the net assets of HGM, together with its listing status.

Because the unaudited Pro-Forma Statement of Financial Position of the Combined Entity represents a part of the continuation of the financial statements of Jade, the principles and guidance on the preparation and presentation of the consolidated financial statements in a reverse acquisition set out in AASB 3 have been applied as follows:

- fair value adjustments arising at acquisition are made to HGM's assets and liabilities, not those of Jade. As the carrying value of all assets and liabilities held by HGM at 31 December 2020 approximated their fair value, no adjustments were required;
- the equity structure (the number and type of equity instruments issued) at the date of the acquisition reflects the equity structure of HGM, including the equity instruments issued to effect the acquisition;
- accumulated (losses)/ profits and other equity balances at acquisition date are those of Jade;
- the cost of the acquisition, and amount recognised as contributed equity to affect the transaction, is based on the deemed number of shares that Jade would have needed to issue to give the shareholders of HGM the same shareholding percentage in the Combined Entity that results from the transaction; and
- a share-based payment transaction arises whereby Jade is deemed to have issued shares in exchange for the net assets of HGM (together with its listing status). The listing status does not qualify for recognition as an intangible asset and the relevant costs have therefore been expensed in profit or loss as a listing expense.

The fair value of the deemed number of shares that Jade would have needed to issue is estimated to be \$3,397,035.

The fair value of HGM's net liabilities as at 31 December 2020, adjusted for the costs associated with the acquisition, is estimated to be \$16,159. Deducting the fair value of HGM's net liabilities from the deemed consideration results in a notional listing expense of \$3,380,876.

As the proposed acquisition, if implemented, will be effected at a future date, the actual financial position of the Combined Entity post completion will differ from that presented above.

#### c. Principles of consolidation

The Pro-Forma Statement of Financial Position consolidates the financial position of HGM and Jade and all of their subsidiaries at 31 December 2020. All transactions and balances between Combined Entity companies are eliminated on consolidation, including unrealised gains and losses on transactions between Combined Entity companies. Amounts reported in the statement of financial position of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Combined Entity companies.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Combined Entity. The Combined Entity attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

#### d. Income tax

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised. Where temporary differences exist in relation to investments in subsidiaries, branches, associates and joint ventures,





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deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

### **e. Trade and other receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

### **f. Inventories**

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### **g. Property, plant and equipment**

Land and buildings are shown at fair value, based on periodic, at least every 3 years, valuations by external independent valuers, less subsequent depreciation and impairment for buildings. The valuations are undertaken more frequently if there is a material change in the fair value relative to the carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Increases in the carrying amounts arising on revaluation of land and buildings are credited in other comprehensive income through to the revaluation surplus reserve in equity. Any revaluation decrements are initially taken in other comprehensive income through to the revaluation surplus reserve to the extent of any previous revaluation surplus of the same asset. Thereafter the decrements are taken to profit or loss.

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Buildings	40 years
Leasehold improvements	3-10 years
Plant and equipment	3-7 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.





An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits

#### **h. Exploration, evaluation and development expenditure**

Exploration, evaluation and development expenditures incurred are capitalised in respect of each identifiable area of interest. These costs are only capitalised to the extent that they are expected to be recovered through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full in the period in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to capitalise costs in relation to that area of interest.

Costs of site restoration are provided over the life of the project from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with local laws and regulations and clauses of the permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly, the costs have been determined on the basis that the restoration will be completed within one period of abandoning the site.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development. Where an area of interest is abandoned, any expenditure carried forward in respect of that area is written off.

#### **i. Intangible assets**

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

#### **j. Financial Instruments**

##### **Classification and measurement**

Except for certain trade receivables the Combined Entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Under AASB 9 financial assets are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Combined Entity's business model for





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managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

### **Significant accounting estimates and judgments for share based payments values**

The Combined Entity estimates the probability of award of performance rights issued to key management personnel and other consultants and advisors by reference to the likelihood that the performance measures will be met by the holders of those performance rights as at the date at which they are granted. The probability is considered binary (100% or 0%) for each class of performance rights and only where there is a high risk of failure to achieve the performance measures will 0% be used (e.g. stretch targets).

### **Impairment**

From 1 January 2019 the Combined Entity assesses on a forward looking basis the expected credit losses (ECLs) associated with its debt instruments carried at amortised cost and FVOCI. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Combined Entity expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. The Combined Entity assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. For trade and other receivables, the Combined Entity applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

### **k. Contributed equity**

Issued and paid up-capital is recognised at the fair value of the consideration received by the Combined Entity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

### **l. Foreign currency transactions and balances**

#### **Functional and presentation currency**

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional currency.

#### **Transactions and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

#### **Combined Entity companies**

The financial results and position of foreign operations, whose functional currency is different from the Combined Entity's presentation currency, are translated as follows:

- assets and liabilities are translated at exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. These differences are recognised in profit or loss in the period in which the operation is disposed of.





#### m. Employee benefits

Provision is made for the Combined Entity's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy any vesting requirements. Those cash flows are discounted using market yields on high quality corporate bonds with terms to maturity that match the expected timing of cash flows attributable to employee benefits.

#### Equity-settled compensation

The Combined Entity provides benefits to employees (including senior executives) of the Combined Entity in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions)

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes pricing model which incorporates all market vesting conditions.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company (market conditions) if applicable.

The cost of equity-based transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Combined Entity's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If any equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

#### n. Provisions

Provisions are recognised when the Combined Entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

#### o. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities in the statement of financial position.

#### p. Trade and other payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.





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### q. Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

### r. Convertible note

The component of the convertible notes that exhibits characteristics of equity is recognised as equity in the statement of financial position, net of transaction costs.

### s. Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

### t. Goods and Services Tax (GST) and Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of GST or VAT, except where the amount of GST/VAT incurred is not recoverable from the Australian Taxation Office or Austrian Taxation Office (Tax Office).

Receivables and payables are stated inclusive of the amount of GST or VAT receivable or payable. The net amount of GST and VAT recoverable from, or payable to, the Tax Office is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST and VAT components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the Tax Office are presented as operating cash flows included in receipts from customers or payments to suppliers.

### u. Impact of COVID-19 pandemic

The World Health Organisation announced that the Coronavirus (COVID-19) had become a pandemic on 11 March 2020. The impact of the Coronavirus (COVID-19) pandemic is ongoing and whilst it has had no financial impact for the Group up to 31 December 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided. The full impact of COVID-19 and timing of easing of restrictions continues to evolve. At the date of this report, it is uncertain what the effect will be on the group and potentially it will have a post balance date impact. The Board and management will continue to monitor the impact of the pandemic on the Group's operations and state of affairs. The Board does not believe the pandemic will have any impact on the Group's ability to continue as a going concern.

### v. Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Combined Entity.

#### Key estimates

##### *Taxation*

Balances disclosed in the financial statements and the notes thereto, related to taxation, are based on the best estimates of directors. These estimates take into account both the financial performance and position of the Combined Entity as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents the directors' best estimate, pending an assessment by the Australian Taxation Office.

##### *Share-based payment transactions*

The Combined Entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a valuation model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.





### *Exploration and Evaluation Expenditure*

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current. These costs are carried forward in respect of an area that has not at balance date reached a stage that permits reasonable assessment of the existence of economically recoverable reserves, refer to the accounting policy stated in Note 1(h).

### *Estimation of useful lives of assets*

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

### *Goodwill and other indefinite life intangible assets*

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the



## 7. LIMITED ASSURANCE REPORT



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Level 7, 420 King William Street  
Adelaide SA 5000  
GPO Box 2018 Adelaide SA 5001  
Australia

The Directors  
High Grade Metals Limited  
Level 2, 480 Collins Street  
MELBOURNE VIC 3000

13 July 2021

Dear Directors

### INDEPENDENT LIMITED ASSURANCE REPORT

#### INTRODUCTION

BDO Corporate Finance (SA) Pty Ltd (**BDO**) has been engaged by High Grade Metals Limited (**HGM** or the **Company**) to prepare this Independent Limited Assurance Report (**Report**) in relation to the historical and pro forma financial information of HGM and Jade Gas Pty Ltd (**Jade**), for inclusion in the Prospectus proposed to be issued on 14 July 2021 (**Prospectus**), and the acquisition of Jade by HGM.

Unless stated otherwise in this Report, expressions defined in the Prospectus have the same meaning in this Report.

This Report has been prepared for inclusion in the Prospectus. We disclaim any assumption of responsibility for any reliance on this Report or on the financial information to which it relates for any purpose other than that for which it was prepared.

#### SCOPE

You have requested BDO to perform a limited assurance engagement in relation to the financial information described below and disclosed in the Prospectus.

The financial information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards (**AAS**) and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

#### STATUTORY HISTORICAL FINANCIAL INFORMATION

You have requested BDO to review the following statutory historical financial information included in the Prospectus:

- The statutory historical consolidated statement of profit or loss for the years ended 31 December 2019 (**FY19**) and 31 December 2020 (**FY20**) of HGM;
- The statutory historical consolidated statement of cash flows for FY19 and FY20 of HGM;
- The statutory historical consolidated statement of financial position as at 31 December 2019 and 31 December 2020 of HGM;
- The statutory historical consolidated statement of profit or loss for the periods ended 30 June 2020 (**PEJUN20**) and 31 December 2020 (**HY21**) of Jade;

BDO Corporate Finance (SA) Pty Ltd ACN 008 181 379 AFS Licence No. 259983 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Corporate Finance (SA) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation.





- The statutory historical consolidated statement of cash flows for PEJUN20 and HY21 of Jade; and
- The statutory historical consolidated statement of financial position as at 30 June 2020 and 31 December 2020 of Jade;

together, the **Statutory Historical Financial Information**.

The Statutory Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in AAS and the company's adopted accounting policies.

The Statutory Historical Financial Information of HGM has been extracted from the financial statements of HGM for the financial years ended 31 December 2019 and 31 December 2020 (audited by BDO Audit (SA) Pty Ltd (**BDO Audit**)). The audit was performed in accordance with the Australian Auditing Standards. BDO Audit issued an unqualified opinion and included a material uncertainty in respect of the Company's ability to continue as a going concern for FY19 and FY20.

The Statutory Historical Financial Information of Jade has been extracted from the financial statements of Jade for the financial periods ended 30 June 2020 and 31 December 2020 (audited by BDO Audit). The audit was performed in accordance with the Australian Auditing Standards. BDO Audit issued an unqualified opinion and included a material uncertainty in respect of Jade's ability to continue as a going concern for PEJUN20 and HY21 and an emphasis of matter in respect of the basis of accounting for HY21.

#### **PRO FORMA HISTORICAL FINANCIAL INFORMATION**

You have requested BDO review the pro forma historical Statement of Financial Position of HGM and Jade (the Combined Entity) as at 31 December 2020 (the **Pro Forma Historical Financial Information**).

The Pro Forma Historical Financial Information has been derived from the Statutory Historical Financial Information of HGM and the Statutory Historical Financial Information of Jade after adjusting for the effects of pro forma adjustments described in Section 6.5 of the Prospectus. The stated basis of preparation is the recognition and measurement principles contained in AAS applied to the Statutory Historical Financial Information and the event(s) or transaction(s) to which the pro forma adjustments relate, as described in Section 6 of the Prospectus, as if those events or transactions had occurred as at 31 December 2020. Due to its nature, the Pro Forma Historical Financial Information does not represent the company's actual or prospective financial position, financial performance, and/or cash flows.

#### **DIRECTORS' RESPONSIBILITY**

The directors of HGM are responsible for:

- the preparation of the Statutory Historical Financial Information and Pro Forma Historical Financial Information, including the selection and determination of pro forma adjustments made to the Statutory Historical Financial Information and included in the Pro Forma Historical Financial Information; and
- Such internal controls as the directors determine are necessary to enable the preparation of Historical Financial Information (as defined in Section 6 of the Prospectus) that are free from material misstatement, whether due to fraud or error.



## 7. LIMITED ASSURANCE REPORT



### OUR RESPONSIBILITY

Our responsibility is to express a limited assurance conclusion on whether anything has come to our attention that the Historical Financial Information (as defined in Section 6 of the Prospectus), based on the procedures performed, and the evidence we have obtained, has not been properly compiled in all material respects by HGM and Jade, in accordance with the stated basis of preparation.

We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

The limited assurance procedures we performed were based on our professional judgement and included consideration of work papers, accounting records and other documents, including those dealing with the derivation of the Historical Financial Information of HGM from its audited financial statements for the years ended 31 December 2019 and 31 December 2020 respectively, and the Historical Financial Information of Jade from its audited financial statements for the periods ended 30 June 2020 and 31 December 2020 respectively.

Our limited assurance procedures consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited assurance engagement is substantially less in scope than an audit conducted in accordance with AAS and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

### CONCLUSION

#### STATUTORY HISTORICAL FINANCIAL INFORMATION

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Statutory Historical Financial Information, as described in Section 6 of the Prospectus, and comprising:

- The statutory historical consolidated statement of profit or loss FY19 and FY20 for HGM;
- The statutory historical consolidated statement of cash flows for FY19 and FY20 for HGM;
- The statutory historical consolidated statement of financial position as at 31 December 2019 and 31 December 2020 for HGM;
- The statutory historical consolidated statement of profit or loss PEJUN20 and HY21 for Jade;
- The statutory historical consolidated statement of cash flows for PEJUN20 and HY21 for Jade; and
- The statutory historical consolidated statement of financial position as at 30 June 2020 and 31 December 2020 for Jade.

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 6 of the Prospectus.





#### PRO FORMA HISTORICAL FINANCIAL INFORMATION

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information, as described in Section 6 of the Prospectus, and comprising the Pro-Forma Statement of Financial Position as at 31 December 2020 showing the impact of Pro-Forma Adjustments as if they occurred at 31 December 2020, are not presented fairly in all material respects, in accordance with the stated basis of preparation as described in Section 6 of the Prospectus.

#### SUBSEQUENT EVENTS

Apart from the matters dealt with in this Report, and having regard to the scope of this Report and the information provided by the Directors, to the best of our knowledge and belief no material transaction or event outside of the ordinary business of HGM and Jade not described in the Prospectus, has come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

#### INDEPENDENCE

BDO is a member of BDO International Ltd. BDO does not have any interest in the outcome of the Prospectus other than in connection with the preparation of this Report and participation in due diligence procedures, for which professional fees will be received. From time to time, BDO provides HGM with certain other professional services for which normal professional fees are received.

#### GENERAL ADVICE WARNING

This Report has been prepared, and included in the Prospectus, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to be a substitute for professional advice and potential investors should not make specific investment decisions in reliance on the information contained in this Report. Before acting or relying on any information, potential investors should consider whether it is appropriate for their objectives, financial situation or needs.

Without modifying our conclusions, we draw attention to Section 6 of the Prospectus, which describes the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose.

BDO has consented to the inclusion of this Report in the Prospectus in the form and context in which it is included. At the date of this Report this consent has not been withdrawn. However, BDO has not authorised the issue of the Prospectus. Accordingly, BDO makes no representation regarding, and takes no responsibility for, any other statements or material in or omissions from the Prospectus.

#### FINANCIAL SERVICES GUIDE

Our Financial Services Guide follows this Report. This guide is designed to assist retail clients in their use of any general financial product advice in our Report.

As set out in the financial services guide, this Report provides general information only. It does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to be a substitute for professional advice and potential investors should not make specific investment decisions in reliance on the



## 7. LIMITED ASSURANCE REPORT



information contained in this Report. Before acting or relying on any information, potential investors should consider whether it is appropriate for their objectives, financial situation or needs.

If you require any additional information and/or clarification on any matter please contact us.

Yours faithfully

**BDO Corporate Finance (SA) Pty Ltd**

A handwritten signature in blue ink, appearing to read 'D Fechner', with a large, stylized flourish at the beginning.

David Fechner  
Director





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## FINANCIAL SERVICES GUIDE

Dated: 13 July 2021

This Financial Services Guide ('FSG') helps you decide whether to use any of the financial services offered by BDO Corporate Finance (SA) Pty Ltd ('BDO Corporate Finance, we, us, our').

The FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence, Licence No: 259983
- Remuneration that we and/or our staff and any associates receive in connection with the financial services
- Any relevant associations or relationships we have
- Our complaints handling procedures and how you may access them.

### FINANCIAL SERVICES WE ARE LICENSED TO PROVIDE

We hold an Australian Financial Services Licence which authorises us to provide financial product advice to retail and wholesale clients about securities and certain derivatives (limited to old law securities, options contracts and warrants). We can also arrange for customers to deal in securities, in some circumstances. Whilst we are authorised to provide personal and general advice to retail and wholesale clients, we only provide general advice to retail clients.

Any general advice we provide is provided on our own behalf, as a financial services licensee.

### GENERAL FINANCIAL PRODUCT ADVICE

Our general advice is typically included in written reports. In those reports, we provide general financial product advice that is prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of the general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

### FEES, COMMISSIONS AND OTHER BENEFITS THAT WE MAY RECEIVE

We charge fees for providing reports. These fees are negotiated and agreed to with the person who engages us to provide the report. Fees will be agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. In this instance, the Company has agreed to pay us \$25,000 (plus GST and disbursements) for preparing the Report.

Except for the fees referred to above, neither BDO Corporate Finance, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of general advice.

All our employees receive a salary. Our employees are eligible for bonuses based on overall company performance but not directly in connection with any engagement for the provision of a report.

### REFERRALS

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

### ASSOCIATIONS AND RELATIONSHIPS

BDO Corporate Finance is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The general financial product advice in our report is provided by BDO Corporate Finance and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

### COMPLAINTS RESOLUTION

#### Internal Complaints Resolution Process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. Complaints can be in writing, addressed to the Complaints Officer, BDO Corporate Finance, Level 7, 420 King William Street, Sydney SA 5000, or by telephone or email, using the contact details at the top of this FSG.

When we receive a complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

#### Referral to External Dispute Resolution Scheme

If a complaint relating to general advice to a retail client is not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Australian Financial Complaints Authority (AFCA). AFCA is an independent company that has been established to impartially resolve disputes between consumers and participating financial services providers.

BDO Corporate Finance is a member of AFCA (Member Number 11839).

Further details about AFCA are available at the AFCA website [www.afca.org.au](http://www.afca.org.au) or by contacting them directly via the details set out below.

Australian Financial Complaints Authority  
GPO Box 3  
MELBOURNE VIC 3001  
Toll free: 1800 931 678  
Email: [info@afca.org.au](mailto:info@afca.org.au)

### COMPENSATION ARRANGEMENTS

BDO Corporate Finance and its related entities hold Professional Indemnity insurance for the purpose of compensating retail clients for loss or damage suffered because of breaches of relevant obligations by BDO Corporate Finance or its representatives under Chapter 7 of the Corporations Act 2001. These arrangements and the level of cover held by BDO Corporate Finance satisfy the requirements of section 912B of the Corporations Act 2001.

### CONTACT DETAILS

You may provide us with instructions using the details set out at the top of this FSG or by emailing - [cf.ecp@bdo.com.au](mailto:cf.ecp@bdo.com.au).





*decisions with confidence*

# Independent Technical Specialist's Report on the coal seam gas exploration projects of Jade Gas Pty Ltd

High Grade Metals Ltd

24 June 2021







## 1. Executive Summary

The Directors  
High Grade Metals Limited  
Level 17, 500 Collins Street  
Melbourne, VIC, 3000, Australia

24 June 2021

Dear Directors,

### **Independent Technical Specialist's Report on the coal seam gas exploration projects of Jade Gas Pty Ltd**

To assist in the preparation of a prospectus for the purposes of re-compliance with Chapters 1 and 2 of the ASX Listing Rules and relisting of High Grade Metals Limited, RISC Advisory Pty Ltd ("RISC") has been requested to prepare this document, an Independent Technical Specialist's Report in relation to the Jade Gas assets.

Jade Gas Pty Ltd ("Jade") currently have one asset which is a Production Sharing Agreement (PSA) for the exploration and exploitation of Coal Bed Methane in the Tavan Tolgoi area of Mongolia.

Jade has an additional opportunity where it has established a joint venture with a coal mining company to apply for a prospecting agreement in the Baruun Naran ("BN") area also in Mongolia. RISC understands that there is a high chance of success that this opportunity will develop into a prospecting agreement.

This report documents a description of the Jade coal seam gas exploration asset/opportunity and our independent views of the Jade assets.





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## 2. Introduction

### 2.1. Jade's coal seam gas exploration areas

Jade has interests in two coal seam gas exploration areas in the South Gobi Basin of Mongolia.

The first asset is the Tavan Tolgoi coal seam gas exploration area. The Tavan Tolgoi Production Sharing Agreement ("PSA") over the Tavan Tolgoi area was awarded to Erdenes Methane LLC ("Erdenes"), a state-owned entity, on or about the 6 May 2020. Jade and Erdenes established a joint venture company Methane Gas Resource LLC ("MGR") which is owned 60% by Jade and 40% by Erdenes. Erdenes then transferred 100% of the PSA to MGR, which now owns the PSA. As a result, Jade has a beneficial interest of 60% of the Tavan Tolgoi PSA (Figure 2-1).

RISC confirms that it has seen both the original PSA (in Mongolian) and an English translation of the PSA, between the Mineral Resources and Petroleum Authority of Mongolia and Erdenes. RISC also confirms that it has seen the investment agreement between Erdenes and MGR to effect the transfer of the PSA to MGR. RISC has been advised that the transfer was completed on 14 October 2020.

The second opportunity, directly adjacent to the Tavan Tolgoi asset, is in the Baruun Naran ("BN") area. Jade has a 66% participation interest in a joint venture with Khangad Exploration LLC ("Khangad"), a subsidiary of HKSE listed Mongolian Mining Corporation ("MMC"), to explore for coal seam gas over the area. The Joint Venture company, Baruun Naran Gas LLC has been tasked with applying for a prospecting agreement over the area. The application for a prospecting agreement has been delayed by the COVID-19 disruptions. RISC has not been made aware of the proposed timing of an application for a prospecting agreement over the BN area.

RISC confirms that it has seen the investment agreement between Khangad and Jade that outlines that any future PSC on the BN area will be awarded to the joint venture company.

RISC has confirmed via the Mongolian Government online tenement registry that the parties who have entered into the contractual arrangements, to which Jade is a party, hold valid title.



## 8. TECHNICAL EXPERT'S REPORT

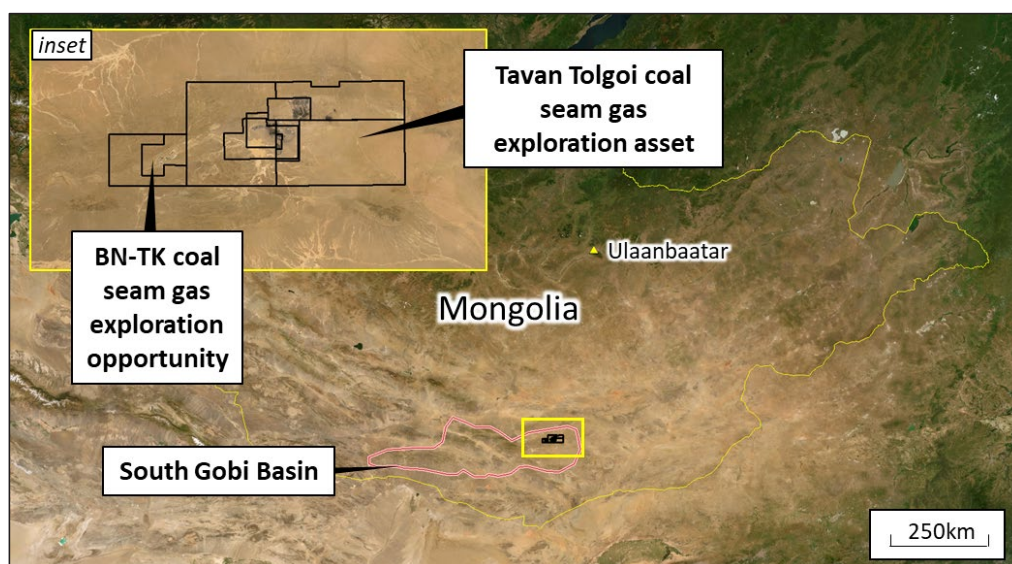


Figure 2-1: Location map of the Jade coal seam gas exploration areas

### 2.2. Terms of reference and basis of assessment

#### 2.2.1. Terms of reference

This assignment has been conducted under the terms of our engagement with HGM dated 18 June 2021.

RISC will:

- Review the technical data for the Tavan Tolgoi and Baruun Naran areas and express an independent opinion as to the prospectivity for petroleum.
- Review estimates of resources as appropriate and provide independent views and opinion on the reasonableness of these estimates, and conformance with the Society of Petroleum Engineers Petroleum Resources Management System ("PRMS").
- Provide an opinion on the reasonableness of proposed work programs and commitments.
- Update and prepare and ITSR in compliances with ASIC Regulatory Guides 111 and 112
- Include a consent for the report to be included in a prospectus and to be named as technical expert in accordance with listing rule 5.41.

#### 2.2.2. Basis of assessment

The data and information used in the preparation of this report were provided by Jade and supplemented by public domain information. RISC has relied upon the information provided by Jade. Data provided by Jade included the following:

- Updates to the Jade work and drilling program
- KOGAS CBM feasibility studies
- Draft report on the prospective resources of Tavan Tolgoi
- Baruun Naran geology PowerPoint
- Published technical papers on Mongolian coal deposits
- Tavan Tolgoi geological cross sections





- Erdenes JV agreement
- Barann Naran JV agreement
- Tavan Tolgoi Production Sharing Agreement

RISC has reviewed the resources in accordance with the Society of Petroleum Engineers internationally recognised Petroleum Resources Management System (PRMS)<sup>1</sup>.

Unless otherwise stated, all resources presented in this report are gross (100%) quantities with an effective date of 1 January 2021. Unless otherwise stated, all costs are in real terms with a reference date of 1 January 2021.

---

<sup>1</sup> SPE/WPC/AAPG/SPEE 2018 Petroleum Resources Management System





### 3. Regional information

#### 3.1. South Gobi Basin

The South Gobi Basin covers an area of 40,000 km<sup>2</sup> in the Gobi Desert of southern Mongolia. The basin is a complex terrane of Carboniferous to Cretaceous sediments formed in a foreland basin setting within the Central Asian Orogenic Belt. Due to the orogenic setting, the South Gobi Basin is structurally complex and deep faults segregate the basin into several sub-basins. The South Gobi Basin is host to significant bituminous coal resources in the Upper Permian section, however, the coal is not uniformly distributed throughout the basin due to the structural complexity. The presence of thick known coal deposits in the Tavan Tolgoi area make the Tavan Tolgoi coal seam gas exploration asset one of the lowest risk coal seam gas exploration target areas in the South Gobi Basin.

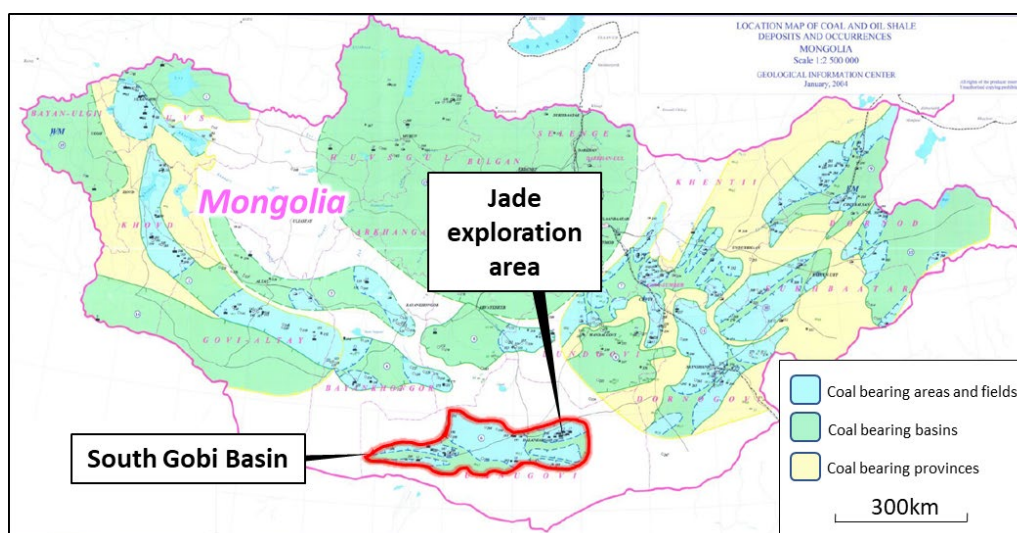


Figure 3-1: Location of the South Gobi Basin and Jade exploration area

#### 3.2. Tavan Tolgoi area geology

The coal seams of the Tavan Tolgoi district accumulated in the Ulaan Nuur Trough, a broad syncline developed as an intra-cratonic sub-basin. A large-scale east to northeast trending fault system bounds the basin to the north and can be identified in satellite imagery. Upper Permian coals accumulated in the subsiding basin and were subsequently faulted and folded by post-depositional tectonic events. The Tavan Tolgoi coalfield is comprised of a series of east-west trending synclines and anticlines. While much of the Tavan Tolgoi is gently to moderately inclined, dips in the flanks of these structures can exceed 40°. Numerous east-west trending normal faults bisect the coalfield. Significant east-west trending thrust faults form the coalfield boundaries throughout much of Tavan Tolgoi area, bringing underlying, older volcanics and non-coal-bearing formations to the surface and truncating the coal resource areas.

The Permian stratigraphy of the Tavan Tolgoi area is presented in Figure 3-2. The Upper Permian coal bearing stratigraphy and known coal seams (labelled as 0 to XIII) have a gross thickness in the Ulaan Nuur Trough of approximately 965 m.



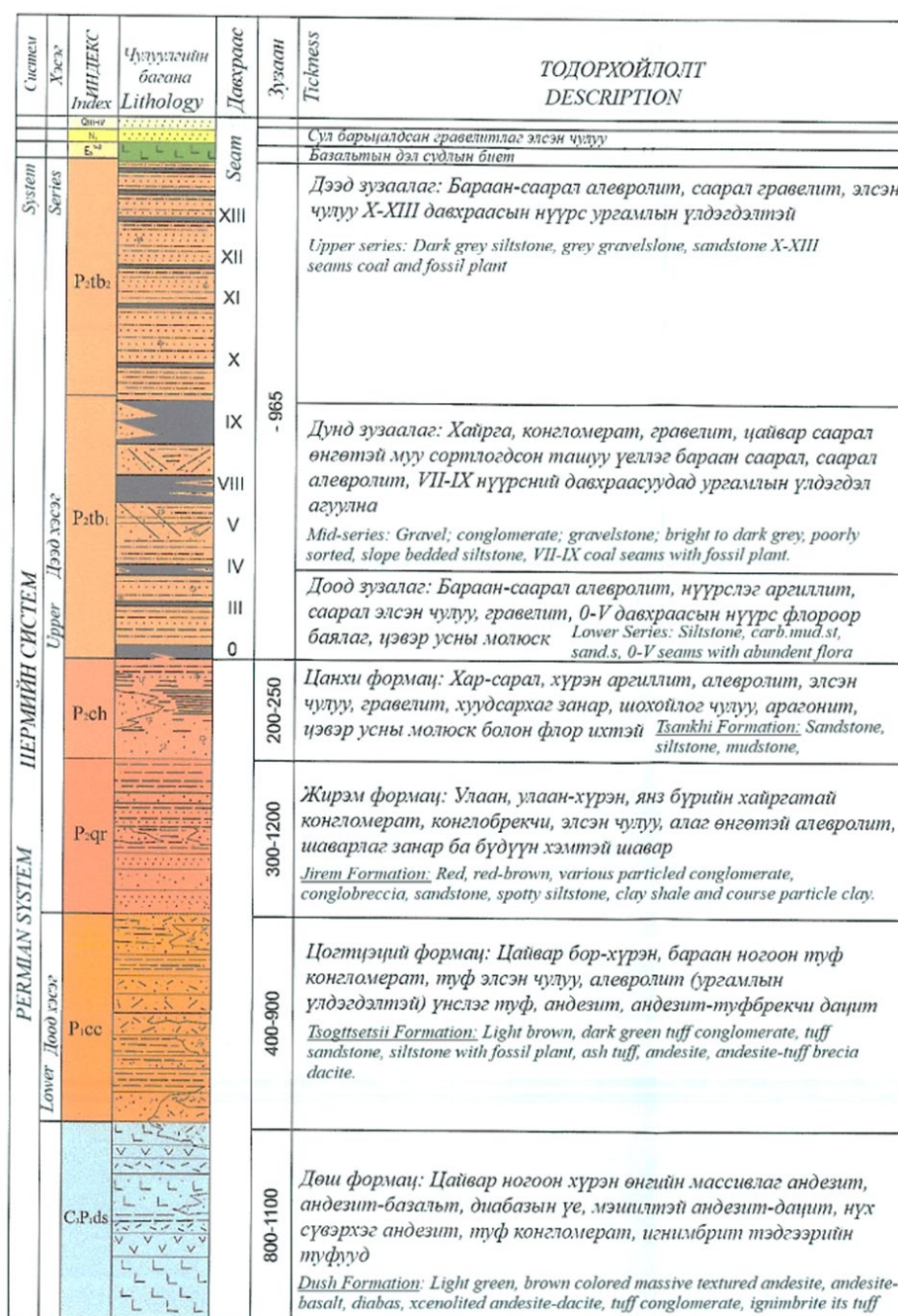
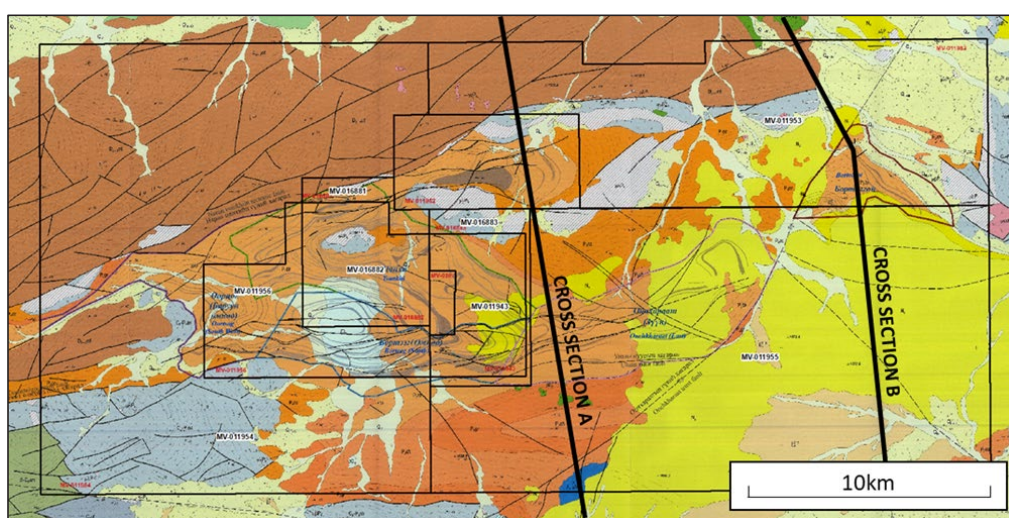


Figure 3-2: Late Permian Tavan Tolgoi group stratigraphy





Due to the significant historical coal exploration in the area, and the excellent outcrop of geology on the surface, there is a detailed understanding of coal distribution in the area. The detailed geological map of the Tavan Tolgoi area is presented on Figure 3-3. The geological map shows bedding dips and areas of known coal at the surface. The legend to the geological map and associated cross sections is presented in Figure 3-4.



**Figure 3-3: Geological map of the Tavan Tolgoi area**

Two representative cross sections through the area, highlighted on the geological map, are presented in Figure 3-5 and Figure 3-6. The section of known coal bearing stratigraphy is labelled as P<sub>2</sub>tb.

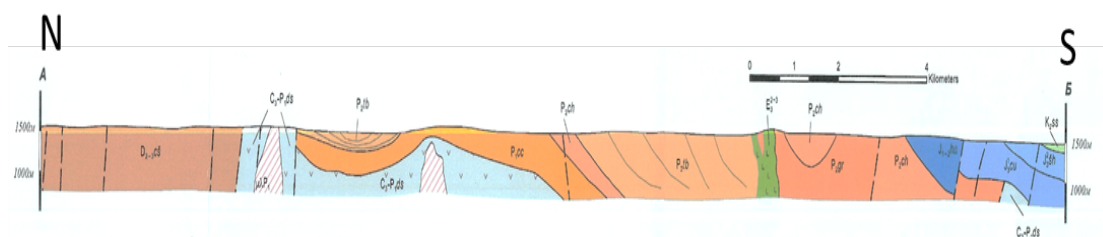
RISC estimate the depth of gas productive coal seams is between 300 m and 1000 m below ground level. At shallower depths the gas content of the coal is small (sub-commercial) due to low pressure. At greater depths the permeability of the coal is too low for commercial production.

Given the very steep dips present in both the Tavan Tolgoi and the BN-TK areas, RISC has calculated prospective areas of the coal seam gas potential from the distribution of coal seams known from surface control.









### 3.3. Coal bed methane exploration in the South Gobi Basin

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## 4. Tavan Tolgoi asset

### 4.1. Introduction

Jade has a 60% beneficial interest in a PSA for coal bed methane exploration and exploitation over the Tavan Tolgoi area. Prior to the award of the PSA, the joint venture held eight prospecting agreements over the Tavan Tolgoi area. Of the eight prospecting agreements, the MV-011943 area has not been included in the PSA, (Table 4-1).

Table 4-1: Prospecting agreement areas within the Tavan Tolgoi coal seam gas exploration asset

Prospecting Agreement	Area km <sup>2</sup>	RISC calculated area km <sup>2</sup>	Included in the PSA
MV-016881	5.57	5.57	5.57
MV-016882	24.47	24.47	24.47
MV-016883	7.00	7.00	7.00
MV-011943	20.56 <sup>1</sup>	20.40	Not included
MV-011953	128.61	128.60	128.60
MV-011954	229.02	229.02	229.02
MV-011955	238.06	238.06	238.06
MV-011956	31.51	31.51	31.51
<b>Total area</b>	<b>684.8km<sup>2</sup></b>	<b>684.64km<sup>2</sup></b>	<b>664.24km<sup>2</sup></b>
Notes:			
<sup>1</sup> Area not provided but calculated by RISC from Total area number minus all the other agreement areas provided			

The PSA area totals 664.24km<sup>2</sup>, the location of the PSA area is provided in Figure 4-1.



## 8. TECHNICAL EXPERT'S REPORT

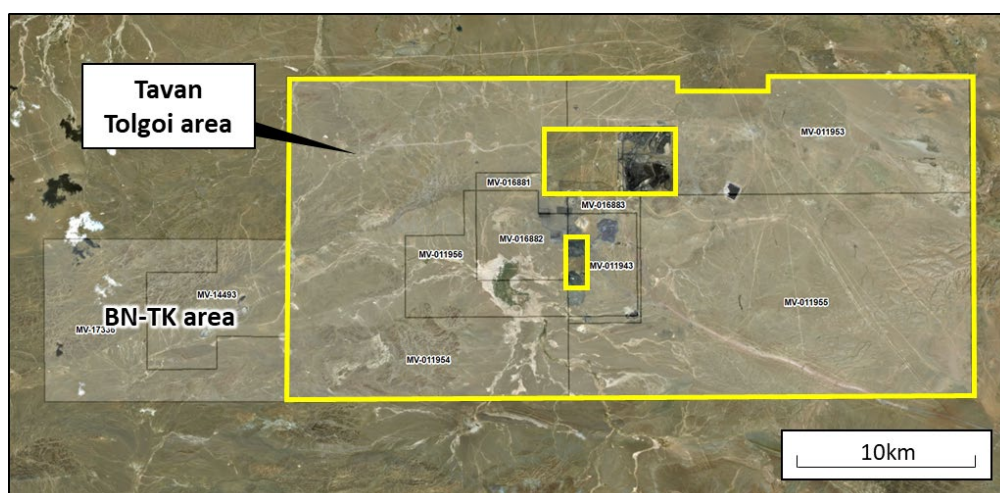


Figure 4-1: Location of the Tavan Tolgoi PSA area

RISC has reviewed the PSA terms and can confirm they are generally in line with other petroleum producing regimes, are comparable to other PSA terms in Mongolia, and can be considered in line with industry standards. Key terms of the PSA are presented in Table 4-2.

Table 4-2: Tavan Tolgoi PSA terms

<b>Initial term</b>	10 years (in phases of 4 years + 3 years + 3 years)
<b>Signature bonus</b>	US\$ 50k
<b>Training bonus</b>	US\$ 100k/year
<b>Royalty</b>	Industry standard <sup>2</sup>
<b>Production split</b>	Industry standard <sup>3</sup>
<b>Minimum work program commitments</b>	Annual

<sup>2</sup> Royalty rates typically range from 0-15%

<sup>3</sup> Production splits typically range from 20-50%, but in some regimes gov't take can exceed 50%.





An operating coal mine exists within the centre of the Tavan Tolgoi area. The location of coal mine activity as depicted by satellite imagery is shown in Figure 4-2. A 500 m buffer has been indicated around the areas interpreted as current mining activity from satellite imagery.

A co-operation agreement has been negotiated and executed which addresses overlapping tenure between the coal mining operations and activities within the PSA.

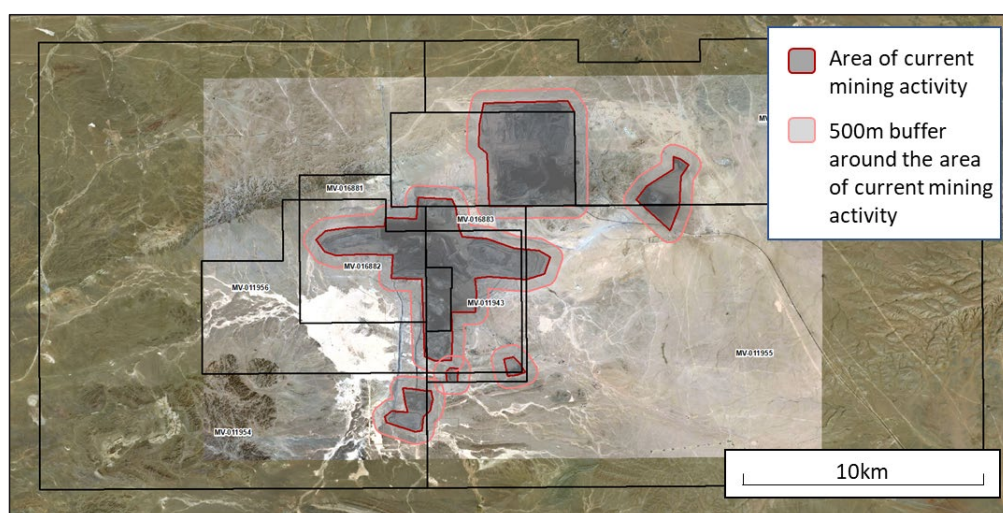


Figure 4-2: Tavan Tolgoi coal mine activity

#### 4.2. Data

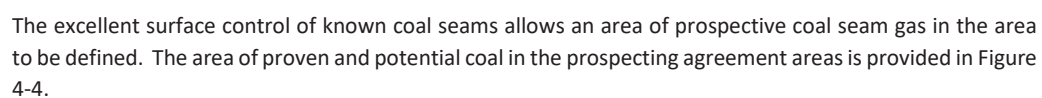
There are 3 boreholes (M-01, M-05 and M-06) within the Tavan Tolgoi coal mining licence drilled by KOGAS in 2014 to a depth of approximately 800 m below ground level. Data from these 3 boreholes includes thickness of the coal seams. Gas content information is only available from the M-05 well, however, no information is supplied documenting how the gas content measurements were conducted. No desorption curves or isotherm are available, and there is no description of the measurement methodology and correction for gas lost.

In addition to the KOGAS wells, Jade drilled 8 wells in 2019 to target depths of between 500 m and 800 m to determine net coal measurements in the area to the west of the Tavan Tolgoi mine. The location of the wells is provided on Figure 4-3.

#### 4.3. Resources estimate

Estimating the prospective resource of the asset is challenging due to the paucity of existing data on coal seam gas potential. Permeability data and gas adsorption isotherm data are not yet available.





**Figure 4-3: Location of the Jade wells and existing KOGAS wells in the Tavan Tolgoi coal seam gas exploration area**



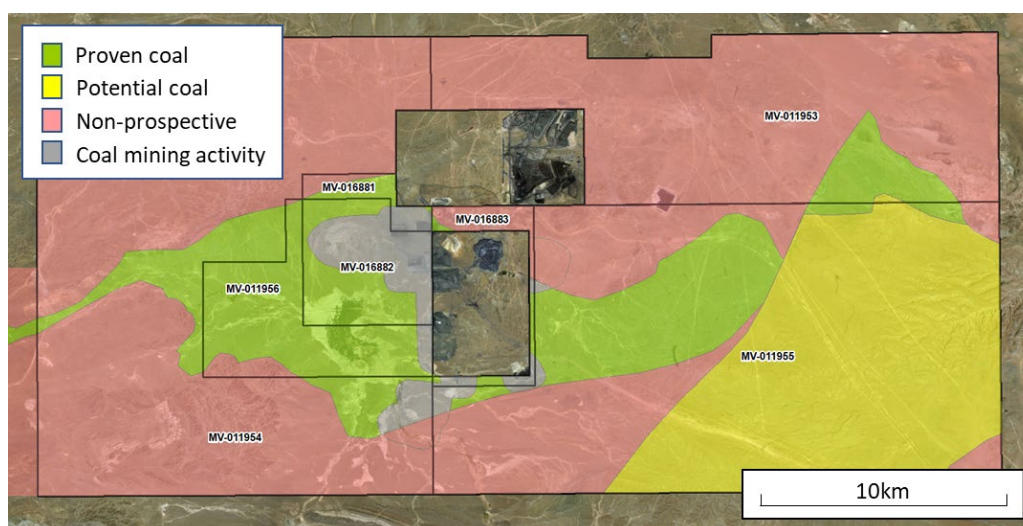


Figure 4-4: The distribution of proven and potential coal in the Tavan Tolgoi coal seam gas exploration area

Table 4-3: The distribution of proven and potential coal in the Tavan Tolgoi coal seam gas exploration area

Area (description)	Area (km <sup>2</sup> )	% of total area
Total area of the PSA	664	100%
Area considered non-prospective	400	60%
Area with proven coal (outside the area of coal mine activity)	118	18%
Area with proven coal (inside the area of coal mine activity)	21	3%
Area with potential coal	125	19%

Jade have used a best estimate area of 222 km<sup>2</sup> in their estimate of GIIP. The other input parameters for Jade's GIIP estimate are provided in Table 4-4.



## 8. TECHNICAL EXPERT'S REPORT



Table 4-4: Jade GIIP calculation input parameters for the Tavan Tolgoi area

Input	Unit	Low	Best	High	Distribution
Area	km <sup>2</sup>	134	222	367	lognormal
Net coal	m	40	85	200	lognormal
Coal density	g/cm <sup>3</sup>	1.42	1.53	1.69	lognormal
Gas content	cm <sup>3</sup> /g	3	5	12	lognormal
Ash content	%	16	20	44	lognormal
Moisture content	decimal	0.003	0.0064	0.009	normal
<b>GIIP (Bscf)</b>		<b>1,710</b>	<b>4,570</b>	<b>12,280</b>	

RISC considers the input parameters used by Jade for their gas in-place estimate are reasonable, although this must be caveated by the lack of data for coal seam gas potential currently available on the asset.

Net coal seam thickness has been calculated from the Tavan Tolgoi M-05 and M-06 borehole using the logs to determine the top and base of the coal seams. Independent of depth, the total thickness is 47 m and 128 m using a 3 m and 5 m thickness cut off. Based on the number of coal seams, Jade have estimated a range in net coal thickness of 40 to 200m, with a best estimate of 85 m.

Coal density, gas content, ash content and moisture content have all been estimated from the M-05 borehole data. M-05 contains 11 coal seams deeper than 300 m, five of which are greater than 3 m thick, and three of which have enough gas content to be productive for coal seam gas. The gas content range predicted by Jade is supported by gas recovered from wellsite gas adsorption laboratory analysis by Elixir in their Nomgon-1 CSG core hole. This core hole is 80 km south of Tavan Tolgoi and measured raw gas from 2.4 cm<sup>3</sup>/g to 7.5 cm<sup>3</sup>/g, with an average raw gas content of 5.3 cm<sup>3</sup>/g<sup>4</sup>.

Jade have accounted for the lack of recovery information currently available over the asset by applying a chance of geological success to the play. Jade estimate a 27% chance of geological success. The biggest risk is the coal characteristics given the lack of current data on coal permeability and cleat data.

Jade has estimated gas in-place across the area of between 1.7 Tscf to 12.3 Tscf with a best-case estimate of 4.6 Tscf.

Gas recovery factors have been estimated between 25-60% with a best estimate of 40%. This best-estimate recovery factor is based on the drilling of 4,043 wells with an ultimate recovery per well of 0.45 Bscf, (Table 4-5).

<sup>4</sup> Elixir Energy ASX announcement. 26 February 2020. Coal seam gas discovery at Nomgon-1





Table 4-5: Jade estimate of ultimate recovery in the Tavan Tolgoi area

	Low	Best	High
Area (km <sup>2</sup> )	134	222	367
GIIP (Bscf)	1,710	4,570	12,280
Recovery Factor (%)	25%	40%	60%
Ultimate Recovery (Bscf)	427.5	1,828	7,368
Number of wells	2,121	4,043	7,325
Ultimate recovery / well	0.20	0.45	1.01
Well density (wells per km <sup>2</sup> )	15.8	18.2	20.0
Well spacing (m)	251	234	224

RISC considers the calculated well spacing for the recovery estimate of between 224 m and 251 m is very tight. The tightest example of coal seam gas development well spacing we have found globally is 300 m. Some coal seam gas developments in the Powder River Basin, Wyoming and the Ordos Basin, China are in the order of 300-400 m well spacing. Typically, well spacing in coal seam gas plays is closer to 750 m or 1000 m. Development in the Walloon coal seam gas play in Queensland Australia is typically 750 m, (Figure 4-5). Development in the Bowen Basin coal seam gas play in Queensland, Australia is typically 1000 m.



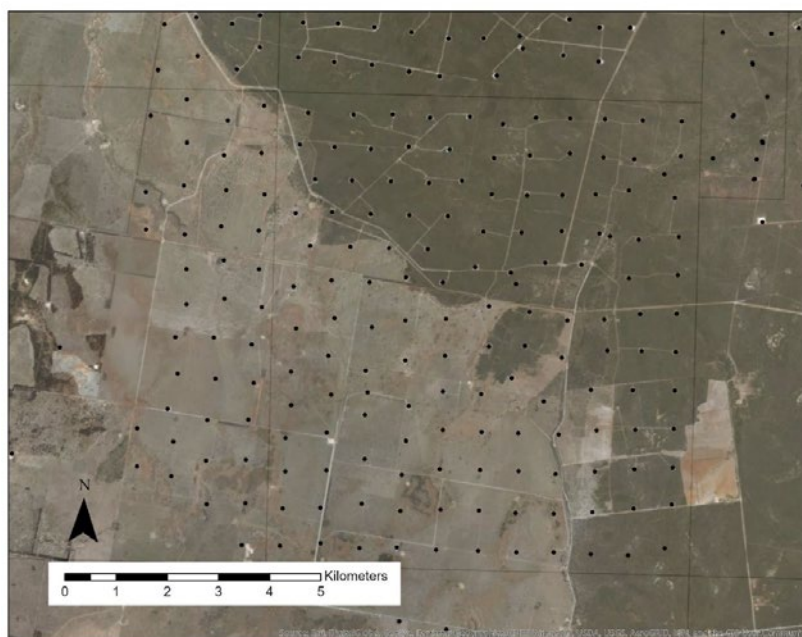


Figure 4-5: Vertical well spacing of 750m in the Condabri APLNG Walloon coal seam gas development, Queensland, Australia

An alternative approach to calculating resource potential of an area is working up from well ultimate recovery expectations and well density. The *'how many wells can fit in to this area?'* and *'how much could the wells deliver'* approach.

Given the necessity for large amounts of wells in coal seam gas developments, and the importance of recovery per well over original gas in-place estimates, RISC favors an approach on calculating prospective resources from recovery per well rather than GIIP multiplied by recovery factor.

RISC calculate the area of potential development in the permit areas to be between 158 km<sup>2</sup> (low) and 249 km<sup>2</sup> (high).

A resource range can be described by considering different estimates of ultimate recovery per well and a range of different well spacing density.

We considered a range of well spacing between 900 m (1.2 wells/km<sup>2</sup>) and 300 m (11.1 wells/km<sup>2</sup>), and a range of ultimate recovery per well of between 0.5 Bscf and 2 Bscf, both ranges typical of well spacing and recoveries per well in coal seam gas projects around the world.

These ranges were then multiplied probabilistically to produce a low, best and high estimate of ultimate recovery for the area as presented in Table 4-6.

Using this method RISC estimates a total prospective resource range of between 0.2 Tscf (low) and 3.1 Tscf (high) with a best-case estimate of ultimate recovery of 1.0 Tscf.





Table 4-6: RISC estimate of ultimate recovery for the Tavan Tolgoi coal seam gas exploration asset

	Low	Best	High	Distribution
Prospective coal seam gas area (km <sup>2</sup> )	158	203	249	Pert
Well spacing density (m)	900	600	300	Input
Wells per (km <sup>2</sup> )	1.2	2.8	11.1	Pert
Estimate of ultimate recovery per well (Bscf)	0.5	1.0	2.0	Pert
<b>Prospective resource<sup>5,6</sup> range (Bscf)</b>	<b>216</b>	<b>1,044</b>	<b>3,062</b>	<b>Probabilistic output</b>

#### 4.4. Sunk costs

Prior the award of the PSA, Jade previously held the Tavan Tolgoi asset under 8 prospecting agreements. Under the terms of the prospecting agreements, Jade was required to drill a total of 5000 m within the license area. A total of 8 holes totaling 5,200 m were drilled by Jade in 2019 at a total cost of approximately US\$ 1 million (A\$ 1.45 million).

#### 4.5. Work programs and commitments

The Tavan Tolgoi PSA license term is for 10-years broken into three phases. The first phase of the PSA is for 4 years and carries a minimum work program expenditure of US\$ 5.5 million, as shown in Table 4-7.

Table 4-7: Tavan Tolgoi PSA minimum work program

Phase	Year	Indicative work program	Minimum expenditure
1	1	2-3 exploration wells (300m-900m deep) and market research	US\$ 1 million
	2	Core and sample analysis	US\$ 1.5 million
	3	3-4 appraisal wells	US\$ 1.5 million
	4	Production plant build and initial development	US\$ 1.5 million

<sup>5</sup> Prospective resources are undiscovered and have both an associated risk of discovery and a risk of development. Further exploration, appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

<sup>6</sup> Resources are reported on a Gross basis. Jade has a 60% beneficial in MGR, however the Net outcome for MGR is dependent upon the sharing requirements of the PSA, which vary according to production rate and are therefore currently indeterminate.



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Jade has indicated an expanded initial 2-year work program to RISC, as indicated in Table 4-8. Indicatively Jade intends to have complied with the minimum requirements of the PSA within the first 2 years.

Table 4-8 Jade proposed work program for Tavan Tolgoi PSA

Year	Proposed work program	Proposed expenditure
1	Project Evaluation/Laboratory analysis/Field work	US\$ 0.2 million
	6 exploration wells (500-900 m deep)	US\$ 0.8 million
	Program extension and Contingency	US\$ 0.7 million
	Commercial Studies, Administration and other	US\$ 1.2 million
	<b>Total Year 1</b>	<b>US\$2.2 – 2.9 million</b>
2	Project Evaluation/Laboratory analysis/Field work	US\$ 0.1 million
	Further exploration/appraisal wells (500-900 m deep)	US\$ 0.7 million
	Program extension and Contingency	US\$ 0.8 million
	Commercial Studies, Administration and other	US\$ 1.0 million
	<b>Total Year 2</b>	<b>US\$ 1.8 – 2.6 million</b>





## 5. Baruun Naran (BN) area

### 5.1. Introduction

Jade originally entered into an agreement with Khangad Exploration to form a joint venture to explore for coal seam gas under the Baruun Naran (MV-14493) and Tsaikhar Khudag (MV-17336) coal mining license areas, collectively referred to as the BN-TK area, directly to the west of the Tavan Tolgoi area (Figure 5-1). Jade has a 66% interest in the joint venture entity, Baruun Naran Gas LLC ("BN Gas").

The intent was for BN Gas to apply for prospecting agreements over the two coal mining licenses in the BN-TK area. However, in late 2020 Jade was made aware that a 3<sup>rd</sup> party PSC already exists over the TK license area, held by Elixir Energy. As a result BN Gas is not able to apply for a Prospecting Agreement over the TK license area (MV-17336).

RISC understands that BN Gas still intends to apply for a Prospecting Agreement over the BN area and will carry out the same planned work program once this is agreed. Terms and conditions, and contract obligations of the proposed Prospecting Agreement are not yet available.

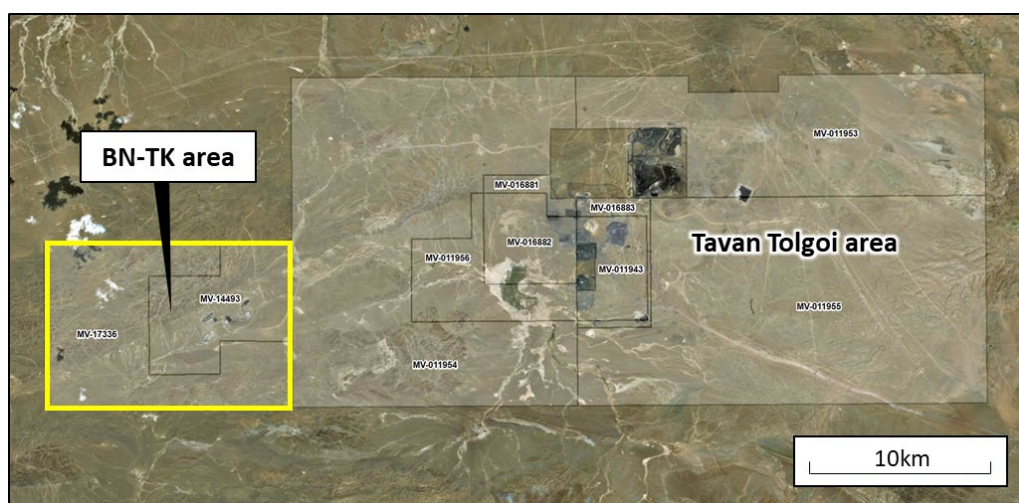


Figure 5-1: Location of the BN-TK area

An operating coal mine exists within the proposed Prospecting Agreement area, as shown by satellite imagery in Figure 5-2. The coal mine activity will impact the Baruun Naran (MV-14493) area. A 500 m buffer has been indicated around the areas interpreted as current activity from satellite imagery.

RISC anticipates that a co-operation agreement addressing overlapping tenure, similar to that executed for the Tavan Tolgoi area, will be negotiated and entered into by the parties.

### 5.2. Data

A significant amount of borehole and seismic data has been acquired over the BN-TK area for coal exploration. Two significant programs of borehole drilling have been undertaken by QGC between 2005-2010 and the Mongolian Mining Corporation (MMC) between 2011-2012, (Figure 5-3).

A grid of 2D seismic data has also been acquired over the project area in 2011 by MMC.



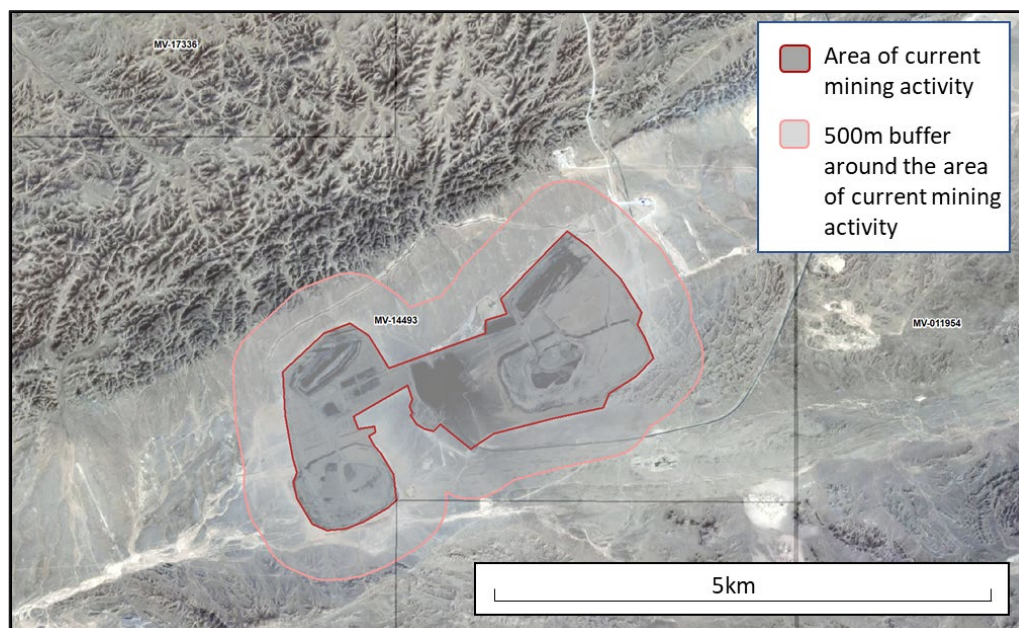


Figure 5-2: BN-TK area coal mine activity

The borehole data, seismic data and excellent geological outcrop of the area make for an excellent understanding of the subsurface.

Figure 5-4 shows a cross section through the BN-TK area. The coal seams exist over an area of approximately 1.2 km north to south, and 6km northeast to southwest. The cross section, presented at true vertical scale, shows the very steep dips of the coal seams in the area.

Borehole and seismic data over the BN-TK area has not been provided to RISC.

The geological map of the BN-TK area indicating the distribution of known coal bearing section (labelled on the map as P<sub>2</sub>tb) is provided in Figure 5-5.

### 5.3. Resources estimate

Estimating the prospective resource of the project area is challenging due to the paucity of existing data on coal seam gas potential. Permeability data and gas adsorption isotherm data are not yet available.

The excellent surface control of known coal seams allows an area of prospective coal seam gas in the area to be defined. The area of proven coal in the BN-TK area is provided in Figure 5-6.



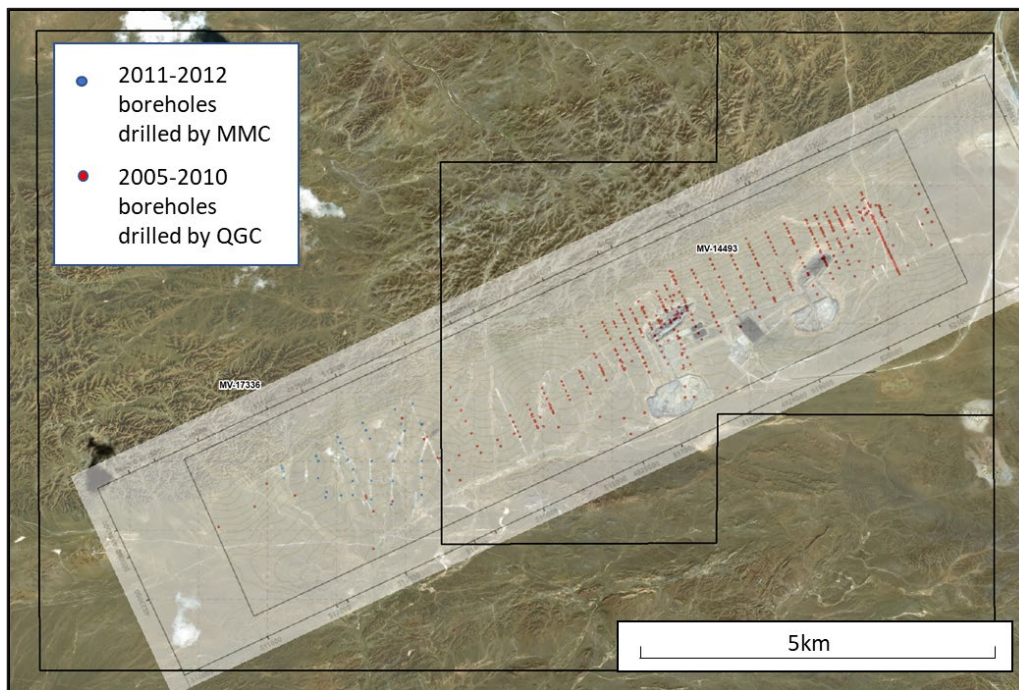


Figure 5-3: Location of boreholes drilled in the BN-TK area.

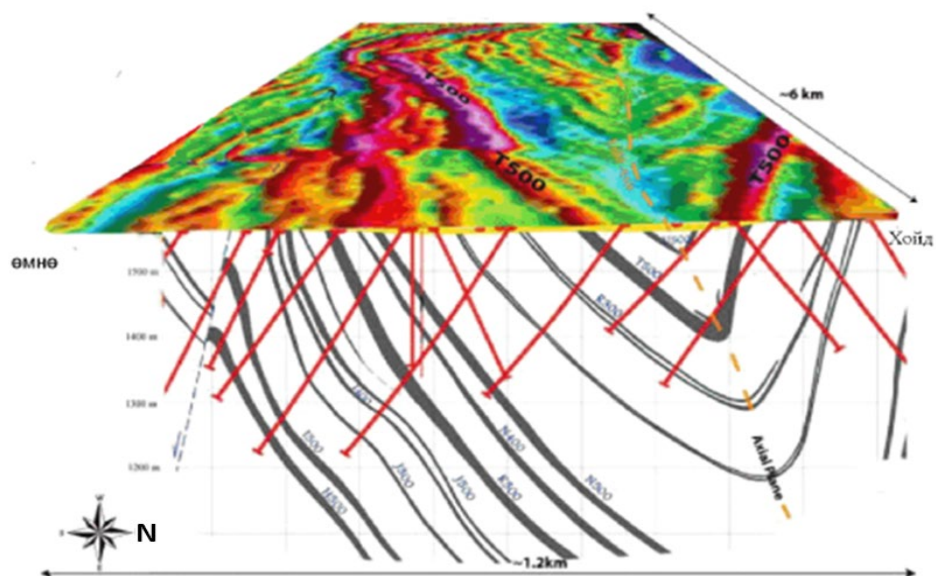


Figure 5-4: BN-TK area cross section



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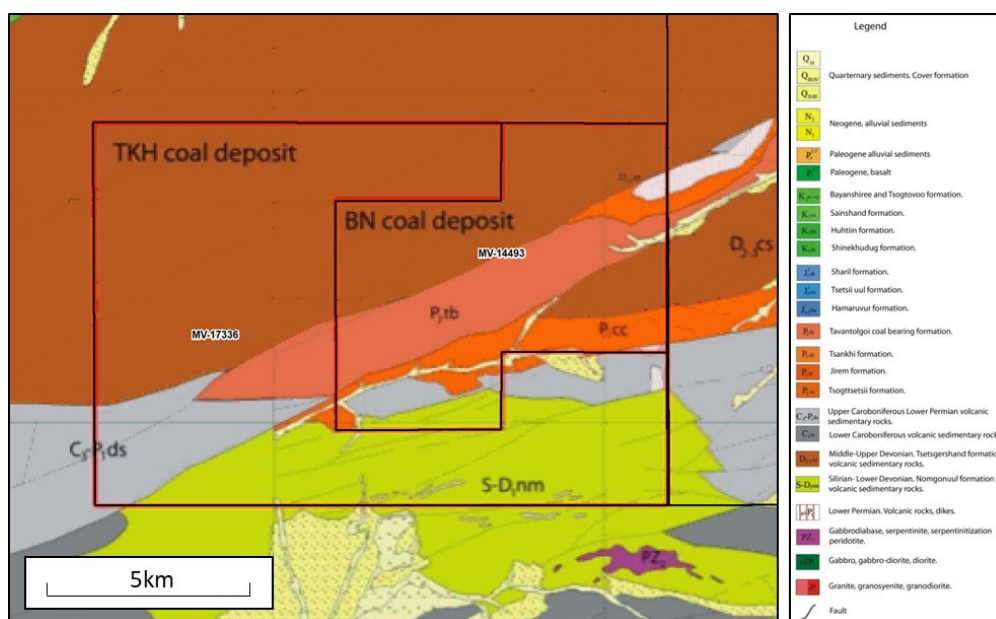


Figure 5-5: Geological map of the BN-TK area

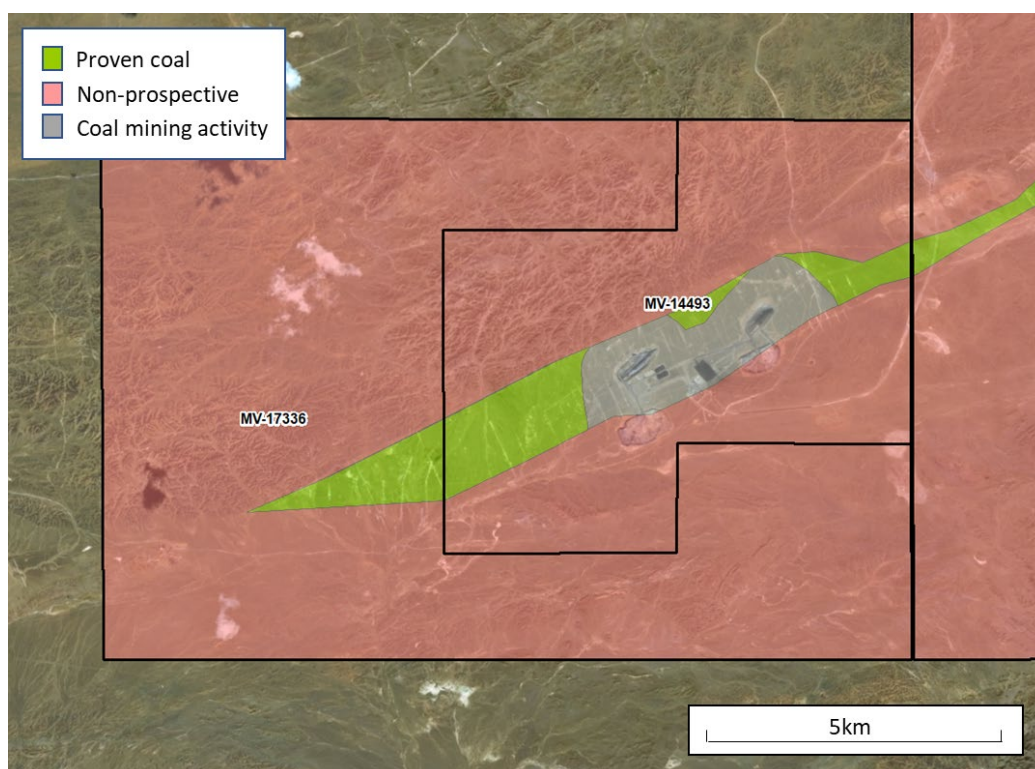


Figure 5-6: The distribution of proven coal in the BN-TK area





The areas depicted on Figure 5-6 have been calculated and are provided in Table 5-1. A total of 10% of the total area (12.7 km<sup>2</sup>) is proven coal. Surface access to 5.5 km<sup>2</sup> of that area is currently complicated by mining activity but has been used in the estimation of prospective resource.

**Table 5-1: The distribution of proven and potential coal in the BN-TK area**

Area (description)	Area (km <sup>2</sup> )	% of total area
Total area	128.5	100%
Area considered non-prospective	115.8	90%
Area with proven coal (outside the area of coal mine activity)	7.2	6%
Area with proven coal (inside the area of coal mine activity)	5.5	4%

Jade have not provided a GIIP or resource estimate for the BN-TK area. RISC has estimated a resource range for the area by working up from well ultimate recovery expectations and development well drilling density.

RISC calculate the area of potential development from geological surface control to be 12.7 km<sup>2</sup>. We used a range of between 10 km<sup>2</sup> and 15 km<sup>2</sup> in our resource estimate. We considered a range of well spacing between 900 m (1.2 wells/km<sup>2</sup>) and 300 m (11.1 wells/km<sup>2</sup>), and a range of ultimate recovery per well of between 0.5 Bscf and 2 Bscf, both ranges typical of well spacing and recoveries per well in coal seam gas projects around the world.

These ranges were then multiplied probabilistically to produce a low, best and high estimate of ultimate recovery for the area as presented in Table 5-2.

**Table 5-2: RISC estimate of ultimate recovery for the BN-TK area**

	Low	Best	High	Distribution
Prospective coal seam gas area (km <sup>2</sup> )	10.0	12.5	15.0	Pert
Well spacing density (m)	900	600	300	Input
Wells per (km <sup>2</sup> )	1.2	2.8	11.1	Pert
Estimate of ultimate recovery per well (Bscf)	0.5	1.0	2.0	Pert
<b>Prospective resource<sup>7,8</sup> range (Bscf)</b>	<b>13</b>	<b>65</b>	<b>186</b>	<b>Probabilistic output</b>

<sup>7</sup> Prospective resources are undiscovered and have both an associated risk of discovery and a risk of development. Further exploration, appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

<sup>8</sup> Resources are reported on a Gross basis. Jade has a 66% interest in BN Gas, however the Net outcome for BN Gas is dependent upon the sharing requirements of any future PSA, which are currently indeterminate.





Using this method RISC estimates a prospective resource range of between 13 Bscf and 186 Bscf with a best-case estimate of ultimate recovery of 65 Bscf.

### **5.4. Sunk costs**

No sunk costs have been spent to date as the joint venture have not yet secured any prospecting agreement(s).

### **5.5. Work programs and commitments**

The work program commitments for any prospecting agreement(s) have yet to be finalised. Jade have indicated that they expect the work commitment for the BN Prospect Agreement to be proportional to those applied to the Tavan Tolgoi prospecting agreements on a \$/km<sup>2</sup> basis. Jade expects to commit between US\$270 k and US\$400 k (gross).





## 6. Declarations

### 6.1. Terms of Engagement

This report, any advice, opinions or other deliverables are provided pursuant to the Engagement Contract agreed to and executed by the Client and RISC.

### 6.2. Qualifications

RISC is an independent oil and gas advisory firm. The RISC staff engaged in this assignment are professionally qualified engineers, geoscientists or analysts, each with many years of relevant experience and most have in excess of 25 years.

RISC was founded in 1994 to provide independent advice to companies associated with the oil and gas industry. Today the company has approximately 40 highly experienced professional staff at offices in Perth, Brisbane, Jakarta, and London. Our services cover the entire range of the oil and gas business lifecycle and include:

- Oil and gas asset valuations, expert advice to banks for debt or equity finance;
- Exploration/portfolio management;
- Reserves assessment and certification, peer reviews;
- Field development studies and operations planning;
- Gas market advice;
- Late life management and decommissioning preparation;
- Independent Expert/Expert Witness;
- Strategy and corporate planning.

The preparation of this report has been managed by Mr Adam Craig who is an employee of RISC. Mr Craig is a highly experienced Geoscientist and Manager, with over 30 years' experience in the upstream oil & gas sector working for small and mid-size independents, as well as NOC related entities. He is a Certified Practising Geologist, a member of AAPG, PESA (2021 WA Branch President), EAGE, MAICD, and a Fellow of the Geological Society. He holds BSc in Geology from Curtin University, Western Australia and is a qualified petroleum reserves and resources evaluator (QPRRE) as defined by ASX listing rules.

### 6.3. Standard

Reserves and resources are reported in accordance with the definitions of reserves, contingent resources and prospective resources and guidelines set out in the Petroleum Resources Management System (PRMS) prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE) and reviewed and jointly sponsored by the American Association of Petroleum Geologists (AAPG), World Petroleum Council (WPC), Society of Petroleum Evaluation Engineers (SPEE), Society of Exploration Geophysicists (SEG), Society of Petrophysicists and Well Log Analysts (SPWLA) and European Association of Geoscientists and Engineers (EAGE), revised June 2018.

This Report has been prepared in accordance with the Australian Securities and Investment Commission (ASIC) Regulatory Guides 111 and 112.





### 6.4. Limitations

The assessment of petroleum assets is subject to uncertainty because it involves judgments on many variables that cannot be precisely assessed, including reserves/resources, future oil and gas production rates, the costs associated with producing these volumes, access to product markets, product prices and the potential impact of fiscal/regulatory changes.

The statements and opinions attributable to RISC are given in good faith and in the belief that such statements are neither false nor misleading. While every effort has been made to verify data and resolve apparent inconsistencies, neither RISC nor its servants accept any liability, except any liability which cannot be excluded by law, for its accuracy, nor do we warrant that our enquiries have revealed all of the matters, which an extensive examination may disclose. In particular, we have not independently verified property title, encumbrances or regulations that apply to these assets.

Our review was carried out only for the purpose referred to above and may not have relevance in other contexts.

### 6.5. Independence

RISC makes the following disclosures:

- RISC is independent with respect to High Grade Metals and Jade Gas, and confirms that there is no conflict of interest with any party involved in the assignment.
- Under the terms of engagement between RISC and High Grade Metals, RISC will receive a time-based fee, with no part of the fee contingent on the conclusions reached, or the content or future use of this report. Except for these fees, RISC has not received and will not receive any pecuniary or other benefit whether direct or indirect for or in connection with the preparation of this report.
- Neither RISC Directors nor any staff involved in the preparation of this report have any material interest in High Grade Metals, Jade Gas or in any of the properties described herein.

### 6.6. Copyright

This document is protected by copyright laws. Any unauthorised reproduction or distribution of the document or any portion of it may entitle a claim for damages. Neither the whole nor any part of this report nor any reference to it may be included in or attached to any prospectus, document, circular, resolution, letter or statement without the prior consent of RISC.

### 6.7. Consent

RISC has consented to this report, in the form and context in which it appears, being included, in its entirety, in the prospectus. Neither the whole nor any part of this report nor any reference to it may be included or attached to any other document, circular, resolution, letter or statement without the prior consent of RISC.





## 7. List of terms

The following lists, along with a brief definition, abbreviated terms that are commonly used in the oil and gas industry and which may be used in this report.

Term	Definition
1P	Equivalent to Proved reserves or Proved in-place quantities, depending on the context.
1Q	1st Quarter
2P	The sum of Proved and Probable reserves or in-place quantities, depending on the context.
2Q	2nd Quarter
2D	Two Dimensional
3D	Three Dimensional
4D	Four Dimensional – time lapsed 3D in relation to seismic
3P	The sum of Proved, Probable and Possible Reserves or in-place quantities, depending on the context.
3Q	3rd Quarter
4Q	4th Quarter
AFE	Authority for Expenditure
Bbl	US Barrel
BBL/D	US Barrels per day
BCF	Billion (10 <sup>9</sup> ) cubic feet
BCM	Billion (10 <sup>9</sup> ) cubic metres
BFPD	Barrels of fluid per day
BOPD	Barrels of oil per day
BTU	British Thermal Units
BOEPD	US barrels of oil equivalent per day
BWPD	Barrels of water per day
°C	Degrees Celsius
Capex	Capital expenditure
CAPM	Capital asset pricing model
CGR	Condensate Gas Ratio – usually expressed as bbl/MMscf
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources are a class of discovered recoverable resources as defined in the SPE-PRMS.
CO <sub>2</sub>	Carbon dioxide
CP	Centipoise (measure of viscosity)
CPI	Consumer Price Index
DEG	Degrees
DHI	Direct hydrocarbon indicator
Discount Rate	The interest rate used to discount future cash flows into a dollars of a reference date
DST	Drill stem test
E&P	Exploration and Production
EG	Gas expansion factor. Gas volume at standard (surface) conditions/gas volume at reservoir conditions (pressure and temperature)
EIA	US Energy Information Administration
EMV	Expected Monetary Value



## 8. TECHNICAL EXPERT'S REPORT



Term	Definition
EOR	Enhanced Oil Recovery
ESMA	European Securities and Markets Authority
ESP	Electric submersible pump
EUR	Economic ultimate recovery
Expectation	The mean of a probability distribution
F	Degrees Fahrenheit
FDP	Field Development Plan
FEED	Front End Engineering and design
FID	Final investment decision
FM	Formation
FPSO	Floating Production Storage and offtake unit
FWL	Free Water Level
FVF	Formation volume factor
GIIP	Gas Initially In Place
GJ	Giga (10 <sup>9</sup> ) joules
GOC	Gas-oil contact
GOR	Gas oil ratio
GRV	Gross rock volume
GSA	Gas sales agreement
GTL	Gas To Liquid(s)
GWC	Gas water contact
H <sub>2</sub> S	Hydrogen sulphide
HHV	Higher heating value
ID	Internal diameter
IRR	Internal Rate of Return is the discount rate that results in the NPV being equal to zero.
JV(P)	Joint Venture (Partners)
Kh	Horizontal permeability
km <sup>2</sup>	Square kilometres
Krw	Relative permeability to water
Kv	Vertical permeability
kPa	Kilo (thousand) Pascals (measurement of pressure)
Mstb/d	Thousand Stock tank barrels per day
LIBOR	London inter-bank offered rate
LNG	Liquefied Natural Gas
LTBR	Long-Term Bond Rate
m	Metres
MDT	Modular dynamic (formation) tester
mD	Millidarcies (permeability)
MJ	Mega (10 <sup>6</sup> ) Joules
MMbbl	Million US barrels
MMscf(d)	Million standard cubic feet (per day)
MMstb	Million US stock tank barrels
MOD	Money of the Day (nominal dollars) as opposed to money in real terms





Term	Definition
MOU	Memorandum of Understanding
Mscf	Thousand standard cubic feet
Mstb	Thousand US stock tank barrels
MPa	Mega (10 <sup>6</sup> ) pascal (measurement of pressure)
mss	Metres subsea
MSV	Mean Success Volume
mTVDss	Metres true vertical depth subsea
MW	Megawatt
NPV	Net Present Value (of a series of cash flows)
NTG	Net to Gross (ratio)
ODT	Oil down to
OGIP	Original Gas In Place
OOIP	Original Oil in Place
Opex	Operating expenditure
OWC	Oil-water contact
P90, P50, P10	90%, 50% & 10% probabilities respectively that the stated quantities will be equalled or exceeded. The P90, P50 and P10 quantities correspond to the Proved (1P), Proved + Probable (2P) and Proved + Probable + Possible (3P) confidence levels respectively.
PBU	Pressure build-up
PJ	Peta (10 <sup>15</sup> ) Joules
POS	Probability of Success
Possible Reserves	As defined in the SPE-PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Possible Reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.
Probable Reserves	As defined in the SPE-PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Probable Reserves are those additional Reserves that are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.
Prospective Resources	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations as defined in the SPE-PRMS. These estimates have both an associated risk of discovery and a risk of development.
Proved Reserves	As defined in the SPE-PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. Often referred to as 1P, also as "Proven".
PSC	Production Sharing Contract
PSDM	Pre-stack depth migration
PSTM	Pre-stack time migration
psia	Pounds per square inch pressure absolute
p.u.	Porosity unit e.g. porosity of 20% +/- 2 p.u. equals a porosity range of 18% to 22%



## 8. TECHNICAL EXPERT'S REPORT



Term	Definition
PVT	Pressure, volume & temperature
QA/QC	Quality Assurance/ Control
rb/stb	Reservoir barrels per stock tank barrel under standard conditions
RFT	Repeat Formation Test
Real Terms (RT)	Real Terms (in the reference date dollars) as opposed to Nominal Terms of Money of the Day
Reserves	Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status.
RT	Measured from Rotary Table or Real Terms, depending on context
SC	Service Contract
scf	Standard cubic feet (measured at 60 degrees F and 14.7 psia)
Sg	Gas saturation
Sgr	Residual gas saturation
SRD	Seismic reference datum lake level
SPE	Society of Petroleum Engineers
SPE-PRMS	Petroleum Resources Management System, prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE) and reviewed and jointly sponsored by the American Association of Petroleum Geologists (AAPG), World Petroleum Council (WPC), Society of Petroleum Evaluation Engineers (SPEE), Society of Exploration Geophysicists (SEG), Society of Petrophysicists and Well Log Analysts (SPWLA) and European Association of Geoscientists and Engineers (EAGE), revised June 2018.
s.u.	Fluid saturation unit. e.g. saturation of 80% +/- 10 s.u. equals a saturation range of 70% to 90%
stb	Stock tank barrels
STOIIP	Stock Tank Oil Initially In Place
Sw	Water saturation
TCM	Technical committee meeting
Tcf	Trillion (10 <sup>12</sup> ) cubic feet
TJ	Tera (10 <sup>12</sup> ) Joules
TLP	Tension Leg Platform
TRSSV	Tubing retrievable subsurface safety valve
TVD	True vertical depth
US\$	United States dollar
US\$ million	Million United States dollars
WACC	Weighted average cost of capital
WHFP	Well Head Flowing Pressure
Working interest	A company's equity interest in a project before reduction for royalties or production share owed to others under the applicable fiscal terms.
WPC	World Petroleum Council
WTI	West Texas Intermediate Crude Oil





## Minter Ellison LLP

## ME MGL Advocates LLP

9 July 2021

The Board of Directors  
High Grade Metals Limited  
Level 17, 500 Collins Street  
Melbourne, Victoria, 3000  
Australia

Dear Directors,

**Solicitors' report on petroleum tenements in Mongolia**

This Report has been prepared for inclusion in a Prospectus for the initial public offering of up to 250,000,000 fully paid ordinary shares in the capital of High Grade Metals Limited ACN 062 879 583 (**Company** or **HGML**) at an issue price of AUD\$0.03 per share, to raise up to AUD\$,7,500,000.

**1. Scope**

- 1.1 We have been instructed to report on the Petroleum Tenements in which Jade Australia holds an interest through its indirect subsidiary, Methane Gas Resource.
- 1.2 Methane Gas Resource was established by Erdenes Methane and Jade Methane to implement the TTJV Project. Pursuant to the TTJV Project Investment Agreement, Methane Gas Resource will be the operator and contractor under the Production Sharing Agreement.
- 1.3 Under Government Resolution No 143 dated 22 April 2020, the Government granted MRPAM a right to enter into the Production Sharing Agreement with Erdenes Methane.
- 1.4 On or around 6 May 2020, Erdenes Methane and MRPAM entered into the Production Sharing Agreement pursuant to which the Petroleum Tenements, which are located in Tsogttsetsii and Khankhongor Souns of Umnugovi Province, Mongolia, were granted.
- 1.5 On 14 October 2020 pursuant to Government Resolution No. 150, the Government approved the transfer of all of Erdenes Methane's rights and obligations under the Production Sharing Agreement to Methane Gas Resource.
- 1.6 On or around 11 December 2020, MRPAM, Erdenes Methane and Methane Gas Resource entered into the Tripartite Agreement transferring all of Erdenes Methane's rights and obligations under the Production Sharing Agreement to Methane Gas Resource.
- 1.7 On 15 March 2021, the Ministry granted the Exploration Licence to Methane Gas Resource.
- 1.8 The scope of this Report is limited to the following matters:
  - (a) confirmation of the shareholding of the Jade Group Companies;
  - (b) the status of the Production Sharing Agreement;
  - (c) the status of the Exploration Licence; and
  - (d) provision of a high level overview of the Mongolian legal and regulatory framework as it relates to the exploration and exploitation of CBM,

(together, the **Scope**).
- 1.9 This Report is strictly limited to the matters contemplated in the Scope and is not to be read as extending by implication to any other matter in connection with the Proposed Transaction or the

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## 9. SOLICITORS' REPORT ON TENURE

Material Agreements. This Report does not address any views as to whether the Material Agreements achieve the commercial intentions of the parties in relation to the Proposed Transaction.

- 1.10 This Report only relates to the laws of Mongolia in force at 9.00am on the date of this Report. We express no views as to the laws of any other jurisdiction.
- 1.11 We express no views on any matter requiring skill or expertise of a non-legal nature, such as formulae, or financial, statistical, accounting, commercial or actuarial matters.
- 1.12 This Report is structured as follows:
  - (a) Schedule 1 sets out a detailed description of the Petroleum Tenements;
  - (b) Schedule 2 sets out the list of the Material Agreements;
  - (c) Schedule 3 sets out the list of reference letters received from Government Authorities; and
  - (d) Schedule 4 sets out the definitions of capitalised terms used in this Report.

### 2. Definitions

Capitalised terms used in this Report have the meaning given to them in Schedule 4.

### 3. Benefit and reliance

- 3.1 This Report is provided solely for the benefit of the Company and its directors for inclusion in the Prospectus and any notice of meeting to be provided by the Company to its shareholders in connection with a vote to approve the Prospectus and consummation of transactions contemplated by the Prospectus, and we note that we consent to this use.
- 3.2 Other than in the Prospectus, this Report is not to be:
  - (a) disclosed to or relied on by any other persons; or
  - (b) used for any other purpose or quoted or referred to in any other public document or filed with any Government Authority or other person,without MinterEllison's prior written consent.
- 3.3 Other than for current shareholders of the Company and prospective shareholders of the Company in connection with the issue of shares contemplated by the Prospectus, MinterEllison expressly disclaims any liability in respect of this Report to any governmental authority (including any Government Authority) person, entity or association.

### 4. Public searches and further enquiries

- 4.1 For the purposes of this Report, we:
  - (a) conducted certain public searches in relation to the Production Sharing Agreement and the Jade Group Companies and sought confirmations from certain relevant Government Authorities (**Public Searches**) between 22 July 2020 and 5 July 2021 and received references from those Government Authorities on the dates indicated in Schedule 3; and
  - (b) administered due diligence questionnaires and made enquiries of, and obtained confirmations from, the management and shareholders, as relevant, of each of Erdenes Methane and each Jade Group Company (**Management Enquiries**) on 22 July 2020, 19 March 2021 and then again on 5 July 2021.
- 4.2 This Report has been prepared based on (and is limited to):
  - (a) the results of the Public Searches provided by the Government Authorities; and
  - (b) the responses to the Management Enquiries provided by Erdenes Methane and the Jade Group Companies,

and we have not made any independent investigations or enquiries in relation to the information and confirmations provided to us under those Public Searches and Management Enquiries.





4.3 We express no view about:

- (a) the accuracy of, or any factual matter disclosed by the Public Searches or the Management Enquiries; or
- (b) the status of the Petroleum Tenements, the Production Sharing Agreement or the Exploration Licence after the date of the relevant Public Search or Management Enquiry, as relevant.

## 5. Documents examined

5.1 For the purpose of this Report, we have examined only the Material Agreements and relied on the results of the Public Searches together with the information and confirmations provided by Erdenes Methane and the Jade Group Companies in response to the Management Enquiries.

5.2 Except as stated above, we have not:

- (a) examined any documents entered into by or affecting Jade Australia or any Jade Group Company or any of their corporate records;
- (b) made any other searches or enquiries concerning Jade Australia or any Jade Group Company, the Production Sharing Agreement, the Exploration Licence or the Petroleum Tenements; and
- (c) held discussions with the management or boards of Jade Australia, or any Jade Group Company or Government Authority.

5.3 We have not investigated, verified nor assisted in the investigation or verification of any assumption, or the reasonableness of any assumption or statement or view contained, in any of the Material Agreements or the Exploration Licence nor have we attempted to determine whether any material matter has been omitted from them.

## 6. Findings

Based on our review of the results of the Public Searches, the responses to the Management Enquiries and the Material Agreements, being subject to the assumptions and qualifications set out in paragraphs 8 and 9 below, our view is that:

### *Prospecting Agreement*

6.1 On or around 24 February 2017, the Prospecting Agreement was entered into between Erdenes Methane and MRPAM.

### *Prospecting Work Report*

6.2 On or around 16 September 2019, the Prospecting Work Report was submitted by Erdenes Methane to MRPAM. The Prospecting Agreement is no longer effective as at the date of this Report.

6.3 On or around 4 October 2019, the Prospecting Work Report was accepted by the Technical Committee of Petroleum Prospecting, Exploration and Exploitation (**Technical Committee**).

### *Production Sharing Agreement*

6.4 Pursuant to Government Resolution No 143 dated 22 April 2020, the Government authorised MRPAM to enter into the Production Sharing Agreement with Erdenes Methane.

6.5 On or around 6 May 2020, the Production Sharing Agreement was signed between Erdenes Methane and MRPAM.

6.6 The Petroleum Tenements have been validly issued under the Production Sharing Agreement.

6.7 The Production Sharing Agreement is valid and effective as at the date of this Report.

### *Transfer of Production Sharing Agreement*

6.8 Under clause 16.2.2 of the TTJV Project Investment Agreement, Erdenes Methane is required to transfer its rights and obligations under the Production Sharing Agreement to Methane Gas Resource.



## 9. SOLICITORS' REPORT ON TENURE

- 6.9 To comply with its obligation under the TTJV Project Investment Agreement, Erdenes Methane applied to MRPAM on or around 12 May 2020 to transfer all of its rights and obligations under the Production Sharing Agreement to Methane Gas Resource (the **Transfer Request**).
- 6.10 On or around 11 June 2020, MRPAM issued a conclusion supporting the Transfer Request (**MRPAM Conclusion**).
- 6.11 On or around 14 October 2020, the Government approved the transfer of all of Erdenes Methane's rights and obligations under the Production Sharing Agreement to Methane Gas Resource in accordance with Articles 7.1.8 and 14.1 of the Petroleum Law (**Government Approval**).

### *Tripartite Agreement*

- 6.12 On or around 11 December 2020, Methane Gas Resource, Erdenes Methane and MRPAM entered into the Tripartite Agreement transferring all of the rights and obligations under the Production Sharing Agreement from Erdenes Methane to Methane Gas Resource.

### *Fees*

- 6.13 On or around 2 June 2020, Erdenes Methane paid US\$50,000 to the state budget as a signature fee for signing the Production Sharing Agreement as required under clause 13.1 of the Production Sharing Agreement (**Signature Fee**). Pursuant to clause 13.1 of the Production Sharing Agreement, the Signature Fee was required to be paid within 60 calendar days following the date on which entry into the Production Sharing Agreement was approved and authorised by the Government (i.e. by 21 June 2020).
- 6.14 On or around 15 December 2020, Methane Gas Resource paid, in MNT56,991,200, equal to US\$20,000 to the state budget as a fee for transferring all of the rights and obligations under the Production Sharing Agreement (**Transfer Fee**) as required under Article 34.7 of the Petroleum Law, the Tripartite Agreement and the Assignment Agreement. Pursuant to Article 14.6 of the Petroleum Law, Methane Gas Resource was obliged to pay the Transfer Fee within 30 calendar days following the date of the Government Approval (i.e. by 14 November 2020).
- 6.15 On or around 10 May 2021, Methane Gas Resource paid, in MNT285,006,000, equal to US\$100,000 to MRPAM as a training bonus for 2021 as required under clause 13.4.1 of the Production Sharing Agreement (**Training Bonus**). Pursuant to clauses 2.1.7, 2.1.8 and 13.4.2 of the Production Sharing Agreement, the Training Bonus was required to be paid within 30 calendar days following the issuance of the Exploration Licence (i.e. by 14 April 2021).
- 6.16 On or around 10 May 2021, Methane Gas Resource paid, in MNT142,503,000, equal to US\$50,000 to MRPAM as a support for the representative office operations fee for 2021 as required under clause 13.5.1 of the Production Sharing Agreement (**Representative Office Fee**). Pursuant to clauses 2.1.7, 2.1.8 and 13.5.2 of the Production Sharing Agreement, the Representative Office Fee was required to be paid within 30 calendar days following the issuance of the Exploration Licence (i.e. by 14 April 2021).
- 6.17 As at the date of this Report, the local development bonus for 2021 remains outstanding and payable by Methane Gas Resource (**Local Development Bonus**). Methane Gas Resource has confirmed that it has not yet paid the Local Development Bonus (which is payable into a local development fund). Pursuant to clauses 2.1.7, 2.1.8, 13.6.1 and 13.6.2 of the Production Sharing Agreement, the Local Development Bonus equal to US\$100,000 for 2021 is required to have been paid into the local development fund within 30 calendar days following the issuance of the Exploration Licence (i.e. by 14 April 2021).

### *Exploration work plan and budget*

- 6.18 On or around 26 January 2021, MRPAM approved the exploration work plan and budget for 2021 submitted by Methane Gas Resource (**Exploration Work Plan and Budget for 2021**). Pursuant to clause 20.1.1 of the Production Sharing Agreement, Methane Gas Resource must commence the exploration works in accordance with the Exploration Work Plan and Budget for 2021 within 180 calendar days following the issuance of the Exploration Licence (i.e. by 14 September 2021).
- 6.19 On or around 4 March 2021, Methane Gas Resource deposited, in MNT91,033,594.49, equal to US\$31,950.02 as the environmental reclamation fund fee in the escrow bank account at Golomt Bank LLC (**Reclamation Fund Fee**). The Reclamation Fund Fee must have been paid within 60 calendar days following the approval of the Exploration Work Plan and Budget for 2021 (i.e. by 27 March 2021).





#### *Exploration Licence*

- 6.20 On or around 15 March 2021, the Ministry granted the Exploration Licence to Methane Gas Resource for a term of 10 years commencing from the date on which the Production Sharing Agreement is executed.
- 6.21 On or around 1 April 2021, Methane Gas Resource paid, in MNT5,679,386.35, equal to US\$1,992.9 into the state budget an annual licence fee in respect of the Exploration Licence (**Licence Fee**). For the purpose of clauses 2.1.7, 2.1.8 and 12.1.1 of the Production Sharing Agreement, the Licence Fee for the first exploration year must be paid within 60 calendar days following the issuance of the Exploration Licence (i.e. by 14 May 2021).
- 6.22 The Exploration Licence is valid and effective as at the date of this Report.

#### *Overlapping tenements*

- 6.23 The Petroleum Tenements overlap with the coal mining tenements of the Tavan Tolgoi strategic mine which are currently held by Erdenes TT under a number of coal mining licences. Erdenes TT and Erdenes Methane are parties to the Cooperation Agreement which regulates, amongst other things, matters relating to overlapping tenements (i.e. the Petroleum Tenements) and is valid until 25 June 2021.
- 6.24 As the holder of the Exploration Licence Methane Gas Resource will need to enter into a cooperation agreement with Erdenes TT regulating substantially the same matters as were regulated by the Cooperation Agreement to comply with the requirements under Article 42.3 of the Petroleum Law. As at the date of this Report, Methane Gas Resource has confirmed that it has not entered into a cooperation agreement with Erdenes TT in relation to the matters regulated under the Cooperation Agreement.

#### *Local Tripartite Agreement*

- 6.25 Pursuant to clause 13.6.3 of the Production Sharing Agreement, Methane Gas Resource is required to enter into a tripartite agreement with the Government and a local authority (**Local Tripartite Agreement**). As at the date of this Report, Methane Gas Resource has confirmed that it has not yet entered into a Local Tripartite Agreement.

#### *Baruun Naran*

- 6.26 Baruun Naran was established for the purpose of prospecting, exploring, developing and exploiting CBM gas for the BN Project. As at the date of this Report, Methane Gas Resource has confirmed that Baruun Naran has not yet applied to MRPAM for a prospecting agreement in relation to the BN Project.

#### *Jade Group Companies*

- 6.27 In respect of the Jade Group Companies:
- (a) Jade Australia is the registered holder of 100% of the total issued shares in each of Jade Gas Mongolia and Jade Methane;
  - (b) Jade Methane is the registered holder of 60% of the total issued shares in Methane Gas Resource and Erdenes Methane is the registered holder of the remaining 40% of the issued shares in Methane Gas Resource; and
  - (c) Jade Gas Mongolia is the registered holder of 66% of the total issued shares in Baruun Naran and Khangad Exploration is the registered holder of the remaining 34% of the shares in Baruun Naran.
- 6.28 As at the date of this Report, the shares in each Jade Group Company are not subject to any registered share pledge.

### **7. High level overview of the Mongolian regulatory and legal framework applicable to petroleum rights**

#### *Regulation of CBM in Mongolia*



## 9. SOLICITORS' REPORT ON TENURE

- 7.1 Activities relating to CBM are regulated by the Petroleum Law and Resolution No. 295. The Petroleum Law and implementing regulations approved pursuant to the Petroleum Law provide for a legal and regulatory framework for the prospecting, exploration, development and exploitation of CBM in Mongolia.
- 7.2 The power of the Government under the Petroleum Law includes, but is not limited to:
- (a) approving entry into a PSA on an area with special needs;
  - (b) approving the conclusion and termination of a PSA;
  - (c) resolving the transfer of the rights and obligations under a PSA to another entity; and
  - (d) resolving issues concerning overlapping petroleum tenements with other minerals licence areas based on consideration of social and economic significance of respective projects in circumstances where licence holders are unable to continue their operations simultaneously in respect of the same area.
- 7.3 The Petroleum Law generally falls within the portfolio of responsibilities of the Ministry. The Ministry is responsible for, amongst other things, issuance, extension, suspension and termination of exploration and exploitation licences for CBM.
- 7.4 MRPAM is an implementing agency established by the Government and which reports to the Ministry. MRPAM is responsible for the implementation of the Petroleum Law and its primary responsibilities include, but are not limited to, approving annual plans and budgets for prospecting, exploration and exploitation works, monitoring the implementation of same, entering into prospecting agreements and PSAs (subject to obtaining Government approval), temporarily suspending activities related to CBM (partially or fully) on the grounds and for the reasons provided under applicable laws and recommending to the Ministry whether to grant exploration and exploitation licences for CBM-related activities.
- 7.5 The Petroleum Exploitation Division of MRPAM is the primary regulatory department responsible for the day-to-day administration of the Petroleum Law and is in charge of ensuring the implementation of prospecting agreements and PSAs.
- 7.6 The degree of Government intervention and regulation in the natural resources sector in Mongolia is comparatively high. Processes can be bureaucratic, fluid and subject to change without public notice. A comprehensive understanding of the legal framework for petroleum activities (including CBM) and a close working relationship with both the Ministry and MRPAM can therefore assist in mitigating the uncertainties surrounding Mongolia's bureaucracy in the petroleum sector.
- Exploration, exploitation activities and requisite licences*
- 7.7 Pursuant to the Petroleum Law, all conventional and unconventional petroleum existing in Mongolia's subsoil or land surface, is the property of the Government. CBM is one type of unconventional petroleum along with shale oil, natural bitumen, tar sand, gas-rich shale and gas sand.
- 7.8 As the owner of all natural resources in Mongolia (including petroleum), the Government exercises its ownership rights by approving entry into PSAs and issuing exploration and exploitation licences to contractors.
- 7.9 While the Government is able to grant petroleum exploration and exploitation rights to others within the framework provided under the Petroleum Law, it is not possible, as a matter of Mongolian law, to convey title in, or over, petroleum (including CBM) to private parties. This means that upon expiration or termination of a PSA and the relevant accompanying licence all of the petroleum rights thereunder will revert to the Government. As such, the rights conferred by the award of a PSA and licence in Mongolia are to be understood as provisional rights held by a contractor for a period of time.
- 7.10 Exploration and exploitation of CBM may only be carried out under an exploration or exploitation licence issued by the Ministry to a legal entity registered in Mongolia. Although, a contractor under a PSA can be a foreign registered legal entity, a licence holder must be a legal entity established under the laws of Mongolia and be registered as a taxpayer in Mongolia. It is not uncommon in Mongolia for a contractor under a PSA to be an offshore entity (usually for the purpose of capital raising etc.) while the actual exploration and/or exploitation licence holder is a local operator company that is a direct or indirect subsidiary of the contractor.





- 7.11 The size of the exploration area is determined by MRPAM based on the geological formation of the petroleum basin. If any damage is caused to properties owned or possessed by others due to exploration or exploitation works, then the contractor must pay compensation for such damages. A contractor will also be responsible for any costs related to relocating such properties.
- 7.12 The meaning of 'CBM', 'contractor', 'exploitation', 'exploration', 'extraction' and 'prospecting' is defined under Article 4.1 of the Petroleum Law as follows:
- (a) '*CBM*' means gas accumulated in coal during the process of carbonisation (Article 4.1.5 of the Petroleum Law);
  - (b) '*Contractor*' means a company that has entered into a contract to conduct petroleum exploration or exploitation within the territory of Mongolia (Article 4.1.11 of the Petroleum Law);
  - (c) '*Exploitation*' means the development and extraction operations for exploiting a petroleum or unconventional petroleum deposit (Article 4.1.16 of the Petroleum Law);
  - (d) '*Exploration*' means geological, geochemical, geophysical, drilling and extraction testing work to be performed for the purpose of finding an oilfield and establishing an amount of reserves (Article 4.1.8 of the Petroleum Law);
  - (e) '*Extraction*' means all operations of extracting except for the development up to a delivery point (Article 4.1.18 of the Petroleum Law); and
  - (f) '*Prospecting*' means geological, geochemical and geophysical survey work to be performed for the purpose of determining the prospects of petroleum and unconventional petroleum in a certain area (Article 4.1.7 of the Petroleum Law).

*Production sharing agreements*

- 7.13 As a matter of Mongolian law, a PSA can be entered into with the following entities:
- (a) a legal entity which has completed prospecting work and applied for a PSA; or
  - (b) the winner of an open tender for exploration or exploitation areas.
- 7.14 A legal entity which has carried out prospecting works must provide primary documents and a Prospecting Work Report to MRPAM following conclusion of the prospecting works. Upon receipt MRPAM will, in turn, issue a conclusion in relation to the Prospecting Work Report. Within 60 days following the issuance of a conclusion by MRPAM, the legal entity which has carried out the prospecting works must submit a proposal to enter into a PSA to MRPAM together with a draft PSA which, amongst other things, must reflect the following terms:
- (a) the percentage of CBM profit to be allocated to the Government;
  - (b) the percentage of royalties;
  - (c) the limit on the percentage of CBM costs;
  - (d) the amount of exploration investment;
  - (e) the amount of funds to be spent on environmental restoration;
  - (f) the amount of bonus allocated for instruction and training;
  - (g) the amount of bonus allocated for signing the PSA contract;
  - (h) the amount of bonus allocated for commencing extraction;
  - (i) the amount of bonus allocated for increasing extraction;
  - (j) the amount of bonus allocated for local development;
  - (k) operational support for the representative office; and
  - (l) other favourable conditions proposed to the Government.



## 9. SOLICITORS' REPORT ON TENURE

- 7.15 The amounts specified in paragraphs 7.14(f) to 7.14(j) are not specifically set out under Mongolian law. Rather those amounts are proposed by the contractor based on consideration of existing PSAs already in place and the scope and potential of the specific project in question.
- 7.16 MRPAM will negotiate the terms of the proposed PSA with the applicant within 60 days following receipt of a draft PSA. If negotiation between MRPAM and the applicant is unsuccessful, the petroleum area over which the legal entity has applied to enter into a PSA will be announced as an area available for exploration. In this case, a public tender must be organised to select a preferred contractor for the PSA. For further details see paragraph 7.35 below.
- 7.17 If the negotiation between MRPAM and the applicant results in an agreed form of PSA, then MRPAM will submit that agreed form of PSA for review to the Ministry. The Ministry will review the draft PSA within 30 days following receipt from MRPAM and submit its proposal to the Government for approval. The Government will then determine whether to issue an approval for the entry into the draft PSA within 60 days following receipt of the Ministry's proposal.
- 7.18 Within 30 days of the grant of the Government's approval, MRPAM must enter into a PSA with the applicant. Generally, the process takes at least six months to get a PSA signed by MRPAM. However, we note that it may take longer due to the capacity and workload of Government Authorities as well as any delays and/or restrictions resulting from or related to the COVID-19 pandemic.
- 7.19 Notwithstanding the above, a PSA can also be entered into with the winner of a competitive tender process for available exploration and exploitation areas. Please refer to paragraph 7.35 in this regard.

### *Template production sharing agreement*

- 7.20 The template PSA adopted by Government Resolution No. 104 dated 16 March 2015 contemplates, amongst other things, the following duties of a contractor:
- (a) to ensure exploration and exploitation activities comply with international standards and effective exploitation requirements;
  - (b) preparation of an annual review of contract implementation which must be submitted to MRPAM for its conclusion;
  - (c) organisation of an annual meeting (at least once a year) with representatives of MRPAM in relation to exploration and exploitation activities;
  - (d) organisation of a meeting with local people of the area where the exploration or exploitation activities are conducted for the purpose of providing information in relation to these activities; and
  - (e) to provide information to the Government (upon its request) regarding investment and ownership of the project and/or the contractor.

### *Transfer of PSA rights and obligations*

- 7.21 Under Article 14.1 of the Petroleum Law a contractor may transfer one-third or more of the rights and obligations under a PSA to others upon obtaining permission from the Government. The contractor must submit any such request to MRPAM and the Ministry for a conclusion and approval of the Government. The Government is authorised to approve the transfer of a contractor's rights and obligations under a PSA in accordance with Article 7.1.8 of the Petroleum Law. Following Government approval, a contractor which has transferred its rights under a PSA must pay the following fees to the state budget:
- (a) an amount, in MNT, equal to US\$20,000 if the transfer is effected prior to the discovery of any petroleum reserve in the exploration well;
  - (b) an amount, in MNT, equal to US\$50,000 if the transfer is effected after the discovery of any petroleum reserve in the exploration well; or
  - (c) an amount, in MNT, equal to US\$100,000 if the transfer is effected following commencement of the exploitation period.
- 7.22 Article 14.1 of the Petroleum Law permits the transfer of rights and obligations under a PSA in an amount less than one-third by a contractor without the need to obtain permission from any Government Authority.





- 7.23 Where any rights and obligations under a PSA are transferred to a third party, the contractor, MRPAM and any transferee must enter into a tripartite agreement pursuant to Article 14.5 of the Petroleum Law.

*Relinquishment requirement*

- 7.24 At the end of the relevant phases of the exploration period, a contractor is obliged to relinquish parts of the exploration area in the amount agreed under the PSA. At the end of the exploration period, all areas except for the exploitation areas agreed between MRPAM and the contractor must be returned to the state (i.e. relinquished).
- 7.25 Exploitation areas can be partly or fully returned to MRPAM at the request of the contractor provided that the minimum exploration work conducted on the exploration area has been completed. Pursuant to a template PSA approved by the Government, the exploitation area must be relinquished in part or in full if the contractor has:
- (a) not conducted exploitation activities for a period of 12 months or for 24 months due to force majeure events;
  - (b) caused severe damage to human health, the environment and animals; and
  - (c) repeatedly failed to comply with its environmental obligations.

- 7.26 A contractor must fully comply with its environmental obligations which include rehabilitation in respect of the exploration or exploitation areas.

- 7.27 A contractor may conduct exploration and exploitation activities for conventional and unconventional petroleum on the same tenement area. In these circumstances, the contractor will be required to enter into separate PSAs and obtain separate licences in respect of conventional and unconventional petroleum.

*Exploration licence: application process*

- 7.28 A legal entity that has entered into a PSA or its operator company that is registered in Mongolia will be granted an exploration licence by the Ministry on a direct application basis. We are aware of instances where an exploration licence has been granted to a subsidiary of a contractor which entered into a PSA with MRPAM and is an operator under the PSA.
- 7.29 The applicant must submit an application in approved form to the Ministry enclosing the following supporting documents pursuant to Article 18.2 of the Petroleum Law:
- (a) a copy of the PSA;
  - (b) an environmental impact assessment report;
  - (c) the exploration works plan for the given year; and
  - (d) a document evidencing that an amount equal to 3% of the investment for the exploration works of the given year has been deposited in an escrow account at a commercial bank in Mongolia to guarantee the performance of the environmental rehabilitation obligations of the applicant.

- 7.30 The Ministry will review the application against the requirements under the Petroleum Law. If the application satisfies the requirements under the Petroleum Law as described in paragraph 7.29 above, the Ministry will grant the exploration licence to the applicant or its operator company for an agreed period of exploration and inform the relevant local authority of the grant of the exploration licence pursuant to Article 18.3 of the Petroleum Law.

*Exploration licence: term*

- 7.31 An exploration licence is issued for the same term as the exploration period. Exploration terms for CBM are up to ten (10) years and can be renewed once by MRPAM for a further period of up to five (5) years (i.e. a maximum exploration term of 15 years). The exploration term commences on the date of the PSA.
- 7.32 The Ministry may extend the exploration licence for two (2) subsequent extensions of two (2) years each once the exploration term has been extended by MRPAM. Renewals are not automatic. In making any application for renewal, both the Ministry and MRPAM must be satisfied that the contractor



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and/or licence holder have complied with all of the terms and conditions of the PSA and the exploration licence (including the payment of all licence fees and preparation of works reports related to exploration, environmental protection and rehabilitation).

- 7.33 An exploration licence grants the holder with the exclusive right to access the land within the exploration area for the purpose of conducting exploration activities in accordance with the Petroleum Law, PSA and the approved exploration work plan. Rights are also given to a licence holder to traverse and pass over the land that is owned or possessed by others to access the exploration licence area provided that such access is pre-agreed with the relevant owner or possessor.

### *Resource estimate report*

- 7.34 Within 90 days of the expiry of the exploration term, the holder of an exploration licence must submit a resource evaluation and reserve estimate report to MRPAM and the Technical Committee for review. Following which, the Ministry will consider the report for discussion, review and conclusion. Based on the conclusion and recommendation issued by the Technical Committee, the Ministry will decide whether to register a CBM reserve submitted by the contractor.

### *Tender for exploration area*

- 7.35 Exploration tenements are granted on the basis of a competitive tender under Articles 19.1.1 to 19.1.6 of the Petroleum Law, if:

- (a) state-funded exploration work was conducted on the area or if the exploration area was specified by MRPAM;
- (b) the legal entity that carried out the prospecting works refused to enter into a PSA;
- (c) the exploration licence was revoked by a competent authority due to repeated breaches thereof or a party that previously received the exploration licence refused to perform exploration and relinquished the exploration licence area;
- (d) the exploration licence has expired and the exploration areas have been returned to the state;
- (e) the exploration licence was revoked in accordance with the Petroleum Law; or
- (f) the exploration licence was revoked pursuant to a decision of a court.

- 7.36 MRPAM must publish the tender announcement through its official website and in daily newspapers at least three times under Article 19.2 of the Petroleum Law. The exploration area will be determined by MRPAM on the basis of the geological structure of the petroleum basin area.

- 7.37 The applicant must submit tender documents to MRPAM containing the requisite information and supporting tender documentation required under the Tender Regulation in order to qualify for participation in the tender. MRPAM is required to announce the deadline for receiving the tender documents within five days following the receipt of the first tender document. The total period for receiving the tender documents will be up to 60 days.

- 7.38 MRPAM must assess the tender documents in accordance with the Tender Regulation and select the applicant which submitted the most favourable proposal to the Government. This will be reflected in a draft PSA pursuant to Article 17.3 of the Petroleum Law.

- 7.39 Subject to obtaining the requisite approval from the Government, MRPAM will enter into a PSA with a successful tender applicant based on the terms of a PSA that has been negotiated and agreed to between MRPAM and the applicant.

### *Exploitation licence: application process*

- 7.40 A request to obtain an exploitation licence must be submitted by the contractor to the Ministry within 30 days following the issuance of the Ministry's decision to register a CBM reserve. The following information and supporting documents must be submitted to the Ministry pursuant to Article 24.4 of the Petroleum Law along with the licence application request:

- (a) a decision of the Ministry registering the CBM reserve;
- (b) a work plan and budget proposal for the given year;





- (c) a deposit mining operational plan;
- (d) a detailed environmental impact assessment for mining;
- (e) a picture determining the coordinates of the corner points of the mining area on the topographical map approved by the relevant authority; and
- (f) a document evidencing that funds equal to 1% of CBM profits to be allotted to the contractor has been deposited into an escrow account at a commercial bank of Mongolia as a guarantee of the contractor's full performance of its environmental rehabilitation obligations.

*Exploitation licence: term*

- 7.41 An exploitation licence will be granted by the Ministry for the initial term of the exploitation period which is up to 30 years for CBM. The licence may be renewed once for a period of up to five years subject to the application for extension of the exploitation period submitted to MRPAM pursuant to Article 25.3 of the Petroleum Law. Upon the extension of the exploitation period by MRPAM, the exploitation licence will be extended by the Ministry.

*Tender for exploitation area*

- 7.42 A competitive tender in respect of the petroleum area will be announced by MRPAM under Articles 26.1.1 to 26.1.6 of the Petroleum Law, if:
- (a) the holder of the exploration licence has not submitted a request to obtain an extraction licence following the issuance of a decision of the Ministry registering a CBM reserve;
  - (b) state-funded exploration work was conducted on the exploration area and determined a reserve;
  - (c) the previous holder of the extraction licence refused to extract and returned the licence area;
  - (d) an extraction licence has been revoked due to a breach of the legislation by the extraction licence holder and the licence area has been returned;
  - (e) the term of the extraction licence has expired and the licence area has been returned; or
  - (f) an extraction licence has been revoked pursuant to a decision of a court.

- 7.43 MRPAM will organise a public tender in accordance with the Tender Regulation and will select an applicant with whom it will negotiate the terms of a draft PSA.

- 7.44 An extraction licence will be granted to the winner of a tender who has entered into a PSA with MRPAM in accordance with the procedures under the Tender Regulation as specified in paragraph 7.35 above.

*Fees and royalties: licence fees*

- 7.45 A holder of an exploration or exploitation licence must pay annual licence fees in respect of such licence.
- 7.46 The annual fee for an exploration licence will be an amount, in MNT, equal to US\$3 per square kilometre of the licence area. Where an exploration licence is renewed, the annual fee will be an amount, in MNT, equal to US\$8 per square kilometre of the licence area.
- 7.47 The annual fee for an exploitation licence will be an amount, in MNT, equal to US\$100 per square kilometre of the licence area. Where an exploitation licence is renewed, the annual fee will be an amount, in MNT, equal to US\$200 per square kilometre of the licence area.
- 7.48 Licence holders are required to pay the licence fee within 30 days of the beginning of each financial year.
- 7.49 A failure to pay the licence fees within the prescribed period will result in a fine equal to one third of the annual licence fee payable for each type of licence per day.

*Fees and royalties: royalty rates*



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- 7.50 A royalty rate of between 5% - 10% is payable in relation to extracted CBM while a royalty rate of between 5% - 15% is payable for extracted crude oil or natural gas.
- 7.51 The exact percentage of the royalty rate is generally proposed by the contractor and negotiated with MRPAM within the range described above and set out in the PSA.

### *Recoverable costs*

- 7.52 All costs required for conducting activities related to CBM must be accounted for by the contractor.
- 7.53 A contractor may recover the costs by arranging certification of these costs by a Government auditor in the amount specified in the PSA.
- 7.54 Recoverable costs will not include the fees paid by the contractor in accordance with the Petroleum Law such as licence fees, royalties and bonuses etc.

### *Bonuses and other fees*

- 7.55 A contractor must pay bonuses and other fees in the amounts stated under the PSA in relation to the signing of the PSA, commencement extraction, increased extraction, training, local area development, representative office support, environmental reclamation fund payments, royalty payments and service fees.
- 7.56 Pursuant to Article 34.6 of the Petroleum Law a contractor is required to pay an amount, in MNT, equal to US\$100,000 for increasing the exploration area and US\$250,000 for increasing the extraction area.

### *Overlapping tenements*

- 7.57 It is common in Mongolia for petroleum tenements to overlap with licence areas granted for different minerals including coal exploration and mining tenements or other types of conventional and unconventional petroleum.
- 7.58 Under Article 35.7 of the Minerals Law, a minerals licence holder which discovers CBM in the course of its mining operations must notify MRPAM of such discovery. If the minerals licence holder decides to explore for CBM, all issues related to unconventional petroleum will be regulated by the Petroleum Law.
- 7.59 The Petroleum Law provides that in the case of overlapping tenements, licence holders will be required to enter into an agreement to regulate their activities within the overlapped area without disrupting each other's operations. Failure to enter into an agreement and carry out their respective operations without disrupting the operations of one another may result in the Government deciding on which project should be prioritised based on the consideration of the economic and social benefits of each project for Mongolia.
- 7.60 The Government may resolve to terminate the operations of one of the projects and revoke its licence. In such circumstances, the licence holder that continues its operation will need to pay all costs of the licence holder whose licence was revoked, including the costs associated with exploration and exploitation works. For instance, if a petroleum licence holder cannot reach an agreement with the holder of a coal licence operating on the same tenure, the Government may terminate the operation of the coal licence holder if the petroleum project has the potential of creating more social and economic benefits for Mongolia than the coal project. In such a case, the petroleum licence holder will be required to pay compensation for all costs incurred by the coal licence holder.
- 7.61 Petroleum and coal licences issued over the same area are independent from each other and are issued in accordance with separate laws (i.e. the Minerals Law and Petroleum Law). Accordingly, the validity of one licence will not affect the validity of the other licence. Petroleum rights are also independent from underlying mineral licences. For instance, the termination or revocation of coal exploration licences held by one licence holder would not affect the validity and good standing of petroleum licences and relevant petroleum tenements provided under a PSA held by another licence holder. Mongolian law is otherwise silent as to the resolution of disputes between licence holders in relation to overlapping tenures.





7.62 In the event that conventional petroleum and unconventional petroleum exploration and exploitation is carried out in the same area, a contractor must enter into a PSA pertaining to each petroleum mineral and obtain a licence for each PSA.<sup>1</sup>

7.63 If MRPAM and a contractor are unable to amicably resolve property or other disputes during the course of petroleum operations, then the parties may file a complaint to arbitration provided that there is a valid arbitration agreement between the parties. If there is no arbitration agreement between the parties, then the dispute will be resolved by a local court.<sup>2</sup>

*Other issues: tax*

7.64 The indirect transfer of petroleum rights (i.e. by way of selling shares in the petroleum licence holding entity) is subject to a withholding tax rate of 10% under the Revised CIT Law effective from 1 January 2020.

7.65 The amount of taxable income will be determined pursuant to the 'Regulation for Imposing Tax on the Sale or Transfer of Exploration and Mining Licence for Minerals, Radioactive Minerals and Petroleum' approved by Order No. 302 of the Minister of Finance dated 31 December 2019.

*Other issues: force majeure*

7.66 During a declared state of emergency in the entire territory or some of the regions of Mongolia, the Government may 'partly' or 'completely' requisition the contractor's share of the petroleum (including CBM), buildings, facilities, equipment and machinery related to the contractors petroleum activities with compensation payable to the contractor. In such an event, the contractor would be provided with the opportunity to 'express' its views in relation to the requisition.

7.67 If a contractor's activities were suspended for more than a year due to a force majeure event (including but not limited to the novel COVID-19 pandemic), then the Ministry will extend the exploration and exploitation period by the period of suspension. In this regard, the contractor would be required to submit evidence to MRPAM proved by an authorised organisation within 30 days from the date that the force majeure event occurred.

7.68 If Mongolia is in a state of war, the Government is entitled to demand the contractor to increase its production capacity up to the maximum level that ensures the safety of the contractor's machinery, technology and manufacturing at that time. In such a case, the parties will set maximum production on the basis of mutual agreement.

*Transfer of ownership right*

7.69 Ownership of immovable or movable properties, equipment, machineries and goods and products imported to Mongolia for the purpose of conducting petroleum exploration and exploitation activities prior to or after the PSA's expiry must be agreed to under the PSA. If the Government resolves not to accept the transfer of such properties, then the contractor must arrange for the shut-down of the site at its own cost.

*Insurance*

7.70 There is no mandatory requirement under the law requiring a contractor and its sub-contractors to be insured for their activities in respect of a petroleum tenement. However, if a contractor decides to insure its property, then the insurer must be a Mongolian insurer unless the Mongolian insurer is unable to provide sufficient insurance coverage to the contractor. In that case, a foreign insurer could be engaged.

*Subcontractor liability*

7.71 The contractor is liable to the Government for all damages caused by the activities of a subcontractor performing petroleum exploration and exploitation work.

*Reporting obligations*

<sup>1</sup> Article 17.8 of the Petroleum Law.

<sup>2</sup> Article 43.1 of the Petroleum Law.



## 9. SOLICITORS' REPORT ON TENURE

- 7.72 A contractor is required to submit various information and documents, including but not limited to exploration and exploitation work reports, primary information and materials to MRPAM within a certain time-frame described under the Petroleum Law or the PSA.
- 7.73 A contractor must submit the following information for the previous year to the Ministry and MRPAM and report same to the public via news media by the first quarter of the following year:
- (a) investment amount and costs;
  - (b) paid royalty;
  - (c) CBM amount extracted and sold;
  - (d) taxes paid for state and local budgets; and
  - (e) the amount of the paid bonuses and service fees.

### 8. Assumptions

This Report is subject to the following assumptions:

- 8.1 All documents (including in respect of the Public Searches) submitted to or obtained by us as originals are authentic, complete, valid and effective and all signatures, seals, dates and duty markings are genuine.
- 8.2 MinterEllison did not undertake the following Public Searches:
- (a) Reference Letter No. 3/4225 dated 15 September 2020 from MRPAM in relation to the status of the Production Sharing Agreement (refer to Item 2 of Schedule 3);
  - (b) Reference Letter No. 03416 dated 16 September 2020 from the Central Archive of SRO in relation to Erdenes Methane (refer to Item 1 of Schedule 3);
  - (c) Reference Letter No. 03/758 dated 30 March 2021 from the Ministry in relation to the Exploration Licence (refer to Item 39 of Schedule 3); and
  - (d) Reference Letter No.03/1730 dated 5 July 2021 from the Ministry in relation to the Exploration Licence (refer to Item 11 of Schedule 3)
- 8.3 The reference letters set out in paragraphs 8.2(a), 8.2(b) and 8.2(d) were obtained by Erdenes Methane and the reference letter set out in paragraph 8.2(c) was obtained by Methane Gas Resource. In each case MinterEllison was provided with a scanned copy of the relevant reference letter and we have relied on the accuracy, authenticity, validity and effectiveness of these reference letters. We have assumed that such reference letters and the confirmations and information contained within them are complete, up to date and not misleading in any way. We have not independently verified with the relevant Government Authorities whether the reference letters are accurate, genuine or authentic.
- 8.4 All documents provided to us by Jade Australia, Erdenes Methane, each Jade Group Company and any Government Authority as copies, notarised copies or scanned copies conform with the originals, are complete, up to date, have not been amended and the underlying original continues in full force and effect.
- 8.5 Any facsimile or scanned signature page reviewed by us is a true and complete copy of the signature page of the original document to which it appears, or is purported, to relate and the signature page formed part of the original document when it was signed.
- 8.6 All official and unofficial information, confirmations or responses obtained from Government Authorities or provided to us by officers, employees or advisers of the Company, Erdenes Methane, Jade Australia or any Jade Group Company, are accurate, complete, up to date and not misleading in any way.
- 8.7 On the basis of Government Resolution No 143 dated 22 April 2020 approving the entry into of the Production Sharing Agreement between Erdenes Methane and MRPAM, we have assumed that Erdenes Methane has obtained all necessary approvals from all relevant Government Authorities (including MRPAM and the Ministry) and performed all of its obligations in order to enter into the Production Sharing Agreement with MRPAM.





- 8.8 On the basis of Government Resolution No 150 dated 14 October 2020, we have assumed that:
- (a) Erdenes Methane has obtained all of the necessary corporate approvals (including the approval that must be obtained from Erdenes Mongol or any other Government Authority under applicable laws and its own internal policies) to transfer its rights and obligations under the Production Sharing Agreement to Methane Gas Resource; and
  - (b) the Ministry has issued a proposal to the Government supporting the transfer of the rights and obligations under the Production Sharing Agreement from Erdenes Methane to Methane Gas Resource following receipt of the MRPAM Conclusion.
- 8.9 On the basis of the Ministerial Order, we have assumed that Methane Gas Resource has obtained all necessary corporate approvals (where required) and submitted true and complete originals and/or copies of all requisite documents to the relevant Government Authorities (including the Ministry) in order to obtain the Exploration Licence.
- 8.10 Any person or entity who has been held out by the Company, Erdenes Methane, Jade Australia or any Jade Group Company to be an executive director, director, secretary, officer, governing person, shareholder or agent of that company or who otherwise appears from information made available to us by Erdenes Methane, Jade Australia or any Jade Group Company to have acted in such a capacity has been duly appointed and has the proper authority to exercise the powers and perform the duties customarily exercised or performed by an executive director, director, secretary, officer, governing person, shareholder or agent of a similar company.
- 8.11 English translations of all documents provided to us are accurate.
- 8.12 There has been no arrangement, agreement or understanding under which the terms of any of the obligations under any Material Agreement (except for the Prospecting Agreement) are in whole or in part varied, waived or terminated.
- 8.13 None of Erdenes Methane, Jade Australia or any Jade Group Company has entered into a Material Agreement as a trustee.
- 8.14 Where we express our view on compliance (material or otherwise) with any obligation under the Material Agreements or any applicable law, our view:
- (a) relates only to obligations which have fallen due for performance and does not extend to future obligations; and
  - (b) is based on the information and responses provided to us by Erdenes Methane, Jade Australia and any Jade Group Company or any reference letter obtained from Government Authorities.
- We have not independently verified whether Jade Australia, each Jade Group Company or Erdenes Methane has, as a matter of fact, complied with such obligations.
- 8.15 All information recorded on the Mongolian Pledge Registry is complete, accurate and up to date.
- 8.16 The execution by Erdenes Methane and each Jade Group Company of the Material Agreements and the incurring by each of those companies of liabilities and obligations under the Material Agreements are *bona fide* in the interests of each of those companies and for a commercial benefit to that company which is commensurate with the obligations assumed by it under the Material Agreements, as the case may be.
- 8.17 Any documents provided to us in relation to the Material Agreements, any Jade Group Company or Erdenes Methane are authentic, were within the powers and capacity of those who executed them, were duly authorised, executed and delivered and are binding on the parties to them.
- 8.18 Erdenes Methane and each Jade Group Company:
- (a) was solvent immediately before and after the execution of any Material Agreement to which they are a party; and
  - (b) did not become insolvent because of entering into the Material Agreements to which it is a party.
- 8.19 No Insolvency Event has occurred in respect of Erdenes Methane or any Jade Group Company as at the date of this Report.



## 9. SOLICITORS' REPORT ON TENURE

- 8.20 Due execution and due delivery of all Material Agreements by all parties under all applicable laws.
- 8.21 The Material Agreements (except for the Prospecting Agreement) do or will constitute legal, valid, binding and enforceable obligations of the parties to them under applicable laws and have been authorised, executed and delivered by the relevant parties under the laws of Mongolia or such other laws as expressed in such documents to, or do, apply.
- 8.22 The Petroleum Tenements exist in accordance with the coordinates set out in Schedule 1 that form the 'Contract Areas' listed in the Production Sharing Agreement and no changes have been made to the coordinates of the Petroleum Tenements.
- 8.23 No person, entity or Governmental Authority in connection with any Material Agreement has engaged, or will engage, in fraudulent, unconscionable, misleading or deceptive conduct, which is likely to mislead or deceive, nor are there any facts or circumstances not evident on the face of the Material Agreements which would make any part of this Report incorrect.
- 8.24 Unless apparent from the Public Searches or the information provided to us in response to the Management Enquiries, we have assumed that Erdenes Methane and each Jade Group Company has complied with all of the requirements necessary to maintain the Production Sharing Agreement and the Exploration Licence in good standing.

### 9. Qualifications

This Report is subject to the following qualifications:

#### *Production Sharing Agreement*

- 9.1 Methane Gas Resource conducted the prospecting works under the Prospecting Agreement without being granted with any right (either at law or contract) to do so. Furthermore, as a matter of law, the legal entity which conducted the prospecting works should have submitted the Prospecting Work Report to MRPAM. Jade Australia has confirmed to us that the Prospecting Work Report was submitted by Erdenes Methane (which did not carry out the prospecting works) to MRPAM on or around 16 September 2019. Notwithstanding the breach of the Petroleum Law whereby Methane Gas Resource conducted prospecting works without proper authorisation and Erdenes Methane did not carry out the prospecting works submitted in the Prospecting Work Report to MRPAM, we consider the probability of the Production Sharing Agreement being challenged on that basis in the future to be low. This is because, the Government has approved the Production Sharing Agreement twice to i) authorise MRPAM to sign the Production Sharing Agreement with Erdenes Methane; and ii) the transfer of all of the rights and obligations under the Production Sharing Agreement from Erdenes Methane to Methane Gas Resource.
- 9.2 Erdenes Methane confirmed to us that no state budget exploration works for CBM have been conducted over the Petroleum Tenements. While both the Petroleum Law and the Production Sharing Agreement are silent in relation to the repayment of any state funded exploration works for unconventional petroleum, our verbal confirmation with MRPAM indicates to us that the costs of state budget exploration works (if any) for unconventional petroleum are included in the contract price (i.e. fees, expenses, royalties, cost recovery and production sharing) of a PSA. Accordingly, as a matter of law, the probability of additional payment obligations being imposed on a PSA contractor other than those specifically stated in the Petroleum Law or a PSA would be, in our view, low.
- 9.3 The Petroleum Tenements overlap with the Tavan Tolgoi strategic mine deposit which are currently held by Erdenes TT on the basis of coal mining licences. Pursuant to the Petroleum Law, in the case of overlapping tenements, licence holders (i.e. Erdenes TT, Erdenes Methane or Methane Gas Resource) are required to enter into an agreement setting out the basis for utilisation of the overlapping tenements whilst minimising disruption to each other's operations. Erdenes TT and Erdenes Methane have entered into the Cooperation Agreement regulating, amongst other things, matters relating to overlapping tenements (i.e. the Petroleum Tenements). We note, however, that the term of the Cooperation Agreement expired on or around 25 June 2021 and as a result that agreement is no longer in effect.

#### *Cooperation Agreement*

- 9.4 As the holder of the Exploration Licence, Methane Gas Resource is required to enter into a cooperation agreement with Erdenes TT regulating substantially the same matters as were regulated by the Cooperation Agreement to comply with the requirements under Article 42.3 of the Petroleum





Law. Methane Gas Resource has confirmed that it has not entered into such a cooperation agreement with Erdenes TT.

- 9.5 Whilst we have not had an opportunity to seek confirmations from the Government or MRPAM in relation to this matter prior to the issuance of this Report, Methane Gas Resource has confirmed to us that there are no ongoing or threatened disputes in connection with the Production Sharing Agreement or the overlapping petroleum tenements associated with the Tavan Tolgoi strategic mine deposit and we are not aware of any intention by the Government to suspend the TTJV Project and/or revoke the Production Sharing Agreement on the basis that Erdenes TT and Methane Gas Resource:
- (a) have failed to enter into a cooperation agreement as required by Article 42.3 of the Petroleum Law; or
  - (b) are unable to amicably operate in overlapping areas without disrupting the operations of one another.<sup>3</sup>
- 9.6 Given that neither the Petroleum Law nor the Production Sharing Agreement specify any timeframe within which Methane Gas Resource is required to enter into a cooperation agreement with Erdenes TT, our view is that the likelihood of MRPAM or the Government taking any action to initiate or propose the termination of the Production Sharing Agreement or the Exploration Licence due to a failure by Methane Gas Resource to enter into a cooperation agreement with Erdenes TT by the date of this Report, is low.
- 9.7 As a matter of Mongolian law, petroleum licences and coal mining licences can be issued over the same area and are issued independently of each other and are regulated in accordance with the Minerals Law and Petroleum Law, respectively. Accordingly, in our view, the validity of one licence will not affect the validity of the other licence. This means that, the termination or revocation of the coal mining licences of Erdenes TT would not affect the validity and good standing of the Production Sharing Agreement or the Petroleum Tenements given that petroleum rights are independent from the underlying mineral licences. Given this CBM project is the first of its kind in Mongolia, we are not aware of any incident where any petroleum rights (i.e. PSAs or petroleum licences) have been revoked based on the validity and good standing of the underlying coal mining licences. In this regard, we consider the probability of any Government Authority taking such action in the future to be low.

*Exploration work plan and budget*

- 9.8 MRPAM's letter dated 15 September 2020 referred to in paragraph 2 of Schedule 3 states that Erdenes Methane has not submitted the exploration work plan and budget for the first exploration year which is in breach of clause 7.3.1 of the Production Sharing Agreement. Whereas, Erdenes Methane stated in its response to the Due Diligence Questionnaire that it submitted the exploration work plan and budget to MRPAM on 23 September 2020.
- 9.9 Under clause 7.3.1 of the Production Sharing Agreement, the contractor is obliged to submit the exploration work plan and budget for the first exploration year within 120 calendar days following the date on which the Production Sharing Agreement is executed between the parties. Under clause 2.1.7 of the Production Sharing Agreement, the term '*the date on which the Production Sharing Agreement is executed*' is defined as 'the date on which the exploration licence is granted by the Ministry'. Based on a literal reading of clause 2.1.7 of the Production Sharing Agreement the requirement to file the respective programme and budget within 120 days does not commence until the date on which the Exploration Licence is issued to Methane Gas Resource. However, we note that the exploration work plan for the given year must be filed with the Ministry in order to obtain the Exploration Licence from the Ministry in accordance with Article 18.2.3 of the Petroleum Law.
- 9.10 Notwithstanding the above, clause 20.1 of the Production Sharing Agreement provides the following grounds for termination of the Production Sharing Agreement:
- (a) a failure by a contractor to commence the exploration works within 180 days after the date on which the Production Sharing Agreement is executed;
  - (b) a failure by a contractor to perform its obligations or the contractor has repeatedly or seriously violated the terms of the Production Sharing Agreement and failed to remedy such breaches within the timeframe set by MRPAM to remedy such breaches; and

<sup>3</sup> Refer to paragraph 7.60 of this Report which deals with the circumstances under which the Government may terminate the operations of a licence holder where its tenement overlaps with the tenement of another licence holder.



## 9. SOLICITORS' REPORT ON TENURE

- (c) a failure by a contractor to remedy or begin to remedy the breaches within 30 days following the notification in writing to the contractor by the Government of its intention to terminate the Production Sharing Agreement.

9.11 It is possible that MRPAM may interpret *'the date on which the Production Sharing Agreement is executed'* under the Production Sharing Agreement differently and there is therefore a risk that MRPAM may form the view that Erdenes Methane, prior to transferring its rights and obligations under the Production Sharing Agreement to Methane Gas Resource, was in breach of clauses 7.3.1 (*'Approval of the exploration work plan and budget within 120 days following the date on which the Production Sharing Agreement is executed'*) and 20.1.1 (*'Termination Ground – failure to commence exploration work plan and budgeted works within 180 days following the date on which the Production Sharing Agreement is executed'*) of the Production Sharing Agreement which would constitute repeated breaches of the Production Sharing Agreement.

9.12 We are, however, not aware of any intention on the part of MRPAM to take any action to initiate or propose the termination of the Production Sharing Agreement and the Exploration Licence. Furthermore, considering the Government Approval, the approval of the Exploration Work Plan and Budget for 2021 and the issuance of the Exploration Licence by the Ministry to Methane Gas Resource, we consider the probability of it doing so in the future to be low.

### *Commencement of exploration term*

9.13 The 'exploration period' commences from the date on which the Production Sharing Agreement is executed pursuant to Article 18.6 of the Petroleum Law. Furthermore, as per clause 7.1.1 of the Production Sharing Agreement, the exploration period will be 10 years from the date on which the Production Sharing Agreement is executed. In this regard, the Production Sharing Agreement contains two contradicting clauses:

- (a) clause 25.4.1 of the Production Sharing Agreement provides that the Production Sharing Agreement will be effective once the parties have executed it;
- (b) whereas, clause 2.1.7 of the Production Sharing Agreement sets the term as *'the date on which the Production Sharing Agreement is executed'* which is defined as the date on which the exploration licence is granted by the Ministry.

This inconsistency in the terms used in the Production Sharing Agreement may affect the calculation of the exploration period. In relation to this issue, we express no view as to the likelihood of the interpretation to be adopted by MRPAM, the Ministry or the Government.

### *Payment of fees*

9.14 We understand that Methane Gas Resource did not pay:

- (a) the Transfer Fee into the state budget before 14 November 2020 (being the date 30 calendar days following the date of the Government Approval);
- (b) the Training Bonus to MRPAM before 14 April 2021 (being the date 30 calendar days following the issuance of the Exploration Licence); and
- (c) the Representative Office Fee to MRPAM before 14 April 2021 (being the date 30 calendar days following the issuance of the Exploration Licence).

9.15 As at the date of this Report, Methane Gas Resource has confirmed that it has not yet paid the Local Development Bonus. Pursuant to clause 13.6.2 of the Production Sharing Agreement and as stated in paragraph 9.9 above and for the purpose of clause 2.1.7 of the Production Sharing Agreement, Methane Gas Resource was required to pay the Local Development Bonus within 30 calendar days following the issuance of the Exploration Licence (i.e. by 14 April 2021).

9.16 Under Articles 12.1.4 and 12.1.5 of the Petroleum Law, the Government is entitled to terminate a production sharing agreement in circumstances where a contractor (such as Methane Gas Resource) fails to comply with its obligations (including the payment of fees within the statutorily prescribed timeframe) under the Production Sharing Agreement.

9.17 As at the date of this Report based on the confirmations provided by Methane Gas Resource under the Management Enquiries, we are not aware of any intention on the part of the Government to take any





action to initiate or propose the termination of the Production Sharing Agreement or the Exploration Licence on the basis of the late payment of the fees described in paragraphs 9.14 and 9.15.

- 9.18 In connection with the Transfer Request, we understand that MRPAM proposed to Erdenes Methane that it should enter into an additional agreement contemplating the terms of negotiation between the parties to the Production Sharing Agreement and that the purpose of this proposal was to increase the quantum of the royalty payable and CBM allocated to the Government in circumstances where Erdenes Methane refuses to continue to hold its interest in Methane Gas Resource and opts to transfer its interest to either an investor or a third party. It is our understanding that Erdenes Methane rejected MRPAM's proposal on the basis that such an additional agreement or amendments to the Production Sharing Agreement could:

- (a) suppress investor-interest in the TTJV Project;
- (b) adversely impact its ability to attract investment from capital markets; and/or
- (c) be resolved later on in accordance with applicable laws and directions issued by the Government in circumstances where Erdenes Methane refuses to continue to hold its interest in Methane Gas Resource.

Under clause 25.4.2 of the Production Sharing Agreement the parties may make amendments by mutual agreement, in writing and subject to Government approval. In this regard, we express no view on the prospects or likelihood of any proposal by MRPAM or the Government to amend the Production Sharing Agreement or entry into any additional agreement in the future.

- 9.19 Under clause 9.4 of the Methane Gas Shareholders Agreement and clause 7.4 of the BN Shareholders Agreement, the parties are obliged to provide written notification to the other party within five (5) working days following the occurrence of a 'change of control event'. Neither agreement defines what constitutes a 'change of control event'. As such, we express no view on whether the Proposed Transaction would constitute a change of control event under either of the Methane Gas Shareholders Agreement or the BN Shareholders Agreement.

- 9.20 We have requested from Jade Australia but have not been provided with any corporate authorisation issued by Methane Gas Resource approving the acceptance of the transfer of all of the rights and obligations under the Production Sharing Agreement from Erdenes Methane and entry on the Tripartite Agreement. As a matter of Mongolian law and unless the charter of Methane Gas Resource specifically authorises a governing person (i.e. the executive director) to act on behalf of the company, Methane Gas Resource will need to issue approve or ratify, amongst other things:

- (a) entry into the Tripartite Agreement;
- (b) acceptance of the transfer of all of the rights and obligations of Erdenes Methane under the Production Sharing Agreement; and
- (c) authorise someone to sign the Tripartite Agreement and other necessary documents on Methane Gas Resource's behalf to give effect to the transfer of the rights and obligations under the Production Sharing Agreement from Erdenes Methane to Methane Gas Resource.

#### *Local Tripartite Agreement*

- 9.21 Pursuant to clause 13.6.3 of the Production Sharing Agreement, Methane Gas Resource is required to enter into the Local Tripartite Agreement. Methane Gas Resource has confirmed that it has not entered into the Local Tripartite Agreement but that a draft of such agreement is being prepared.

- 9.22 Whilst we have not had an opportunity to seek confirmations from the Government or MRPAM in relation to this matter prior to the issuance of this Report, we are not aware of any intention by the Government to suspend the TTJV Project and/or revoke the Production Sharing Agreement on the basis that Methane Gas Resource has failed to enter into the Local Tripartite Agreement. Given that neither the Petroleum Law nor the Production Sharing Agreement specify any timeframe within which Methane Gas Resource is required to enter into the Local Tripartite Agreement, our view is that the likelihood of MRPAM or the Government taking any action to initiate or propose the termination of the Production Sharing Agreement or the Exploration Licence due to a failure by Methane Gas Resource to enter into the Local Tripartite Agreement by the date of this Report, is low.

#### *Public Searches*



## 9. SOLICITORS' REPORT ON TENURE

- 9.23 The documents provided by SRO referred to in paragraphs 1, 12, 20, 30 and 40 of Schedule 3 and the information provided to us in response to the Management Enquiries are not conclusively capable of revealing whether or not any Insolvency Event has occurred in respect of a Jade Group Company or Erdenes Methane. A company must file a notice of its decision to liquidate itself with LERO within 15 working days following the making of such a decision. Jade Australia has confirmed to us that no such decision has been issued by any Jade Group Company or filed with LERO. In practice, notice of these matters may not be filed with LERO immediately and when filed, may not be disclosed immediately. In addition, any public search is not capable of revealing, prior to the making of the relevant order, whether or not a liquidation application has been made.
- 9.24 There is no register and no publicly available information prior to the court making an order to commence bankruptcy proceedings in respect of a Mongolian company. Notice of these matters is only required to be made public by the court within seven days of the issuance of the court decision that the company is insolvent. Accordingly, the confirmation letters referred to in paragraphs 16, 23, 33 and 44 of Schedule 3 are not conclusively capable of revealing whether or not any Insolvency Event has occurred in respect of a Jade Group Company.
- 9.25 We express no view as to whether any Insolvency Event has occurred in relation to Erdenes Methane.
- 9.26 The reference letters referred to in items 15, 16, 17, 22, 23, 24, 32, 33, 34, 42, 44 and 45 of Schedule 3 and the information provided to us in response to the Management Enquiries are not capable of revealing whether there are any ongoing or pending proceedings in relation to any disputes (including arbitration, civil and administrative) against each Jade Group Company. This is because those reference letters only confirm that a Jade Group Company has not participated in disputes in the past and does not confirm that these entities are not subject to any ongoing or threatened disputes.
- 9.27 Searches of the Mongolian Pledge Registry may not be accurate and up to date. Furthermore, as the register is reliant on registrations being filed by pledgees of relevant collateral to perfect any underlying security over movable properties, the register is not, in its current form, conclusively capable of revealing whether or not any Encumbrances exist in relation to the issued share capital of the Jade Group Companies.
- 9.28 The information in this Report is accurate as at the date the relevant Public Searches were made and responses to the Management Enquiries were obtained. We have assumed the relevant databases and registers have been properly and accurately recorded, updated and maintained. We have not verified whether any changes have occurred in respect of the Material Agreements between the dates on which the Public Searches were made and the responses to the Management Enquiries were obtained and the date of this Report.
- 9.29 Unless specifically otherwise stated in this Report, we have not conducted any searches on or provided a view (nor have we been instructed to do so) in relation to any issues concerning Erdenes Methane.

### *General*

- 9.30 Under the *Investment Law of Mongolia* (2013), the Proposed Transaction may require approval from Mongolia's National Development Agency if as a result of the Proposed Transaction an entity which is more than 50% owned by a foreign government (including through a sovereign wealth fund or other state owned vehicle and whether through a single or multiple holdings) is to indirectly hold 33% or more of the shares in Methane Gas Resource. Jade Australia has confirmed to us that the Proposed Transaction will not result in such ownership changes.
- 9.31 We have not calculated, verified or reconciled the adequacy of any figure or amount in any documents provided to us relating to any minimum work obligations or other financial commitments owed by any party under a Material Agreement or any applicable law. Rather we have relied solely on the documents and confirmations provided by Jade Australia or Erdenes Methane, as relevant, and the reference letter obtained from MRPAM referred to in item 2 of Schedule 3 and information and provided in response to the Management Enquiries.
- 9.32 Where any licence or permit of a Government Authority is (or was) required for the commencement of either Mongolian Project, we express no view as to whether such licence or permit will be (or was) granted, or the consequences of such licence or permit being refused.
- 9.33 This Report does not cover any third party interests, including any Encumbrances, in relation to the rights under the Production Sharing Agreement that are not apparent from our Public Searches and the information provided to us.





- 9.34 On the basis of the results of the Public Searches and confirmations provided to us by Government Authorities and any Jade Group Company (including those in response to the Management Enquiries), we are not aware of any *material* breaches of the Material Agreements or any other circumstances that would prevent Jade Australia or any Jade Group Company from earning their proposed rights and interest under the Material Agreements.
- 9.35 References in this Report relating to the description of the Petroleum Tenements are obtained from and rely on the details set out in the Production Sharing Agreement. We express no view on the accuracy of those details which from a technical perspective are beyond our expertise.
- 9.36 We have not been instructed to conduct (and therefore have not conducted) any searches regarding environmental compliance by any Jade Group Company or Erdenes Methane in relation to the activities under the Production Sharing Agreement or over the Petroleum Tenements.
- 9.37 We have not verified whether any internal or external limitation on the powers of the signatories to bind Erdenes Methane, Jade Australia or any Jade Group Company have been exceeded. On the basis of the documents that we have examined (as listed in paragraph 5.1 above), we are not aware of any such limitation.
- 9.38 We express no view:
- (a) on taxation, actuarial or accounting matters; or
  - (b) as to any provision of any document that purports to bind a person not a party to the document.
- 9.39 Many of the laws of Mongolia are uncertain and, in most cases, untested. The courts of Mongolia are unpredictable and decisions may not necessarily reflect the better interpretation of Mongolian law.
- 9.40 Other than the matters contemplated under the Scope, no additional work has been performed by us in preparing this Report. We have not conducted any enquiries regarding legal matters which may impact the Production Sharing Agreement, the Exploration Agreement and the Petroleum Tenements beyond the Scope.
- 9.41 No qualification limits any other qualification.

## 10. Mongolian law

- 10.1 Mongolian law prohibits foreign lawyers from practising Mongolian law or giving legal opinions on matters of Mongolian law. In this Report:
- (a) Minter Ellison LLP's advice is limited to how the Mongolian legal environment will impact on the matters set out in the Scope based on Minter Ellison LLP's experience in dealing with similar matters in Mongolia, its discussions with Mongolian government officials and its monitoring of Mongolian laws and regulations; and
  - (b) Mongolian law advice and formal Mongolian law legal opinions are provided by Mongolian-qualified lawyers at ME MGL Advocates LLP, the undersigned firm of Mongolian qualified lawyers co-located in the offices of Minter Ellison LLP.

## 11. Liability

Our liability under this Report is limited in accordance with the terms of our engagement letter with the Company dated 26 July 2019.

## 12. Consent

This Report is given for the benefit of those persons and entities and in the circumstances described in paragraphs 3.1 and 3.2 and is not to be disclosed to any other person or used for any other purpose or quoted or referred to in any public document or filed with any government body or other person without our prior written consent.

Yours faithfully,



## 9. SOLICITORS' REPORT ON TENURE

### MINTER ELLISON LLP



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## Schedule 1 – Description of the Petroleum Tenements

### Location:

No	City, province	Soum, district
1	Umnugovi: 66435.51 hectare	Tsogtsetsii: 65667.88 hectare
		Khankhongor: 767.63 hectare

### Coordinates:

Multi-angle	#	Longitude			Latitude		
		grad	min	sec	grad	min	sec
EX1	1	105	45	1.33	43	43	1.41
EX1	2	105	45	1.31	43	33	1.4
EX1	3	105	16	1.23	43	33	1.4
EX1	4	105	16	1.26	43	43	1.41
EX1	5	105	32	38.33	43	43	1.41
EX1	6	105	32	38.33	43	42	31.42
EX1	7	105	36	23.33	43	42	31.42
EX1	8	105	36	23.33	43	43	1.41
EX1In1	1	105	26	51.25	43	39	19.42
EX1In1	2	105	32	31.32	43	39	19.42
EX1In1	3	105	32	31.33	43	41	25.4
EX1In1	4	105	26	51.25	43	41	25.42
EX1In2	1	105	27	55.23	43	35	36.42
EX1In2	2	105	30	51.33	43	35	36.39
EX1In2	3	105	30	51.33	43	38	46.4
EX1In2	4	105	27	55.24	43	38	46.42

**Total area:** 66435.51 Hectare or 664,3 km<sup>2</sup>



## Schedule 2 – Material Agreements

No	Document	Date	Original/ copy	Language
1.	Tripartite Agreement	11 December 2020	Copy	English and Mongolian
2.	Production Sharing Agreement	6 May 2020	Copy	English and Mongolian
3.	Methane Gas Shareholders Agreement	20 May 2019	Copy	English and Mongolian
4.	TTJV Project Investment Agreement	20 May 2019	Copy	English and Mongolian
5.	BN Shareholders Agreement	14 August 2019	Copy	English
6.	BN Project Investment Agreement	14 August 2019	Copy	English and Mongolian
7.	Cooperation Agreement	25 June 2019	Copy	Mongolian





## Schedule 3 – Reference letters received from Government Authorities

No	Document	Date	Original/ Copy	Language
<b>1. Erdenes Methane</b>				
1.	Reference Letter No. 3416 from LERO	16 September 2020	Copy	Mongolian
2.	Reference Letter No. 3/4225 from MRPAM in response to Erdenes Methane's Letter No. 01/67 dated 7 September 2020	15 September 2020	Copy	Mongolian
3.	Request Letter No. 01/34 from Erdenes Methane addressed to MRPAM	12 May 2020	Copy	Mongolian
4.	Conclusion issued by MRPAM in relation to the transfer of the rights and obligations under the Production Sharing Agreement	11 June 2020	Copy	Mongolian
5.	Reference Letter No. 01/44 from Erdenes Methane addressed to MRPAM	26 June 2020	Copy	Mongolian
6.	Reference Letter No. 01/42 from Erdenes Methane addressed to MRPAM	8 June 2020	Copy	Mongolian
7.	Reference Letter No. 9/2620 from MRPAM addressed to Erdenes Methane	3 June 2020	Copy	Mongolian
8.	Reference Letter No. 01/39 from Erdenes Methane addressed to MRPAM	28 May 2020	Copy	Mongolian
9.	Reference Letter No. 01/37 from Erdenes Methane addressed to MRPAM	22 May 2020	Copy	Mongolian
10.	Reference Letter No. 01/19 from Erdenes Methane addressed to MRPAM	12 May 2020	Copy	Mongolian
11.	Reference Letter No. 03/1730 from the Ministry addressed to Erdenes Methane	5 July 2021	Copy	Mongolian
<b>2. Jade Gas Mongolia</b>				
12.	Reference Letter No. 08534 from LERO together with copies of the documents from the Central Archive of SRO	29 June 2021	Original	Mongolian
13.	Reference Letter from the General Tax Authority	18 August 2020	Original	Mongolian
14.	Reference Letter No. 1744 from the Social Insurance Office of Sukhbaatar District	14 August 2020	Original	Mongolian
15.	Reference Letter No. 4714 from the Capital City First Instance Administrative Court	2 July 2021	Original	Mongolian
16.	Reference Letter No. 1/8638 from the Special Archive of Courts at the Judicial General Council of Mongolia	25 June 2021	Original	Mongolian
17.	Reference Letter No. 4/843 from the MIAC	23 June 2021	Original	Mongolian
18.	Reference Letter No. 0015400 from the Court Decision Enforcement Authority	23 June 2021	Original	Mongolian
<b>3. Jade Methane</b>				
19.	Reference Letter No. 02-01/3441 from the Capital City Inspection Office	24 August 2020	Original	Mongolian
20.	Reference Letter No. 08538 from LERO together with copies of the documents from the Central Archive of SRO	29 June 2021	Original	Mongolian



## 9. SOLICITORS' REPORT ON TENURE

No	Document	Date	Original/ Copy	Language
21.	Reference Letter from the General Tax Authority	18 August 2020	Original	Mongolian
22.	Reference Letter No. 4716 from the Capital City First Instance Administrative Court	2 July 2021	Original	Mongolian
23.	Reference Letter No. 1/8636 from the Special Archive of Courts at the Judicial General Council of Mongolia	25 June 2021	Original	Mongolian
24.	Reference Letter No. 4/841 from the MIAC	23 June 2021	Original	Mongolian
25.	Reference Letter No. 0015398 from the Court Decision Enforcement Authority	23 June 2021	Original	Mongolian
26.	Reference Letter No. 1743 from the Social Insurance Office of Sukhbaatar District	14 August 2020	Original	Mongolian
<b>4. Methane Gas Resource</b>				
27.	Reference Letter No. 6/441 from the Inspection Authority of Umnugovi Province	2 September 2020	Original	Mongolian
28.	Reference Letter No. 224 from the Environment and Tourism Authority of Umnugovi Province.	25 August 2020	Original	Mongolian
29.	Reference Letter No. 6/5953 from the Ministry of Environment and Tourism	28 August 2020	Original	Mongolian
30.	Reference Letter No. 08536 from LERO together with copies of the documents from the Central Archive of SRO	29 June 2021	Original	Mongolian
31.	Reference Letter No. 1745 from the Social Insurance Office of Sukhbaatar District	14 August 2020	Original	Mongolian
32.	Reference Letter No. 4717 from the Capital City First Instance Administrative Court	1 July 2021	Original	Mongolian
33.	Reference Letter No. 1/8637 from the Special Archive of Courts at the Judicial General Council of Mongolia	25 June 2021	Original	Mongolian
34.	Reference Letter No. 4/842 from the MIAC	23 June 2021	Original	Mongolian
35.	Reference Letter No. 0015397 from the Court Decision Enforcement Authority	23 June 2021	Original	Mongolian
36.	Reference Letter from the General Tax Authority	18 August 2020	Original	Mongolian
37.	Government Resolution No 143 approving the entry into the Production Sharing Agreement with Erdenes Methane	22 April 2020	Copy	Mongolian
38.	Government Resolution No. 150 approving the transfer of all of the rights and obligations under the Production Sharing Agreement from Erdenes Methane to Methane Gas Resource	14 October 2020	Copy	Mongolian
39.	Reference Letter No. 03/758 from the Ministry	30 March 2021	Copy	Mongolian
<b>5. Baruun Naran</b>				
40.	Reference Letter No.08530 from LERO together with copies of the documents from the Central Archive of SRO	29 June 2021	Original	Mongolian
41.	Reference Letter from the General Tax Authority	18 August 2020	Original	Mongolian
42.	Reference Letter No. 4/844 from the MIAC	23 June 2021	Original	Mongolian
43.	Reference Letter No. 0015399 from the Court Decision Enforcement Authority	23 June 2021	Original	Mongolian
44.	Reference Letter No. 1/8639 from the Special Archive of Courts at the Judicial General Council of Mongolia	25 June 2021	Original	Mongolian
45.	Reference Letter No. 4718 from the Capital City First Instance Administrative Court	1 July 2021	Original	Mongolian





## Schedule 4 – Definitions

**Assignment Agreement** means an assignment agreement between Erdenes Methane and Methane Gas Resource in relation to the payment of the Transfer Fee by Methane Gas Resource dated 14 December 2020.

**AUD\$** means Australian Dollars, the lawful currency of Australia.

**Baruun Naran** means Baruun Naran Gas LLC (Registration Number 6476635), a limited liability company established under the laws of Mongolia.

**BN Project** means a project to prospect, explore, develop and extract CBM from Baruun Naran (MV-014493) and Tsaikhar Khudag (MV-017336) coal mining licence areas of Khangad Exploration located in Mongolia.

**BN Project Investment Agreement** means the investment and management agreement No. KH-19-018 between Jade Gas Mongolia and Khangad Exploration in respect of Baruun Naran dated 14 August 2019.

**BN Shareholders Agreement** means the shareholders agreement No. KH-19-017 between Jade Gas Mongolia and Khangad Exploration in relation to the BN Project dated 14 August 2019.

**Breach Law** means the *Law on Breach of Mongolia* (2015).

**Business** means the exploration and exploitation of CBM from the Mongolian Projects.

**CBM** means coal bed methane.

**Company** means High Grade Metals Ltd (ACN 062 879 583), an Australian public company limited by shares established under the laws of Australia.

**Cooperation Agreement** means a cooperation agreement between Erdenes TT and Erdenes Methane dated 25 June 2019.

**Due Diligence Questionnaire** means the due diligence questionnaire administered by MinterEllison to the Jade Group Companies and Erdenes Methane on or about 22 July 2020.

**Encumbrance** includes a mortgage, charge, lien, restriction against transfer, security, pledge, encumbrance or any other third party interest.

**Erdenes Methane** means Erdenes Methane LLC (Registration Number 6049516), a limited liability company established under the laws of Mongolia.

**Erdenes Mongol** means Erdenes Mongol LLC (Registration Number 5124913), a limited liability company established under the laws of Mongolia.

**Erdenes TT** means Erdenes Tavan Tolgoi JSC (Registration Number 5435528), a joint stock company established under the laws of Mongolia.

**Exploration Licence** means a special licence No. 628 dated 15 March 2021 issued by the Ministry to Methane Gas Resource for conducting exploration of CBM.

**Exploration Work Plan and Budget for 2021** has the meaning given to it under paragraph 6.18 of this Report.

**External Administrator** means a provisional executor, executor, liquidation committee, provisional liquidator, liquidator or any other person (however described) holding or appointed to an analogous office or acting or purporting to act in an analogous capacity.

**Government** means the Government of Mongolia.

**Government Approval** has the meaning given to it under paragraph 6.11 of this Report.

**Government Authority** means any government or local (aimag or soum) authority and any ministry, department or agency of any government or quasi-governmental authority in Mongolia.

**Insolvency Event** means any one or more of the following events in respect of a person or a legal entity:

- (a) it is insolvent, or informs creditors generally that it is insolvent;
- (b) a claim has been submitted to the court to commence a bankruptcy case;
- (c) the LERO registers the termination of the company and it is removed from the State Register of Companies;
- (d) it is the subject of a Liquidation, or an order or an application is made for its Liquidation;
- (e) an effective resolution is passed or meeting summoned or convened to consider a resolution for its Liquidation;



## 9. SOLICITORS' REPORT ON TENURE

- (f) an External Administrator is appointed to it or a step is taken to do so;
- (g) it has not satisfied the obligation to pay an amount equal to not less than 10% of its share capital at the time required by contract or by law;
- (h) a step is taken to cancel its registration; and
- (i) an analogous or equivalent event to that listed above occurs in any jurisdiction.

**Jade Australia** means Jade Gas Pty Ltd (ACN 631 515 225), an Australian proprietary company, limited by shares established under the laws of Australia.

**Jade Gas Mongolia** means Jade Gas Mongolia LLC (Registration Number 6432581), a foreign invested limited liability company established under the laws of Mongolia.

**Jade Group Companies** means the following Mongolian entities:

- (a) Jade Gas Mongolia;
- (b) Jade Methane;
- (c) Methane Gas Resource; and
- (d) Baruun Naran.

**Jade Methane** means Jade Methane LLC (Registration Number 6432522), a foreign invested limited liability company established under the laws of Mongolia.

**Khangad Exploration** means Khangad Exploration LLC (Registration Number 2887134), a limited liability company established under the laws of Mongolia.

**LERO** means the Legal Entities Registration Office of the General Authority for the State Registration of Mongolia.

**Liquidation** means a winding up, dissolution, liquidation, provisional liquidation, administration, bankruptcy or other proceeding for which an External Administrator is appointed, or an analogous or equivalent event or proceeding in any jurisdiction.

**Litigation** includes civil and administrative proceedings in any court of Mongolia as well as any proceedings in MIAC.

**Local Tripartite Agreement** has the meaning given to it under paragraph 6.25 of this Report.

**Local Development Bonus** has the meaning given to it under paragraph 6.17 of this Report.

**Management Enquiries** has the meaning given in paragraph 4.1(b) of this Report.

**Material Agreements** means the agreements set out in Schedule 2 of this Report.

**Methane Gas Resource** means Methane Gas Resource LLC (Registration Number 6435254), a limited liability company established under the laws of Mongolia.

**Methane Gas Shareholders Agreement** means the shareholders agreement No. 02/2019 between Erdenes Methane and Jade Methane in relation to Methane Gas Resource dated 20 May 2019.

**MIAC** means the Mongolian International Arbitration Centre.

**Minerals Law** means the *Minerals Law of Mongolia* (2006).

**Ministerial Order** means the order No. A/47 of the Minister of Mining and Heavy Industry dated 15 March 2021 approving the issuance of the Exploration Licence to Methane Gas Resource.

**Ministry** means the Ministry of Mining and Heavy Industry and its predecessors and successors.

**MinterEllison** means MinterEllison LLP and ME MGL Advocates LLP.

**MNT** means Mongolian Togrogs, the lawful currency of Mongolia.

**Mongolian Pledge Registry** means the electronic pledge registration database created pursuant to the *Law of Mongolia on the Pledge of Movable Properties and Intangible Assets* (2015).

**Mongolian Projects** means the BN Project and the TTJV Project.

**MRPAM** means the Minerals Resources and Petroleum Authority of Mongolia.

**MRPAM Conclusion** has the meaning given to it under paragraph 6.10 of this Report.

**Petroleum Law** means the *Petroleum Law of Mongolia* (2014).

**Petroleum Tenements** means the contract areas covered under the Production Sharing Agreement.





**Production Sharing Agreement** means the production sharing agreement entered into between MRPAM and Erdenes Methane on 6 May 2020.

**Proposed Transaction** means the acquisition by HGML of the total issued share capital of Jade Australia, and consequently the acquisition of its relevant subsidiaries (including each of the Jade Group Companies).

**Prospecting Agreement** means the prospecting agreement entered into between MRPAM and Erdenes Methane on 24 February 2017.

**Prospecting Work Report** means a written document that is required to be filed with MRPAM and which, subject to approval by the Technical Committee, serves as a record of the prospecting works conducted on the relevant petroleum tenements.

**Prospectus** means the formal document that is required by and filed with the Australian Securities Exchange that provides details about an investment offering for sale to the public.

**PSA** means a production sharing agreement as contemplated under the Petroleum Law.

**Public Searches** has the meaning given to it under paragraph 4.1(a) of this Report.

**Reclamation Fund Fee** has the meaning given to it under paragraph 6.19 of this Report.

**Report** means this solicitors' report.

**Representative Office Fee** has the meaning given to it under paragraph 6.16 of this Report.

**Resolution 295** means government resolution No. 295 on the '*Rules on Regulating Relations of Exploring and Exploiting Unconventional Oil*' dated 7 July 2015.

**Revised CIT Law** means the *Corporate Income Tax Law of Mongolia* (2019).

**Scope** has the meaning given to it under paragraph 1.8 of this Report.

**SRO** means the General Authority of the State Registration of Mongolia.

**Technical Committee** has the meaning given to it under paragraph 6.3 of this Report.

**Tender Regulation** means the Regulation on Tender for Contractor adopted by Resolution No. 202 of the Minister of Mining dated 12 September 2019.

**Transfer Fee** has the meaning given to it under paragraph 6.13 of this Report.

**Transfer Request** has the meaning given to it under paragraph 6.9 of this Report.

**Training Bonus** has the meaning given to it under paragraph 6.15 of this Report.

**Tripartite Agreement** means a tripartite agreement entered into between Erdenes Methane, Methane Gas Resource and MRPAM transferring all of the rights and obligations of Erdenes Methane under the Production Sharing Agreement to Methane Gas Resource dated on or around 11 December 2020.

**TTJV Project** means a project to prospect, explore, develop and extract CBM from the Tavan Tolgoi coal deposit.

**TTJV Project Investment Agreement** means the investment agreement No. 01/2019 between Erdenes Methane and Jade Methane in relation to the TTJV Project dated 20 May 2019.

**US\$** means United States Dollars, the lawful currency of the United States of America.





## 10. KEY PEOPLE, INTERESTS AND BENEFITS

### 10.1 Board of Directors

On and from completion of the Transaction the Board will be reconstituted as follows:

- Joseph Patrick Burke will join the Board as an Executive Director and Daniel William Eddington will join the Board as a Non-Executive Director, both as nominees of Jade;
- Anthony David Hall, Bradley James Drabsch and Dennis James Morton will remain as Directors of the Company, with Anthony David Hall and Bradley James Drabsch to transition to Non-Executive positions, with Anthony David Hall remaining as Chairman; and
- Steven Allen Formica and Adrien Michele Wing will retire as Directors. Adrien Michele Wing to remain as company secretary.

A biography for each of the existing and proposed Directors is set out below.

#### ***Joseph Patrick Burke (proposed Executive Director)***

Mr Burke is proposed to be appointed as an Executive Director on and from completion of the Transaction.

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. 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).

Mr Burke holds an MBA from the Australian Graduate School of Management (AGSM).

As an Executive Director Mr Burke is not considered to be independent.

#### ***Daniel William Eddington (proposed Non-Executive Director)***

Mr Eddington is proposed to be appointed as a Non-Executive Director on and from completion of the Transaction.

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.

Mr Eddington has a Bachelor of Commerce Degree from The University of South Australia and a Graduate Diploma in Applied Finance & Investment from the Securities Institute of Australia.

Mr Eddington is a Director of Sparc Technologies Limited.

As an associate of Jade Vendors and a substantial shareholder in combination with his associates at relisting, Mr Eddington is not considered to be independent.

#### ***Bradley James Drabsch – current Executive Director, to transition to Non-Executive Director***

Mr Drabsch is a qualified geologist with over 20 years' experience in the mineral exploration industry. Mr Drabsch has acted as Managing Director, Director and Exploration Manager along with technical roles in his earlier career. Mr Drabsch has previously acted as Managing Director of DiscovEx Resources Limited (ASX:DCX) and Trek Metals Ltd (ASX:TKM), is a founding Director of Centrepeak Resources Group Pty Ltd (CRG) a niche resources investment company which led the back door listing of gold development company Capricorn Metals Ltd (ASX:CMM). Mr Drabsch has previously worked as Exploration Manager for Doray Minerals Ltd (ASX:DRM), Montezuma Mining Company Limited (ASX:MZM) and Duketon Mining Ltd (ASX:DKM) and in key exploration roles for Ivanhoe Mines Ltd (TSX:IVN) in Mongolia and Independence Group NL (ASX:IGO). Mr Drabsch is currently the chair of Megada Gold Limited, an ASX listed company with gold exploration projects in Ethiopia and maintains his own geological consultancy.

As a current Executive who will transition to a Non-Executive position at or about Listing, Brad Drabsch is not considered to be an independent Director.





***Anthony David Hall – current Executive Chairman, to transition to Non-Executive Chairman***

Mr Hall is a qualified lawyer with over 20 years commercial experience in venture capital, risk management, strategy and business development. In addition to being the Chairman of High Grade Metals Limited since February 2019, Anthony is an Executive Director of American Pacific Borates Limited and managed its listing process on the ASX in 2017. Prior to his role with American Pacific Borates Anthony spent five years as the initial Managing Director of ASX listed Highfield Resources Limited taking it from a \$10m IPO valuation to an ASX300 company.

Anthony Hall will remain as Chairman following completion of the Transaction, albeit in a Non-Executive capacity. As a current Executive who will transition to a Non-Executive position at or about relisting, Anthony Hall is not considered to be an independent Director.

***Dennis Morton – ongoing Non-Executive Director***

Mr Morton is a geologist with extensive experience in the management of oil and gas companies. He is currently the Managing Director of ASX listed company Gas2Grid Limited (2008-2020) with current and past assets in Australian, NZ, Philippines and France.

Mr Morton was a founder and CEO and Managing Director of ASX listed Eastern Star Gas Limited (2000-2007). The Company's assets included coal seam gas and conventional petroleum projects at Narrabri and elsewhere in NSW and also in Victoria.

Prior to his role at Eastern Star Gas, Mr Morton worked for companies including Eastern Energy Australia Pty Ltd, Hartogen Group of Companies and Esso / Exxon where his roles traversed technical and management capacities across most Australian oil and gas basins and Indonesia, the Philippines and Papua New Guinea.

Mr Morton holds a Bachelor of Arts - Geology with first class honours from the Macquarie University, Sydney.

Mr Morton is considered to be an independent Director.

***Steven Allen Formica (current Non-Executive Director, retiring on completion of the Transaction)***

Mr Formica brings to the Company's corporate group practical management and business development experience. He has been a successful businessman and operations manager for over 35 years in several privately held business ventures across multiple industry sectors.

Mr Formica is currently the non-executive chairman of ASX listed Ragnar Metals Limited (ASX:RAG), a non-executive director of ASX listed companies Houston We Have Limited (ASX:HWH) (previously Veriluma Ltd) and is a successful investor in a number of ASX listed entities. Mr Formica has previously held directorships with ASX listed companies Orminex Limited (ASX:ONX), Bowen Coking Coal Ltd (ASX:BCB) and Lindian Resources Limited (ASX:LIN).

Mr Formica is considered to be an independent Director.

Steven is proposed to retire upon completion of the Transaction.

***Adrien Michele Wing (current Non-Executive Director and Company Secretary, retiring as a Director and remaining as Company Secretary on completion of the Transaction)***

Adrien is a certified practicing accountant. He has worked in audit and corporate advisory for a chartered accounting firm before moving to assist a number of public companies listed on the ASX as a corporate and account consultant and company secretary.

Adrien is proposed to retire as a Director upon completion of the Transaction. Adrien will remain as Company Secretary on and from completion of the Transaction.

Mr Wing is considered to be an independent Director.



## 10. KEY PEOPLE, INTERESTS AND BENEFITS

### 10.2 Interests and remuneration of Directors

#### 10.2.1 Interests of Directors

The direct and indirect equity interests of the existing and proposed Directors are set out in the tables below:

#### SHARES

Director	Directors (post-completion of the Transaction)	
	Shares (current %)	Shares (% following the Offers)
Joseph Patrick Burke	Nil	414,578,664 (34.28%)
Daniel William Eddington	3,098,202 (2.74%)	69,424,870 (5.74%)
Bradley James Drabsch	Nil	Nil
Anthony David Hall	3,208,334 (2.83%)	48,146,670 (3.98%)
Dennis James Morton	Nil	Nil
Directors (to retire on completion of the Transaction)		
Steven Allen Formica	2,975,000 (2.63%)	2,975,000 (0.25%)
Adrien Michele Wing	3,072,223 (2.71%)	3,072,223 (0.25%)

Notes to table:

1. All percentages are subject to rounding.
2. Assumes no convertible securities are converted to Shares.
3. Includes the following New Shares under the Vendor Offer to the following named parties and/or their associates: Joseph Burke: 414,578,664; Daniel Eddington: 66,326,668; Anthony Hall: 44,938,336.
4. Assumes no participation by named parties and/or their associates in the Equity Offer. The Company has obtained shareholder approval at the Shareholder Meeting for the following named parties (and/or their nominee(s)) to subscribe for up to the following maximum number of New Shares under the Equity Offer: Anthony Hall: 4,000,000; Bradley Drabsch: 833,334; Steven Formica: 6,666,667; Adrien Wing: 6,666,667; Dennis Morton: 1,666,667.

#### OPTIONS

Director	Directors (post-completion of the Transaction)	
	Options (current)	Options (following the Offers)
Joseph Patrick Burke	Nil	8,000,000
Daniel William Eddington	Nil	4,000,000
Bradley James Drabsch	2,000,000	10,000,000
Anthony David Hall	2,000,000	2,000,000
Dennis James Morton	Nil	12,000,000
Directors (to retire on completion of the Transaction)		
Steven Allen Formica	1,000,000	3,000,000
Adrien Michele Wing	1,000,000	1,000,000

Notes to table:

1. All percentages are subject to rounding.



## 10. KEY PEOPLE, INTERESTS AND BENEFITS



**JADE GAS**

2. Assumes no convertible securities are converted to shares.
3. Includes the following New Options proposed to be issued to named parties and/or their associates under the Vendor Offer: Joseph Burke: 8,000,000; Daniel Eddington: 4,000,000.
4. Includes the following New Options under the Incentive Option Offer: Bradley Drabsch: 8,000,000; Dennis Morton: 12,000,000; Steven Formica: 2,000,000
5. The following named parties and/or their associates have the following interests in performance shares: Anthony Hall: 1,826,667 Class A Performance Shares and 2,660,000 Class B Performance Shares; Adrien Wing: 1,380,000 Class A Performance Shares and 1,657,778 Class B Performance Shares.

### 10.2.2 Remuneration of existing Directors

The payments paid or payable to the current Directors in the 2 years prior to lodgement of this Prospectus (including salaries, Director fees and bonuses), fees for additional services provided to the Company (including via corporate entities) and superannuation are set out in the table below:

Director name	July 2019 - June 2020	July 2020 – June 2021
Anthony David Hall	\$37,500	\$86,875
Dennis James Morton	N/A	\$20,900
Bradley James Drabsch	\$66,000	\$59,950
Steven Formica	\$12,500	\$72,300
Adrien Michele Wing	\$37,500	\$68,750

### 10.2.3 Remuneration of Directors following completion of the Transaction

Following completion of the Transaction, the post-completion Board is proposed to receive the following annual remuneration for providing services in connection with their respective Director duties:

Director name	Remuneration per annum
Anthony David Hall	\$60,000
Dennis Morton	\$60,000
Joseph Patrick Burke	\$120,000
Daniel William Eddington	\$60,000
Bradley James Drabsch	\$60,000

*Note: The above amounts exclude superannuation or GST (where applicable).*

## 10.3 Interests of advisers

The Company has engaged the following advisers in relation to the Offers:

- Canaccord Genuity (Australia) Limited acted as Lead Manager of the Equity Offer. The Company will pay Canaccord Genuity (Australia) Limited fees as summarised in section 10.4.7 for acting as Lead Manager. During the 24 months preceding the lodgement of this Prospectus with ASIC, the Company has not paid or agreed to pay and other fees or amounts to Canaccord Genuity (Australia) Limited.
- BDO Corporate Finance (SA) Pty Ltd has acted as the Investigating Accountant and prepared the Independent Limited Assurance Report which is included in Section 7. The Company estimates it will pay BDO Corporate Finance (SA) Pty Ltd \$25,000 (excluding GST) for the preparation of the Independent Limited Assurance Report. During the 24 months preceding the lodgement of this Prospectus with AISC, the Company has paid or agreed to pay BDO Corporate Finance (SA) Pty Ltd approximately \$137,000 (excluding GST) for services provided to the Company. Subsequent fees will be charged in accordance with normal charge out rates.





## 10. KEY PEOPLE, INTERESTS AND BENEFITS

- BDO Audit (SA) Pty Ltd has acted as auditor of the Company. During the 24 months preceding the lodgement of this Prospectus with ASIC, the Company has paid or agreed to pay BDO Audit (SA) Pty Ltd approximately \$54,000 (excluding GST) for audit services provided to the Company. Subsequent fees will be charged in accordance with normal charge out rates.
- BDO Audit (SA) Pty Ltd has acted as auditor of Jade. During the 24 months preceding the lodgement of this Prospectus with ASIC, the Company has paid or agreed to pay BDO Audit (SA) Pty Ltd approximately \$88,000 (excluding GST) for audit services provided to Jade. Subsequent fees will be charged in accordance with normal charge out rates.
- RISC Advisory Pty Ltd acted as the Technical Expert. The Company has paid, or agreed to pay, \$10,000 (plus GST) to RISC Advisory Pty Ltd for preparation of the Technical Expert's Report contained in section 8. During the 24 months preceding the lodgement of this Prospectus with ASIC, the Company has paid or agreed to pay RISC Advisory Pty Ltd approximately \$35,000 for other services provided to the Company, in particular the provision of a technical report in connection with the independent expert's report that formed an annexure to the notice of annual general meeting for the Shareholder Meeting. Subsequent fees will be charged in accordance with normal charge out rates.
- Minter Ellison LLP and ME MGL Advocates LLP acted as Mongolian legal advisor to the Company for the purposes of preparing the Solicitor's Report in section 7. The Company has paid Minter Ellison LLP and ME MGL Advocates LLP approximately \$160,000 provision of the Solicitor's Report that formed an annexure to the notice of annual general meeting for the Shareholder Meeting. Subsequent fees will be charged in accordance with normal charge out rates.
- QR Lawyers Pty Ltd has acted as legal advisor to the Company in connection with the Offers and ASX admission application. The Company has paid, or agreed to pay, approximately \$45,000 (plus GST) to QR Lawyers Pty Ltd in relation to its role in connection with the Prospectus. During the 24 months preceding the lodgement of this Prospectus with ASIC, the Company has paid or agreed to pay QR Lawyers Pty Ltd approximately \$65,000 for other services provided as solicitors for the Company, including in respect of the preparation of the Company's notice of annual general meeting for Shareholder Meeting and legal work related to the proposed Acquisition. Subsequent fees will be charged in accordance with normal charge out rates.

These amounts, and other expenses of the Offers, to the extent not paid by the Company prior to completion of the Offer will be paid out of funds raised under the Equity Offer or available cash. Further information on the use of proceeds and costs of the Equity Offer is set out in sections 12.7 and 14.8 respectively.

Except as set out in this Prospectus:

- No person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation and distribution of this Prospectus;
- No promoter of the Company; or
- No underwriter to the Offers or financial services licensee named in this Prospectus as a financial services licensee involved in the Offers,

holds at the time of lodgement of this Prospectus with ASIC, or has held in the two years preceding lodgement of this Prospectus with ASIC, any interest in:

- The formation or promotion of the Company; or
- Property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or in connection with the Offers; or
- The Offers,

and no amount (whether in cash, securities or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given to any such persons for services in connection with the formation or promotion of the Company or the Offers.





### 11.1 ASX Corporate Governance Council Principles and Recommendations

The Company has adopted systems of control and accountability as the basis for the administration of its corporate governance. The Board is committed to administering the policies and procedures with openness and integrity commensurate with Company's needs and as required to comply with legal and regulatory requirements (including the Corporations Act and the ASX Listing Rules).

The Board seeks, where appropriate, to provide accountability levels that meet or exceed *The Corporate Governance Principles and Recommendations (4th Edition)* as published by ASX Corporate Governance Council in February 2019 (**Recommendations**). Section 11.15 contains a table setting out the Recommendations that the Company does not comply with, including reasons for such non-compliance and how the Company seeks, or will in future seek, to address its non-compliance (where appropriate).

The Company's corporate governance policies will also be reviewed and where necessary updated and amended to address the Recommendations as amended from time to time.

Copies of the Company's corporate governance procedures, policies and practices are available on the Company website at <https://highgrademetals.com.au/corporate/corporate-governance/>

### 11.2 General Meetings

The Company is committed to upholding shareholder rights and facilitating shareholder participation in general meetings. Shareholders are invited to attend and ask questions at each general meeting of the shareholders of the Company. In addition, the auditor of the Company is to be invited to attend and answer questions from shareholders at each annual general meeting of the Company.

If a resolution is proposed to be put at a General Meeting for the election or re-election of Director(s) of the Company, the notice of meeting convening such General Meeting will contain all material information for shareholders to determine whether to elect or re-election the Director(s).

All substantive resolutions at a general meeting of the Company will be determined by way of poll in accordance with the corporate governance policies and procedures of the Company.

### 11.3 Board of Directors

The Board is responsible for the overall management and corporate governance of the Company.

The responsibilities of the Board include but are not limited to:

- the development, implementation and alteration of the strategic direction of the Company, including future expansion of the Company's business activities;
- risk management, assessment and monitoring. The risk management framework is reviewed at least once during each Reporting Period and the Company will in future disclose that such review has taken place in accordance with the Recommendations;
- ensuring appropriate external reporting to shareholders, the ASX, ASIC and other stakeholders;
- encouraging ethical behaviour, including compliance with the Company's governing laws and procedures and compliance with corporate governance standards;
- establishing targets and goals for Senior Management (if any) to achieve and monitoring the performance of Senior Management (if any);
- review and oversight of compliance with applicable law including the ASX Listing Rules (whilst the Company is listed on the ASX), financing reporting obligations, including periodic and continuous disclosure, legal compliance and related corporate governance matters;
- monitoring and reviewing the operational performance of the Company including the viability of current and prospective operations and opportunities;
- the appointment of new Directors to fill a casual vacancy or as additional Directors, including the conduct of appropriate checks prior to appointment of such Directors, and the provision of all material information to shareholders in determining whether to elect or re-elect such Director(s);





## 11. CORPORATE GOVERNANCE

- the appointment and, where appropriate, the removal of the senior executives (Managing Director/CEO, CFO, Executive Directors, Company Secretary, and ratifying the appointment or removal of Senior Management) of the Company, including the conduct of appropriate background checks prior to the appointment of such senior executives;
- review of the code of conduct, communication and disclosure policy, securities trading policy, diversity policy, risk management policy and remuneration policy to ensure the policies meet the standard of corporate governance required by the Board and are being complied with;
- approving and monitoring major Company financing matters including approval and monitoring of major capital expenditure, capital management, acquisitions and divestitures, materials contracts and incurring material debt obligations; and
- periodic review of the performance of the Board, individual directors and senior executives by special purpose committees established by the Board.

The Company is committed to the circulation of relevant materials to Directors in a timely manner to facilitate Directors' participation in the Board discussions on a fully informed basis.

### 11.4 Composition of the Board

Election of Board members is substantially the province of the shareholders in a general meeting. Although the Board may appoint Directors to fill casual vacancies or as additions to the Board, the ongoing appointment of Directors is subject to receipt of requisite shareholder approval(s).

The Directors (other than the Managing Director) are subject to retirement by rotation and re-election requirements under the constitution that are consistent with the ASX Listing Rules.

It is the objective of the Company to establish and maintain a Board with a broad representation of skills, experience and expertise. The Board has adopted a skills matrix against which the skills and experience of the Board are measured and reported upon.

### 11.5 Board Charter and Policies

The Board has adopted a Board Charter and Code of Conduct which formally recognises its responsibilities, functions, power, authority, and composition. The Board Charter and Code of Conduct set out matters that are important for the effective corporate governance of the Company, including:

- a definition of "independence" consistent with the Recommendations;
- a framework for the identification of candidates for appointment to the Board and their selection (including undertaking appropriate background checks);
- a framework for individual performance evaluation;
- proper training to be made available to Directors both at the time of their appointment and on an ongoing basis for professional development purposes;
- basic procedures for meetings of the Board and its committees (if any) including frequency, agenda, minutes and discussions of management issues among non-executive directors;
- ethical standards and values (in a detailed code of corporate conduct which is to be reviewed periodically). The Directors are to be informed of any and all breaches of the code of conduct;
- dealings in securities (in a detailed code for securities transactions designed to ensure fair and transparent trading by Directors, senior management and their associates); and
- communication and disclosure to shareholders and the market.

Any breach of the Board Charter and/or the Code of Conduct is communicated to the Company Secretary who must immediately notify the Board of the particulars of any breach.

### 11.6 Independent Professional Advice

Under the Board Charter, subject to approval from the Chair, each Director has the right to seek independent legal or other professional advice at the Company's expense on all matters necessary for that Director to make fully informed and independent decisions to discharge his or her responsibilities.





### 11.7 Remuneration Arrangements

The total maximum remuneration of non-executive Directors is determined by ordinary resolution of shareholders in a general meeting in accordance with the Constitution, the Corporations Act and the ASX Listing Rules (as applicable). The determination of non-executive Directors' remuneration within that maximum will be made by the Board having regard to the input and value to the Company of the respective contributions of each non-executive Director.

The annual aggregate remuneration for non-executive Directors is currently set at \$300,000. The Company has obtained approval at the Shareholder Meeting to increase the aggregate remuneration for non-executive Directors by \$100,000 to an aggregate annual amount of \$400,000.

### 11.8 Trading Policy

The Board has adopted a securities trading policy that sets out the guidelines on the sale and purchase of securities in the Company by its key management personnel. The policy generally provides that written approval must be obtained from the Chair to trade in the securities of the Company or, if the Chair is the person seeking such approval to trade, the other Director(s) of the Company.

The policy also includes various "closed periods" where trading in the securities of the Company is restricted. The Board may determine additional closed periods at its discretion.

The policy is available on the website of the Company at <https://highgrademetals.com.au/corporate/corporate-governance/>

### 11.9 External Audit

The Shareholders in annual general meetings are responsible for the ongoing appointment of the external auditors of the Company, and the Board will from time to time review the scope, performance and fees of those external auditors. Any auditor appointed by the Board to fill a casual vacancy in the office of auditor will only hold office until the next annual general meeting of the Company at which point the election of the auditor will be put to shareholders for approval.

### 11.10 Audit and Risk Committee

Having regard to its current and proposed business structure, financial capacity and objectives, the Company does not currently have, and does not propose appointing, an Audit and Risk Committee.

Until such time as the Audit and Risk Committee is established, the Board will undertake the functions of the Audit and Risk Committee in accordance with the terms of the Audit and Risk Committee Charter with adaptations as necessary and appropriate.

Where possible, the Audit and Risk Committee will consist of at least three non-executive Directors, a majority of whom are independent Directors and such other members so that the overall Audit and Risk Committee comprises:

- (a) at least one member who understands the industry in which the Company operates; and
- (b) members who can read and understand financial statements and are otherwise financially literate.

The Board may appoint one member of senior executive management to be a member of the Audit and Risk Committee if it is deemed their expertise is crucial in adding value to the Audit and Risk Committee.

The responsibilities of the Audit and Risk Committee (or, in their absence, the Board) include, amongst other matters:

- to review the audited annual, half year and periodic financial statements and any reports which accompany published financial statements to ensure compliance with applicable standards;
- to review the evaluation by management of factors related to the independence of the Company's public accountant and to assist them in the preservation of such independence;
- to oversee management's appointment of the company's public accountant;
- advising the Board in relation to risk oversight and management policies;
- advising and providing recommendations to the Board regarding establishment, implementation and review of risk management systems, Company policies and the Company risk profile to ensure the risk management framework of the Company continues to be sound and that the Company is operating with due regard to the risk appetite set by the Board;
- ensuring Senior Management have in place effective systems which identify, assess, monitor and manage risk in the Company in all areas and assessing the effectiveness of such systems;





## 11. CORPORATE GOVERNANCE

- reviewing the performance and effectiveness of external auditors and, of any, internal auditors;
- monitoring and reviewing the propriety of related party transactions;
- recommending to the Board the appointment and removal where necessary of external auditors and approving their remuneration and terms of engagement; and
- ensuring the integrity and quality of the financial information of the Company, including the financial information provided to ASIC, ASX and shareholders.

Meetings will be held as often as required to enable the Audit and Risk Committee to undertake its role effectively. The Audit and Risk Committee may conduct investigations where appropriate to fulfil its functions and if considered necessary, including engaging independent experts or advisors.

Before the Company approves financial statements for a financial period (being a period within which the Company must report on its financial performance in accordance with its disclosure obligations), the Managing Director/CEO and CFO (or, if none, the person(s) fulfilling those functions) must provide a declaration that, in their opinion, the financial records of the Company have been properly maintained and that the financial statements comply with appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and that the opinion of the Managing Director/CEO and the CFO (or, if none, the person(s) fulfilling those functions) has been formed on the basis of a sound system of governance, risk management and internal controls (the formulation of which are provided for in this Charter) which is operating effectively.

Periodic financial or other reports released in or for a particular financial period which are not audited or reviewed by the external auditor are to be peer-reviewed internally and signed off on by the CFO and the Board prior to release (including release as an announcement to ASX, as applicable).

### 11.11 Remuneration and Nomination Committee

Having regard to its current and proposed business structure, financial capacity and objectives, the Company does not currently have a Remuneration and Nomination Committee.

Until such time as the Remuneration and Nomination Committee is established, the Board will undertake the functions of the Remuneration and Nomination Committee in accordance with the terms of the Remuneration and Nomination Committee Charter with adaptations as necessary and appropriate.

Where possible, the Remuneration and Nomination Committee will be composed of not less than three members with a majority of independent Directors. Directors shall be appointed for a term of three years or such shorter period as they remain in office as a Director of the Company (excluding retirement by rotation in accordance with the Constitution and/or ASX Listing Rules).

The purpose of the Remuneration and Nomination Committee is to review and report on remuneration and related policies and practices and make recommendations to the Board about the appointment of new Directors and senior management of the Company.

The responsibilities of the Remuneration and Nomination Committee (or, in their absence, the Board) include, amongst other matters:

- reviewing and evaluation of market practices and trends on remuneration matters and apply them to the circumstances of the Company;
- making recommendations about the Company's remuneration policies and procedures including in respect of the remuneration of senior management and the non-executive Director fee pool;
- reviewing and making recommendations to the Board with respect to the equity based and financial incentive schemes of the Company;
- oversight of the performance of individual senior management and non-executive Directors, committees of the Board and the Board generally;
- identifying and recommending new appointees to the Board based on their skills, competencies and experience and assessing how candidates for the Board may contribute to the strategic direction of the Company;
- developing and implementing appropriate training and development programs;
- developing and reviewing a policy on Board structure including criteria for Board membership;
- identifying and screening specific candidates for nomination, including implementation of a procedure for undertaking appropriate background checks and ensuring that there is an appropriate Board succession plan in place (where applicable);





- reviewing the policy of the Company with respect to tenure, remuneration and retirement of Directors, including overseeing management succession planning; and
- reviewing the Company's reporting and disclosure practices in relation to the remuneration of Directors and senior executives.

### **11.12 Diversity Policy**

The Board has adopted a diversity policy which provides a framework for the Company to achieve, amongst other things, a diverse and skilled workforce, a workplace culture characterised by inclusive practices and behaviours for the benefit of all staff, improved employment and career development opportunities for women and a work environment that values and utilises contributions of employees with diverse backgrounds, experiences and perspectives.

The Board will endeavour where practicable to set measurable objectives for achieving gender diversity and will report on the progress of the Company in achieving such objectives within each reporting period. The Board may, having regard to the size and scale of the operations of the Company, determine not to set measurable objectives for achieving gender diversity in any given reporting period. The Company will disclose if it has not set measurable objectives in a particular reporting period in accordance with its continuous disclosure obligations under the ASX Listing Rules.

### **11.13 Whistleblower Policy**

The Company has a Whistleblower Policy which encourages employees and others involved with the Company to report suspected or known instances of eligible or unethical conduct. The Whistleblower Policy establishes the mechanisms and procedures for the reporting of illegal or unethical conduct in a manner which protects the whistleblower and identifies the necessary information to investigate such reports and act appropriately to investigate such reports in accordance with whistleblower regulations.

### **11.14 Anti-bribery and Corruption Policy**

The Company has an Anti-Bribery and Corruption Policy for Directors, employees and contractors of the Company. It provides a summary of the law on bribery and corruption, outlines the circumstances in which it is unacceptable to receive and give gifts, entertainment and hospitality and provides a reporting mechanism for allegations of bribery and corruption.

The policy prohibits facilitation payments, secret commissions, money laundering. The policy also prohibits political and charitable donations without the authorisation of the Board.

### **11.15 Departures from Recommendations**

As noted above, the Company seeks to adopt the Recommendations with respect to its corporate governance. Where the Company does not comply with a Recommendation it must identify the extent of the non-compliance and provide an explanation for the departure from the Recommendation.

The Company's anticipated departures from the Recommendations as at completion of the Transaction and re-quotation of its Shares on ASX are detailed in the table below:



## 11. CORPORATE GOVERNANCE

### Departures from corporate governance principles and recommendations

Principle or Recommendation	Explanation
<b>1.5 Diversity</b>	<p>The Company does not, and will not following completion of the Transaction, comply with this recommendation.</p> <p>While the Company has adopted a Diversity Policy which provides a framework for the Company to set measurable diversity objectives (including in respect of gender). The Diversity Policy is available at: <a href="https://highgrademetals.com.au/corporate/corporate-governance/">https://highgrademetals.com.au/corporate/corporate-governance/</a></p> <p>The Company has not set measurable diversity objectives. The Company has not set such objectives having regard to the small size of the Company and the Board such that, in the view of the current Board, the application of a measurable diversity objectives may unduly limit the Company from being able to implement its policy of appointing based off skills and merit.</p> <p>The Company may in future adopt specific diversity objectives.</p>
<b>2.4 Independent Directors</b>	<p>The Company currently complies with this recommendation, as three of the five current Directors are considered to be independent.</p> <p>The Company will not, however, comply with this recommendation after completion of the Transaction. Adrien Michele Wing and Steven Allen Formica are currently independent Directors who will resign at completion of the Transaction. The incoming Directors, being Joseph Patrick Burke (incoming Executive Director) and Daniel William Eddington (substantial holder in combination with his associates at completion of the Transaction), are considered not to be independent. Anthony David Hall and Bradley James Drabsch, each of whom is currently an Executive Director who will transfer to a Non-Executive Director position at completion of the Transaction, will have held Executive positions within the three years prior to their transition to Non-Executive Directors and will therefore be considered not to be independent.</p> <p>Dennis James Morton will be an independent Director at completion of the Transaction.</p>
<b>2.5 Independent Chair</b>	<p>The Company does not, and will not following completion of the Transaction, comply with this recommendation.</p> <p>Anthony David Hall is currently the Executive Chairman of the Company and is therefore considered not to be independent. Anthony David Hall is proposed to transition to a Non-Executive Director at completion of the Transaction, however as he will have held an Executive position within three years of his transition to a Non-Executive Director position he will be considered not to be independent.</p>

A detailed corporate governance statement is contained on the Company's website at <https://highgrademetals.com.au/corporate/corporate-governance/>



## 12. DETAILS OF THE OFFER



**JADE GAS**

### 12.1 The Equity Offer

This Prospectus invites investors to apply for 250,000,000 New Shares at an issue price of \$0.03 per New Share to raise \$7.5 million before costs.

The Equity Offer is a general offer to all eligible investors. If the Company receives valid applications for Shares in excess of \$7.5 million it may scale back applications at its discretion.

Details of how to apply for New Shares under the Offer are set out in section 13.

### 12.2 The Vendor Offer

This prospectus contains an offer of an aggregate of 846,166,667 New Shares and 68,000,000 New Options as consideration for the acquisition of Jade. Only the Jade Vendors are eligible to accept the Vendor Offer.

### 12.3 The Incentive Option Offer

This prospectus contains an offer of an aggregate of 22,000,000 New Options to existing Directors of the Company to whom shareholders approved the issue of New Options. Only those existing Directors and/or their nominee(s) are eligible to accept the Incentive Option Offer.

The proposed recipients of New Options (and/or their nominee(s)) and the number of New Options under the Incentive Option Offer they are each proposed to receive are:

- Bradley James Drabsch: 8,000,000 New Options.
- Steven Allen Formica: 2,000,000 New Options.
- Dennis James Morton: 12,000,000 New Options.

### 12.4 The Broker Option Offer

This prospectus contains an offer of 12,000,000 Broker Options to the Lead Manager and/or its nominee(s) for aggregate payment of \$50, as part consideration for services provided by the Lead Manager in connection with the Equity Offer. The Broker Option Offer is only made to and capable of acceptance by the Lead Manager and/or its nominee(s).

### 12.5 Conditions of the Offers

The Offers are conditional upon:

- The Company completing the acquisition of Transaction. Further details in respect of the Transaction, including an outline of the conditions precedent, is set out in Section 2.
- The Company receiving applications and application monies for 250,000,000 New Shares with application monies totalling \$7.5 million under the Equity Offer.
- ASX giving its conditional approval for the re-admission of the Company to the Official List (on the basis that the Transaction will satisfy re-compliance with Chapter 1 and 2 of the ASX Listing Rules) and quotation of the New Shares issued to successful applicants under the Equity Offer.

If the conditions above are not met, the Offers will not proceed, no New Shares will be issued pursuant to this Prospectus and application monies will be refunded to applicants in full (without interest) in accordance with the Corporations Act.

### 12.6 Purpose of this Prospectus and the Offers

This Prospectus has been issued to assist the Company in meeting the re-admission requirements under Chapters 1 and 2 of the ASX Listing Rules and to qualify the Shares (including New Shares) for secondary trading, subject to any restrictions (escrow) imposed by ASX in respect of such shares.

The purpose of each of the respective Offers is set out below:

- The purpose of the Equity Offer is to raise funds to be applied as set out in Section 12.7. The Equity Offer has the ancillary purpose of raising funds such that the Company can meet the net tangible assets test and the spread requirements under the ASX Listing Rules as part of seeking to re-comply with Chapters 1 and 2 of the ASX Listing Rules.
- The purpose of the Vendor Offer is to enable the Company to issue the New Shares and New Options under the Vendor Offer to the Jade Vendors as consideration for the acquisition by the Company of all the issued capital of Jade pursuant to the Transaction.



## 12. DETAILS OF THE OFFER

- The purpose of the Incentive Option Offer is to enable the Company to issue the New Options the subject of the Incentive Option Offer to the named Directors (and/or their nominee(s)) for whom shareholder approval for the issue of the New Options is obtained at the Shareholder Meeting.
- The purpose of the Broker Option Offer is to enable to Company to issue the Broker Options to the Lead Manager and/or its nominee(s), for aggregate payment of \$50, as consideration for services provided by the Lead Manager in connection with the Equity Offer.

### 12.7 Use of Proceeds

The Company's intended use of funds raised under the Equity Offer is set out in the table below:

Activity			Year 1	Year 2
Project evaluation (work program design and management, structure contour maps, isopach, extensions).			\$122,000	-
Exploration and Appraisal activities	Laboratory & Coal/Gas Analysis	Isotherms	\$20,000	\$14,210
		Review and Analysis	\$40,000	\$28,420
		Upgrade lab and testing capability	\$66,670	\$47,370
		<i>Sub-Total</i>	<i>\$126,670</i>	<i>\$90,000</i>
	Field Work	Water Management	\$26,670	\$34,000
		Temperature Logs	\$26,670	\$34,000
		Well site reconnaissance	\$26,670	\$34,000
		<i>Sub-Total</i>	<i>\$80,010</i>	<i>\$102,000</i>
	Drilling & Testing	Core Holes 6	\$486,669	\$419,751
		Permeability testing DST	\$366,669	\$316,252
		Testing Coal Samples	\$39,999	\$34,499
		Camp labour sundries	\$173,331	\$149,498
		<i>Sub-Total</i>	<i>\$1,066,668</i>	<i>\$920,000</i>
	Program Extension	Drilling 6 core holes, Pilot Program and contingency	\$924,252	\$1,018,000
	<b>Total Exploration and Appraisal</b>		<b>\$2,197,600</b>	<b>\$2,130,000</b>
	<b>Commercial studies</b>		<b>\$70,659</b>	<b>\$260,000</b>
	<b>Costs of the Offers *</b>		<b>\$650,000</b>	<b>-</b>
	<b>Administration and working capital **</b>		<b>\$940,275</b>	<b>\$1,130,000</b>
	<b>Total</b>		<b>\$3,980,534</b>	<b>\$3,520,000</b>

\* Further details of the costs of the Offers are set out in section 14.7.

\*\* Administration costs are comprised of actual and proposed staff and management wages/fees (both Australia and Mongolia), existing creditors (including accrued directors fees) not included in cost of offer estimates of professional and advisor fees (including accounting and audit, regulatory fees, legal fees) (both Australia and Mongolia), rental and associated costs and other operating costs (including share registry fees, non-executive director fees, estimates of marketing and investor relations costs and budgets for travel).

The above use of funds table is indicative only and is subject to change.

The Directors believe that, following completion of the Equity Offer, the Company will have enough working capital to carry out its stated objectives.



## 12. DETAILS OF THE OFFER



**JADE GAS**

### 12.8 Capital Structure

The expected capital structure of the Company following completion of the Offers is summarised below. At reinstatement, the Company's free-float will be not less than 20%.

#### Shares

	Number	% of total
<b>Current Shares</b>	113,234,664	9.36%
<b>New Shares under the Equity Offer</b>	250,000,000	20.67%
<b>New Shares under the Vendor Offer</b>	846,166,667	69.97%
<b>Total Shares</b>	<b>1,209,401,331</b>	<b>100%</b>

Notes to table:

- All percentages are subject to rounding and have been rounded to two decimal places.
- The above table assumes no existing or proposed convertible securities (including New Options) convert to shares.

#### Convertible Securities

The Company has the following convertible securities either on issue or that are proposed to be issued:

#### Options:

	Number	Exercise price	Expiry date
Existing Options	7,000,000	\$0.15	30 June 2022
New Options under the Vendor Offer	68,000,000	\$0.045	30 June 2023
New Options under the Incentive Option Offer	22,000,000	\$0.045	30 June 2023
Broker Options under the Broker Option Offer	12,000,000	\$0.045	3 years from issue
<b>Total</b>	<b>109,000,000</b>		

*Performance Shares (all existing and with milestones applicable to the existing Austrian Project):*

	Number	Expiry date
Class A Performance Shares	24,000,000	26 February 2023
Class B Performance Shares	24,000,000	26 February 2023
<b>Total</b>	<b>48,000,000</b>	

Class A Performance Shares convert into ordinary shares on a 1:1 ratio upon delineation of a JORC-compliant mineral resource estimate of at least inferred category (as defined in the JORC Code) of a minimum of 500,000 ounces of gold or gold equivalent (in accordance with clause 50 of the JORC Code) at an average grade of at least 8 grams per tonne, such milestone to be determined to have been achieved or not achieved by not later than 5.00pm on the date that is one month after the expiry date. Class B Performance Shares convert into ordinary shares on a 1:1 ratio upon completion of a positive scoping study in relation to one or more Austrian Cobalt project by an independent third-party expert which evidences an internal rate of return greater than 20% (using publicly available industry assumptions including deliverable spot commodity/mineral prices which are independently verified), provided that the total cumulative EBITDA over the life of the relevant Austrian Cobalt project is over \$US50,000,000 and provided that (while the Company remains listed on ASX) the scoping study is released as an announcement on the ASX Announcements Platform and is not required by reason of regulatory intervention by ASX or ASIC to be retracted within a period of one month after the date of its release, such milestone to be determined to have been achieved or not achieved by not later than 5.00pm on the date that is one month after the expiry date. Other than converting upon achievement of the relevant milestone, there are no voting, dividend, winding up, return on capital, participation or other rights arising from Performance Shares other than the right to receive financial reports and notices of meeting, including attending such meeting, of the Company (noting Performance Shares have no voting rights).

The Company confirms that the exercise price of all options is at least \$0.03 in cash.

### 12.9 Minimum subscription

No securities will be issued pursuant to this unless applications for the full \$7.5 million raising (which is both the minimum and maximum) are received and ASX gives conditional approval for the Shares (including New Shares) to be readmitted to Official Quotation (Listed). If the \$7.5 million raising amount is not reached before the expiration of four months after the date of this Prospectus, or if the Shares (including New Shares) are not admitted to Official Quotation before the expiration of three months after the date of issue of this Prospectus (or, in each case, any longer period as ASIC and ASX may permit), the Company will not issue any New Shares and will repay all application monies for the New Shares within the time prescribed by the Corporations Act, without interest.





## 13. HOW TO APPLY FOR NEW SHARES

### 13.1 Applying under the Equity Offer

Applications for New Shares under the Equity Offer must be made by returning an application form attached to or accompanying this Prospectus to the Share Registry, together with payment of the application amount, prior to the Closing Date. Further details for of applying for New Shares under the Offer are set out below.

Applications for New Shares under the Equity Offer must be for a minimum of 66,667 New Shares (\$2,000) and thereafter in multiples of \$1,000 New Shares 33,334. Payment for New Shares must be made in full at the issue price of \$0.03 per New Share when applying for New Shares under the Equity Offer.

The allocation of New Shares between the Broker Offer and the General Offer will be determined by the Company at its discretion in consultation with the Lead Manager.

Applications under the Equity Offer may be made, and will only be accepted, in one of the following forms:

- on the General Offer application form attached to or accompanying this Prospectus; or
- on a paper copy of the relevant electronic General Offer application form which accompanied an electronic version of this Prospectus, which can be found at and downloaded from the Company website <https://www.highgrademetals.com.au>.

Instructions for completion and lodging the General Offer application form and paying the application amount are set out in the General Offer application form. The completed General Offer application form and payment should be sent to:

Mailing Address  
High Grade Metals Limited  
C/- Advanced Share Registry  
PO Box 1156  
Nedlands, WA 6909

For hand-delivered applications (please do not use this address for mailing purposes), deliver to:

Hand Delivery (Please do not use this address for mailing purposes)  
High Grade Metals Limited  
C/- Advanced Share Registry  
110 Stirling Highway  
Nedlands, WA 6009

Payments are to be made in Australian currency by a cheque drawn on an Australian branch of an Australian bank. Do not send cash. Applications under the General Offer can be made by BPAY or electronic funds transfer (EFT) by prior arrangement in accordance with the instructions in the General Offer application form. Allow time for requests to be received and responded to, and for transfers or payments to be processed.

It is your responsibility to ensure that application and acceptance forms and payments are mailed in time to allow for delivery before the closing date. It is also your responsibility to ensure sufficient funds are available upon presentation of cheques. If returning your acceptance or application to your broker please allow sufficient time for your broker to receive and process your acceptance, application or bid.

The Company, the Lead Manager and the Share Registry take no responsibility for lost or delayed mail, or misprocessed acceptances and payments, or errors or delays by brokers. The Company, in consultation with the Lead Manager may, but is not obliged to, accept late applications and acceptances.

To the extent permitted by law, an acceptance or application under the Equity Offer is irrevocable. If the amount received as application monies is less than the amount payable for the New Shares accepted or applied for, the Company may (but is not obliged to) treat the acceptance or application as being for the number of New Shares represented by the amount received and issue few New Shares than were applied for. The Company, in consultation with the Lead Manager, may correct or fill in an application or acceptance form and/or treat as valid and give effect to an application or acceptance form notwithstanding any error or that an information is incomplete.

The Company, in consultation with the Lead Manager, may reject or not accept an application in part or in whole or to allocate a fewer number of New Shares than applied for. If acceptances in excess of \$7.5 million are received, the Board reserves the right not to accept (in whole or in part) or to scale back applications at its discretion in consultation with the Lead Manager. If an application is rejected or not accepted in whole or in part or is scaled back, the relevant amount will be refunded to the applicant as soon as practicable after completion of the Equity Offer without interest.

There is no guarantee that applicants will receive any number of New Shares applied for. Where the number of New Shares allotted is fewer than the number applied for, surplus application monies will be refunded to the applicant without interest.





There is no maximum number of New Shares that may be applied for under the Equity Offer, provided an applicant alone or with its associates (as that term is defined in the Corporations Act) must not acquire an interest in more than 20% of the issued voting shares of the Company unless permitted by the Corporations Act without further action by the Company.

By making an application, you declare that you were given access to a copy of this Prospectus together with the applicable application form. The Corporations Act prohibits any person from passing an application form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

### 13.2 Applying under the Vendor Offer

The Vendor Offer is only made to and capable of acceptance by the Jade Vendors. The Company will provide the Jade Vendors with a personalised application form under which they will be able to apply for New Shares and New Options under the Vendor Offer. The issue of New Shares and New Options under the Vendor Offer is subject to and conditional upon completion of the Transaction.

### 13.3 Applying under the Incentive Option Offer

The Incentive Option Offer is only made to and capable of acceptance by those existing Directors (and/or their nominee(s)) for which shareholders approved the issue of New Options. The Company will provide those existing Directors with a personalised application form under which they will be able to apply for New Options under the Incentive Option Offer.

### 13.4 Applying under the Broker Option Offer

The Broker Option Offer is only made to and capable of acceptance by Lead Manager (and/or their nominee(s)). The Company will provide the Lead Manager and/or its nominee(s) with a personalised application form under which they will be able to apply for Broker Options under the Broker Option Offer.

### 13.5 ASX relisting and potential disposal restrictions (escrow)

An application will be made to ASX not later than seven days after the date of this Prospectus for the quotation of the Shares (including the New Shares) and for the Company to be re-admitted to the Official List of ASX and for official quotation of shares. Acceptance of the application by ASX is not a representation by ASX about the merits of the Company or the New Shares.

Neither ASIC or ASX nor any of their respective officers, taken any responsibility for the content of this Prospectus or the merits of the investment to which this Prospectus relates. Official quotation of Shares, if granted, commences as soon as practicable after the issue of the initial holding statements to successful applicants.

It is expected that trading of the Shares on ASX will commence on or about 3 September 2021.

If the New Shares are not admitted to Official Quotation by ASX before the expiration of three months after the date of issue of this Prospectus, or such period as varied by ASIC, the Company will not issue any New Shares and will repay all application monies for the New Shares within the time prescribed under the Corporations Act, without interest.

While the Company is not presently aware of the disposal restrictions (escrow) that will be applied by ASX, the below reflects the escrow the Company anticipates will be applied by ASX having regard to available guidance:

- A portion of the Shares subscribed for by related parties under the rights issue completed by the Company in August 2020 are anticipated to be subject to mandatory ASX escrow for up to 24 months from relisting. None of the other existing Shares are anticipated to be subject to escrow.
- No escrow will be applied by ASX to New Shares issued under the Equity Offer.
- The Company has made an application for look-through relief in connection with the issue of the New Shares to the Jade Vendors under the Vendor Offer. If this application is successful then the Company anticipates that only a portion of the New Shares under the Vendor Offer will be subject to ASX escrow for a period between 12 months from issue and 24 months from relisting.
- The Company anticipates that New Options under the Vendor Offer will be subject to ASX escrow for a period between 12 months from issue and 24 months from relisting.
- The New Options under the Incentive Option Offer will be subject to ASX escrow for 24 months from relisting.
- The Broker Options under the Broker Option Offer will be subject to ASX escrow for 24 months from relisting.

The above reflect the anticipated disposal restrictions (escrow) that may be imposed by ASX on the basis of publicly available guidance. The actual mandatory escrow imposed by ASX may differ from the above. Details of mandatory escrow imposed by ASX will be announced by ASX as part of the pre-relisting disclosure.





## 13. HOW TO APPLY FOR NEW SHARES

### 13.6 Issuance of Shares

Subject to the conditions of the Offers being satisfied and the Offers not being withdrawn, allotment of the securities offered under this Prospectus will take place as soon as practicable after the Closing Date. The Company reserves the right not to proceed with all or part of the Offers at any time before the issue of New Shares to applicants under the Equity Offer. If the Offers does not proceed, all application amounts will be refunded to the applicants without interest.

### 13.7 Offer Not Underwritten

The Equity Offer is not underwritten.

### 13.8 Commissions Payable

The Company will pay an aggregate fee to the Lead Manager of 6% (ex GST) of the total amount raised by it under this Prospectus. A summary of the mandate between the Company and the Lead Manager is set out in section 14.4.9.

No brokerage, commission or stamp duty is payable by applicants on acquisition of New Shares under the Offer.

### 13.9 CHESS

The Company will agree to participate in the Clearing House Electronic Sub-Register System (**CHESS**). ASX Settlement Pty Ltd, a wholly owned subsidiary of ASX, operates CHESS. Investors who do not wish to participate through CHESS will be issuer sponsored by the Company.

Electronic sub-registers mean that the Company will not be issuing certificates to investors. Instead, investors will be provided with holding statements (similar to a bank account statement) that set out the number of New Shares issued to them under this Prospectus. The holding statements will also advise holders of their Holder Identification Number (if the holder is broker sponsored) or Security Holder Reference Number (if the holder is issuer sponsored) and explain, for future reference, the sale and purchase procedures under CHESS and issuer sponsorship.

Electronic sub-registers also mean ownership of shares or options can be transferred without having to rely upon paper documentation. Further, monthly statements will be provided to holders if there have been any changes in their security holding in the Company during the preceding month. Security holders may request a holding statement at any other time, however a charge may be made for such additional statements.

### 13.10 Taxation Considerations

The taxation consequences of an investment in the Company depends upon an investors particular circumstances. Investors should make their own enquiries about the taxation consequences of investment in the Company. If you are in doubt as to the course you should follow you should consult your accountant, stockbroker, lawyer or other professional advisor.

### 13.11 Foreign Investors

This Prospectus does not, and is not intended to, constitute an offer in any place or jurisdiction, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any of these restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities law.

No action has been taken to register or qualify the New Shares or otherwise permit a public offering of the New Shares the subject of this Prospectus in any jurisdiction outside Australia. Applicants who are resident in countries other than Australia should consult their professional advisors as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed.

If you are outside Australia it is your responsibility to obtain all necessary approvals for the Company to allot and issue the New Shares to you pursuant to this Prospectus. The return of a completed application or acceptance form will be taken by the Company to constitute a representation and warranty by you that you are a person whom the Company's securities can be offered and issued lawfully, that all relevant laws have been complied with and that all relevant approvals have been obtained.

This Prospectus has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the Securities Act 1978 (New Zealand). The New Shares are not being offered or sold in New Zealand, or allotted with a view to being offered for sale in New Zealand, and no person in New Zealand may accept a placement of New Shares unless otherwise permitted by law.

This Prospectus has not been, and will not be, registered under the US Securities Act and the Offers have not been made in the United States of America or to persons resident in the United States of America.



## 14. ADDITIONAL INFORMATION



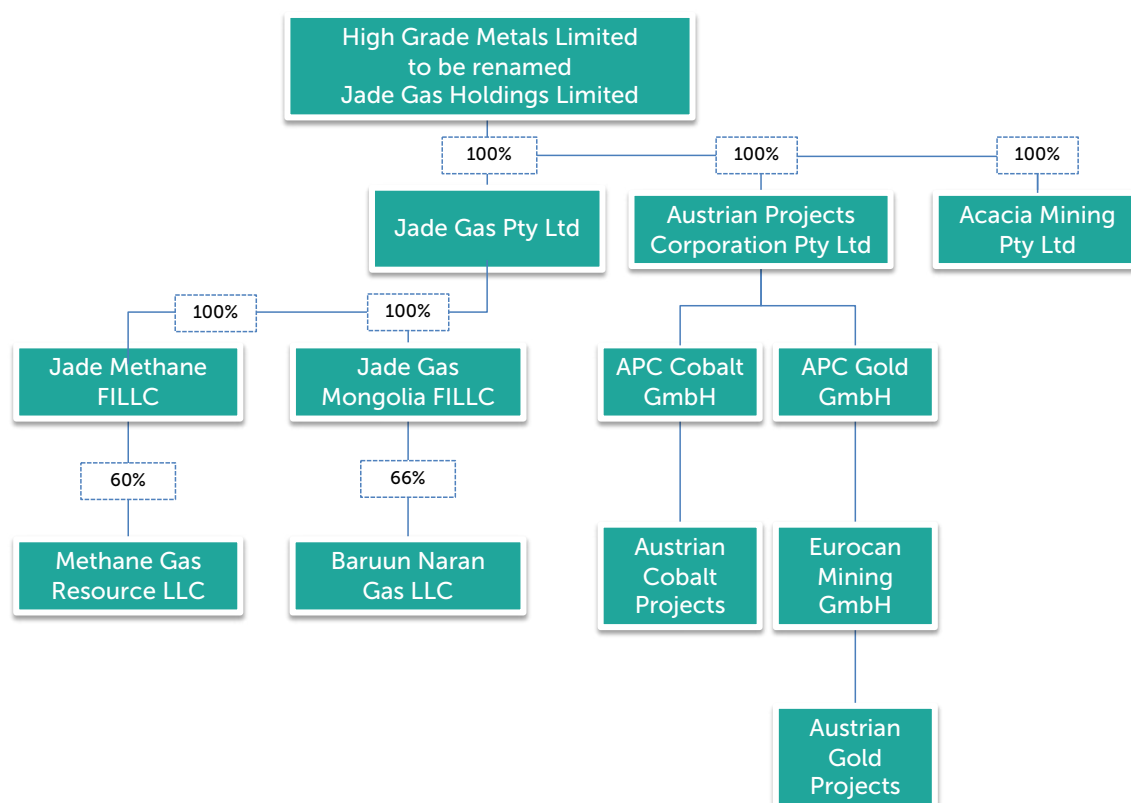
**JADE GAS**

### 14.1 Company registration and registered office

The Company was registered in Western Australia on 11 January 1994. Its registered office is Level 2, 480 Collins Street, Melbourne VIC 3000.

### 14.2 Corporate structure

The following diagram represents the corporate structure of the group following completion of the Transaction:



- Jade is an Australian proprietary company that holds all of the issued capital of JMM and JGM, being Mongolian corporate entities that hold interests in joint venture vehicles MGR and BNG, respectively. Further details of the business of Jade and its subsidiaries are set out elsewhere in this Prospectus, notably in Section 4.
- Austrian Projects Corporation Pty Ltd is a wholly owned subsidiary of the Company that holds all of the issued capital of two Austrian corporate entities as set out above. Austrian Projects Corporation Pty Ltd and its subsidiaries are not considered by the Company to be material child entities.
- Acacia Mining Pty Ltd holds claim EL57/1036, being the Victory Bore project (which the Company is not currently pursuing). Acacia Mining Pty Ltd is not considered by the Company to be a material child entity.

### 14.3 Rights and liabilities attaching to securities under this Prospectus

#### (a) New Shares

The New Shares offered under this Prospectus will be fully paid ordinary shares in the issued capital of the Company and will, upon issue, rank equally with all existing Shares then on issue.

The rights and liabilities attaching to New Shares are regulated by the Constitution, the Corporations Act, the ASX Listing Rules, the ASX Settlement Rules and common law. The Constitution contains provisions of the kind common for public companies in Australia and is taken to be included in this Prospectus by operation of section 712 of the Corporations Act. Any person may request a copy of the Constitution during the application period for this Prospectus, which the Company will provide free of charge.





## 14. ADDITIONAL INFORMATION

### (b) *New Options and Broker Options*

All defined terms in this Section 14.3(b) apply in this Section 14.3(b) only. Each option (**Option**) entitles the holder (**Option holder**) to subscribe for one ordinary fully paid share in the capital of the Company on the following terms and conditions.

- The Options expire at 5:00pm Victoria time on 30 June 2023 for the New Options, and at 5:00pm Victoria time on the date that is three years from issue for the Broker Options (**Expiry Date**). Any Option not exercised before the expiry date will automatically lapse on the Expiry Date.
- Each Option gives the Option holder the right to subscribe for one ordinary share in the Company. To obtain the right given by each Option, the Option holder must exercise the Option in accordance with the terms and conditions of the Options.
- The exercise price payable upon exercise of each Option will be \$0.045 (4.5 cents) (**Exercise Price**).
- An Option holder may exercise their Options by lodging with the Company, before the Expiry Date:
  - o a written notice of exercise of the Options specifying the number of Options being exercised (**Exercise Notice**); and
  - o a cheque or electronic funds transfer for the Exercise Price for the number of Options being exercised.
- An Exercise Notice is only valid when the Company has received the full amount of the Exercise Price in cleared funds.
- Within 10 business days of receipt of the Exercise Notice accompanied by funds constituting the Exercise Price, the Company will allot and issue the number of ordinary shares required under these terms and conditions in respect of the number of Options specified in the Exercise Notice.
- All ordinary shares allotted upon exercise of Options will, upon allotment, rank *pari passu* in all respects with the other shares of the Company.
- In the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company prior to the expiry of any Options, the number of Options to which the Option holder is entitled or the Exercise Price of the Options or both will be reconstructed (as appropriate) in accordance with standard practice so as to ensure that said reorganisation is neither advantageous or disadvantageous to the Option holder.
- There are no participation rights or entitlements inherent in the Options and the Option holders will not be entitled to participate in new issues of shares offered to shareholders during the term of the Options.
- The Options are freely transferable.
- The Company will not apply for quotation of the Options on ASX.
- Compliance with the Corporations Act, ASX Listing Rules and constitution of the Company (**Constitution**):
  - o Despite anything else contained in these terms and conditions, if the Corporations Act, ASX Listing Rules or Constitution prohibits an act being done, that act must not be done.
  - o Nothing contained in these terms and conditions prevents an act being done that the Corporations Act, ASX Listing Rules or Constitution require to be done.
  - o If the Corporations Act, ASX Listing Rules or Constitution conflict with these terms and conditions, or these terms and conditions do not comply with the Corporations Act, ASX Listing Rules or the Constitution, the holder authorises the Company to do anything necessary to rectify such conflict or non-compliance, including but not limited to unilaterally amending these terms and conditions.
  - o The terms of the Options may be amended as necessary by the Directors of the Company in order to comply with the ASX Listing Rules, or any directions of ASX regarding the terms.

### 14.4 Material Contracts

Set out below is a summary of the material contracts entered into by the Company:

#### Operating documentation

##### 14.4.1 *Production Sharing Agreement*

EM has entered into a production sharing agreement (**PSA**) with MRPAM to conduct CBM exploration and exploitation operations for the purposes of the TT CBM Project. The purpose of the PSA is to regulate CBM exploration and exploitation operations





within the framework of Mongolian law. EM may transfer its rights and obligations (either in whole or in parts of one-third or more) under the PSA only with the consent of the Mongolian government.

As noted in section 3, the PSA was transferred to MGR on 14 October 2020.

The PSA provides an aggregate period of 10 years for the exploration of methane gas at the TT CBM Project, comprising 4 years for the first phase and 3 years for each of the second and third phases. The PSA includes an outline of the minimum annual exploration work programs to be completed during a particular year/phase of exploration of the TT CBM Project, including minimum costs. EM shall be issued an exploration licence for the exploration period that may be extended for up to 5 years.

The PSA sets out the rights and obligations for the exploration and exploitation of the TT CBM Project, including but not limited to that EM shall comply with all applicable laws, rules and requirements in the exploration and exploitation of the TT CBM Project and its reporting requirements under the PSA, and that MRPAM shall monitor the activities of MGR and support the establishment of communication between EM and other government organisations for implementation of the PSA.

EM must relinquish not less than 5% of the project area in each of the first and second phases of exploration. Following completion of the exploration period, EM is required to relinquish all remaining portions of the project area except for the exploitation area as agreed with MRPAM. EM may voluntarily relinquish all or part of the project area where the minimum exploration work has been completed. If EM relinquishes a portion of the project area where the minimum exploration work has not been completed, EM must pay the relevant amount to the government not less than 30 days prior to the relinquishment.

EM may seek to relinquish the exploitation area, in whole or in part, but request to MRPAM in accordance with regulatory requirements. The exploitation area may also be relinquished if EM has not carried out development operations on the exploitation area for 12 months (or 24 months if a force majeure applies) or has failed to meet its environmental protection and rehabilitation obligations. EM must fully meet any environmental protection and rehabilitation requirements in connection with the relinquished portion of the exploitation area.

EM is subject to various reporting requirements, including the preparation of annual work plans and budgets (which must be approved by, and may only be amended with the consent of, MRPAM) and reporting and regulatory approval requirements in connection with identification of methane gas in an exploration well and/or a commercial discovery. If EM fails to perform the minimum exploration work in a given year it shall be liable for sanctions under Mongolian law and shall be required to pay the relevant funds in respect of the unperformed exploration work. MRPAM shall also own the original operating information connected with exploration and exploitation by EM of the TT CBM Project.

The PSA includes various provisions related to the conduct of exploration and exploitation activities of the Company, including in respect of labour protection, the environment (including preparation of an environmental impact assessment prior to commencing operations) and the proposed supply chain and structure of the operations at the TT CBM Project (including appointing any operator company).

EM shall submit a request to conduct exploitation operations within 30 days of the MRPAM's decision to accept the identified methane gas reserve. EM is required to obtain an exploitation license before commencing exploitation of the TT CBM Project, such exploitation to be for a period of up to 30 years with the potential for an extension of up to 5 years. The PSA otherwise contains provisions relevant to exploitation, including but not limited to water use, overlap of boundaries, the reporting requirements to be complied with by EM as part of exploitation activities and decommissioning.

EM shall be liable for all expenses incurred in connection with Methane gas exploration, construction, operations, and decommissioning. The PSA includes detailed provisions with respect to recoverable costs and expenses.

The PSA contains a requirement for profit sharing with the Mongolian Government at various percentage rates which vary depending on levels of production. As noted in the Technical Expert's Report in section 8, those production splits typically range between 20% and 50%. The production sharing rates in the PSA are within the industry standard ranges cited in the Technical Expert's Report.

The following bonuses and service fees are payable by EM to the state budget:

- Signing bonus
- Training bonus.
- A bonus to support the activities of MRPAM.
- A bonus to assist with local development.
- Bonus after extraction commences.
- Bonus when average daily production is greater than a certain amount.
- service fees specified in the Law on Petroleum.





## 14. ADDITIONAL INFORMATION

This PSA shall be terminated by decision of the Government for reasons provided in Article 12 of the Law on Petroleum and those mentioned below based upon grounds provided by MRPAM:

- If EM has failed to commence the exploration operations provided in the exploration work program and budget within 180 (one hundred eighty) days after concluding the PSA;
- If EM fails to fulfill its obligations under the PSA or has repeatedly not remedied or begun to remedy serious breaches within the period set by MRPAM for remedy of said breaches;
- If the Government of Mongolia decides to exercise its rights pursuant to law and of this PSA, and has so notified EM in writing, and EM has failed to remedy or begun to remedy the above breach within 30 (thirty) days after notification was given.

EM may submit a request to terminate PSA on the following grounds to MRPAM in writing 90 (ninety) days in advance:

- it considers conducting methane gas exploitation economically unprofitable; or
- if emergencies or force majeure events will continue for a year or more.

If the PSA has been terminated EM shall pay the fee for the work that has not been completed to MRPAM for the particular contract year and shall have the right to remove from Mongolia all movable property, used in respect of methane gas exploration and exploitation operations that is leased or owned by EM.

If the fact of serious harm to the environment or the failure to fulfill the environmental protection and restoration obligations on several instances has been established by a competent body, the PSA shall be terminated. The termination of the PSA does not free EM from its obligation of environmental protection and restoration.

The PSA otherwise contains terms typical for arrangements of this kind, including but not limited to the mechanics for the measurement of methane gas, the proposed pricing model and considerations for CBM, provisions with respect to taxation and accounting requirements, obligations on EM with respect to compensation and maintenance of insurance and dispute resolution mechanisms.

### 14.4.2 MGR Shareholders Agreement

In May 2019, JMM entered into a shareholders' agreement (**MGR SHA**) with EM under which they agreed to establish a joint venture company (being MGR) and cooperate implementing exploration of the TT CBM Project. JMM and EM concurrently entered into the MGR Investment Agreement which is summarised in section 14.4.3.

The MGR SHA sets out the rights and obligations of JMM and EM as shareholders, including but not limited to in respect of the following matters:

- The initial shareholding proportions of MGR and EM are 60% JMM and 40% EM. In order to obtain their respective proportion ownership of MGR noted above, JMM is obliged to fund MGR in accordance with the MGR Investment Agreement and EM is required to transfer the outcome of the prospecting works which is considered as an exclusive right under the PSA.
- The board of MGR shall consist of five Directors, two nominated by EM and three nominated by JMM. Two thirds of the Directors constitute a quorum. Should the proportion shareholdings change, all directors shall be appointed by shareholders' meeting on a pro-rata basis.
- The Chairman of the board has a casting vote in the event of deadlock.
- The Board may exercise powers in connection with MGR other than in respect of specific matters that are reserved for shareholders and require approval of holders of two thirds of all voting rights present at a shareholder meeting to be in favour to pass. These matters include, but are not limited to, amendment of the charter of MGR, any reorganisation of the capital of MGR, any issue of additional shares in MGR and completion of any conflict of interest transactions. Decisions regarding other matters required under Mongolian company law shall be approved and adopted by a simple majority of shareholder votes.
- JMM will, or may appoint and replace any of its affiliates to, act as manager of the operations to be conducted by MGR, including but not limited to operating, maintaining and protecting the property of MGR, preparing and lodging all statutory reports related to the TT CBM Project and obeying all applicable laws of Mongolia and local government requirements in relation to the conduct of the operations of MGR. The manager must nominate an executive director of MGR for appointment by the board of MGR. The manager is liable to MGR for claims, costs, expenses, losses and liabilities sustained where same results from gross negligence or wilful default in performing its obligations under the MGR SHA of the manager.
- Subject to the commencement of production on the TT CBM Project, the board of MGR may resolve for MGR to distribute dividends on a pro rata basis having regard to the audited annual reports and future cash requirements of MGR, including actual and contingent liabilities.





- The MGR SHA sets out preference shares terms it being noted no preference shares have been issued. Preference shares including preferences in respect to the payment of dividends and upon liquidation of MGR, as well as voting rights in respect of certain shareholder matters including but not limited to adoption or amendments of, or a new version of, the charter of MGR that limit the rights of such preference share holder and entering into any major transaction agreement stated in the Company law of Mongolia. Preference shares may be issued as provided for in the MGR Investment Agreement.
- JMM and EM must provide written notification to the other party within five business days following the occurrence of any change of control event.
- Neither party can grant security over their shares in MGR without mutual consent and subject to meeting the following requirements:
  - o the pledge is granted to an internationally recognised financial institution as agreed between the parties;
  - o either party gave 45 days prior written notice to the board of MGR;
  - o the pledge is granted in writing;
  - o a copy of the draft pledge must be provided to the other party at least 30 business' days prior; and
  - o the pledge may not affect the other party's rights under the MGR SHA.
- Neither JMM nor EM may transfer their shares in MGR to any third party without the prior written consent of the other party, except where transferring such shares to an affiliate in compliance with the MGR SHA. In addition, EM may partially transfer a certain percentage of its interest in MGR to another Mongolian state owned enterprise without restriction.

The MGR SHA may be terminated where:

- JMM and EM terminate the MGR SHA by written agreement;
- MGR is liquidated;
- MGR's Board determines that the feasibility study conducted in respect of the TT CBM Project establishes that the TT CBM Project is not economically viable;
- there is failure of a significant contractual obligation, and/or significant warranty and representation are incorrect or untruthful and cannot be rectified or is incapable of being rectified within 90 days;
- there is a significant failure to fulfill the obligations under the MGR SHA and the MGR Investment Agreement and additional time is given but the result is not achieved, or it is obvious that no result could be achieved; or
- JMM fails to complete the feasibility study within the period under the MGR Investment Agreement.

If the MGR SHA is terminated due to the circumstances outlined above, JMM is obliged to transfer its shares in MGR to EM without demanding or requiring any costs, expenses, compensation or payment. The MGR SHA may also be cancelled or terminated by mutual consent if execution of substantially all works in progress is prevented for a continuous period of 90 days by reason of force majeure and it is indefinite when the event will be stopped.

The MGR SHA is governed by the laws of Mongolia and dispute resolution is subject to the Singaporean International Arbitration Rules. The MGR SHA otherwise contains terms typical for arrangements of this kind, including provisions with respect to confidentiality, basic warranties and representations regarding power and compliance with Mongolian law and dispute resolution provisions.

#### 14.4.3 Investment Agreement – MGR

In May 2019, JMM entered into an investment agreement (**MGR Investment Agreement**) with EM in connection with the investment, funding and legal framework of the feasibility study proposed to be conducted in respect of the TT CBM Project. The MGR Investment Agreement contemplates the incorporation of MGR.

The MGR Investment Agreement expires on 20 May 2022 (unless terminated earlier as described below) and may be extended for an additional three years if JMM experiences any delay beyond its control, with such extension to reflect the length of such delay. If JMM fails to complete works related to phase one and/or the feasibility study in accordance with this timeline, JMM shall transfer its interest in JGM to EM at no cost.

MGR shall be the operator company for the TT CBM Project and the party to the Production Sharing Agreement with the government of Mongolia (notably the MRPAM). EM grants its right of the Production Sharing Agreement to MGR. A summary of the Production Sharing Agreement is set out in section 14.4.

JMM agrees to solely fund phase one of the development of the TT CBM Project, which comprises all activities necessary to





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deliver and submit the feasibility study to the Mineral Council of Mongolia, including the prospecting and exploration activities, obligations under the Prospecting Agreement, conducting a preliminary technical due diligence of the Project and optimised drilling programs.

EM will be free-carried until the completion of the phase one, following which JMM and EM shall be obligated to fund and/or finance all expenditures of further development. Other than where JMM exercises its option as described below, JMM and EM will finance phase two of the development of the TT CBM Project proportionately based on their respective shareholdings in MGR. Phase two includes financing activities necessary to construct and operate a gas operation and building of infrastructure relating to the methane gas processing plant.

EM is granted an option under the MGR Investment Agreement to increase its shareholding in MGR by up to 20% by acquisition of shares in MGR from JMM. EM may exercise this option within six months once the relevant decision is made following completion of the feasibility study at the TT CBM Project. If EM decides to exercise its option, it must commit to pay an agreed amount based on the equivalent of the additional shares acquired as a percentage of the net present value with a discount rate at 10% calculation of the feasibility study. JMM will place the proceeds into an account to be used to finance JMM's pro-rated capex commitments on the TT CBM Project.

If EM determines it is not able to finance its proportion of phase two development expenditure, JMM is granted an option to increase its shareholding in MGR by up to 20% based on the results of the feasibility study. This option may be exercised by JMM within six months once EM officially notifies JMM that it is not able to finance its proportion of the phase two expenditure. EM will place the proceeds into an account to be used to finance EM's pro-rated capex commitments on the TT CBM Project. MGR shall issue preferred shares equal to the number of common shares owned by EM to JMM in compliance with Article 274 of the Civil Code of Mongolia. Following exercise of its option by JMM and acquisition of up to the additional 20% interest EM will be free-carried until completion of Phase two.

Relevant matters related to the options shall be regulated by a separate agreement to be prepared in future.

MGR will prepare and deliver EM quarterly reports about the activities and related costs and expenses of the activities and copies of annual reports and plans lodged to MRPAM in accordance with the requirements and terms of applicable laws of Mongolia. EM will have full access to all geological, prospecting and exploration data and laboratory test results.

JMM warrants and represents to EM that JMM does not prevent EM from exercising their rights and obligations under the Agreement, JMM holds necessary approvals or licenses, JMM's representative signing the MGR Investment Agreement has full authority to represent JMM, JMM has experience, capacity and team to fulfill or complete the obligations under the MGR Investment Agreement and JMM will comply with relevant laws, regulations and standards of Mongolia. EM warrants and represents to JMM that EM executed the Prospecting Agreement with MRPAM for conducting prospecting activities for Methane gas for the TT CBM Project and EM will grant their rights of the Production Sharing Agreement with MRPAM to JMM.

The MGR Investment Agreement will be breached or defaulted where:

- A party has failed to perform their obligations under the MGR Investment Agreement; or
- A defaulting party's non-observance of its obligations, not taking any significant actions within ninety (90) days after receiving notice from non-defaulting party to remedy the fault.

In the case of a breach, the non-defaulting party shall be entitled to seek equitable relief, such as compensation of losses and damages due to a failure or breach.

The MGR Investment Agreement may be terminated where:

- MGR's Board determines that the feasibility study establishes that the TT CBM Project is not economically viable;
- there is failure of contractual obligations and/or warranty(ies) and representation(ies) are incorrect or untruthful;
- there is a significant failure by JMM to fulfill its obligations and additional time is given but the result is not achieved, or it is obvious that no result could be achieved; or
- JMM fails to complete the feasibility study within the period under the MGR Investment Agreement.

If the MGR Investment agreement is terminated due to the circumstances outlined above, JMM is obliged to transfer its shares in MGR to EM without demanding or requiring any costs, expenses, compensation or payment. JMM shall also transfer and deliver all reports, data, research and survey results, as well as test results to EM. The parties may also terminate the MGR Investment Agreement by mutual agreement.

Either JMM or EM may transfer any or all of the shares it holds in MGR to its affiliate(s) without restriction including in respect of any pre-emptive or other rights of first refusal. EM may also transfer partially or a certain percentage of its interest in MGR to another Mongolian state owned enterprise on the same basis.





The MGR Investment Agreement is governed by the laws of Mongolia and dispute resolution is subject to the Singaporean International Arbitration Rules. The MGR Investment Agreement otherwise contains terms typical for arrangement of this kind, including MGR being responsible for all relevant taxes, each party being responsible for its own costs and provisions with respect to confidentiality and dispute resolution.

### 14.4.4 Cooperation Agreement

In June 2019, EM and Erdenes Tavan Tolgoi JSC ("**Erdenes TT**") entered into an agreement to cooperate in relation to the framework of information that has been exchanged during the prospecting, exploration, research and survey, development and production of coalbed methane gas at coal deposits MV-016881, MV- 016882, MV-016883, MV-011943, MV-011953, MV-011954, MV- 011955, and MV-011956 ("**Cooperation Agreement**").

The Cooperation Agreement was in place for an initial term to 25 June 2021 and was extended until 25 June 2023 by mutual agreement between Erdenes TT and EM.

The parties agreed to matters including, but not limited to, the following under the Cooperation Agreement:

- establish a joint working group for the purpose of prospecting, exploration, mining, production and research activities;
- harmonize the implementation of methane gas prospecting, exploration, mining, production and research plans and projects with each other and especially with Erdenes TT's mid and long term mine works plan and coal exploration and mining activities;
- cooperate in a mutually beneficial manner by aiming to keep the negative impacts at a minimal level and without interfering in each other's activities;
- promptly exchange the information with regards to the coal and methane gas reserves detected during the prospecting, exploration and mining activities;
- jointly use the water reserves identified in the course of prospecting, exploration and mining activities;
- provide an opportunity to jointly utilize the infrastructure developed in the course of prospecting, exploration, exploitation and production activities;
- comply with and correlate the labour safety and health rules with Erdenes TT labour safety and health rules in effect; and
- review the implementation of this agreement annually and discuss the outcomes of the review within the first quarter of the review year.

EM's obligations under the Cooperation Agreement include, but are not limited to:

- complying with and operating in coordination with the relevant Mongolian laws and regulations and the rules and regulations of Erdenes TT, labour safety regulations and environmental and rehabilitation regulations;
- providing the geologists of Erdenes TT with an opportunity to be involved in methane gas research activities and analysis;
- obtaining all requisite permits required for the prospecting and exploration activities and provide the conditions to commence and proceed with the prospecting activities;
- harmonizing the methane gas work project and plans with Erdenes TT's action plan and, if the comments provided by Erdenes TT are not incorporated into the plans of EM, EM is to provide an explanation of why that is the case the Erdenes TT;
- cooperating with the Erdenes TT's geologists team in developing the exploration work plan;
- providing information with regards to the action plan, schedule, workforce, equipment and location of the site to Erdenes TT on request;
- providing all results of the methane prospecting and exploration activities to Erdenes TT on a timely basis, including if coal resources are discovered on the relevant area;
- maintaining and monitor safety conditions of the site including ensuring the protection and safety of the exploration team and visitors, including providing equipment and supplies;
- bearing all of the costs associated with the methane prospecting, exploration, research activities and a feasibility study and all environmental rehabilitation and hand over to the local administration following completion of exploration.

Erdenes TT must involve its geologists in all levels of methane gas prospecting, exploration, mining and research activities. Erdenes TT must demand EM to comply with the contractual obligations and relevant legislation.





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A party must not assign their obligations under the Cooperation Agreement to a third party without obtaining prior written consent.

The Cooperation Agreement may be terminated:

- where a party fails to perform or properly perform the obligations stated in the Cooperation Agreement, the other party may terminate the Cooperation Agreement; or
- the parties have mutually agreed to terminate the Cooperation Agreement.

A party that has fails to perform or breached the obligations under the Cooperation Agreement will be responsible for the damages, losses, expenses and liabilities incurred to the other party. A party in breach of the labour safety and safety rules will be fully responsible for the loses and damages incurred.

The Cooperation Agreement is governed by the Laws of Mongolia and dispute resolution is subject to the Singaporean International Arbitration Rules.

### 14.4.5 Baruun Naran Shareholders Agreement

In August 2019, JGM entered into a shareholders' agreement (**BNG SHA**) with Khangad Exploration LLC (**KE**) in which they agreed to establish a joint venture company (being BNG) and cooperate implementing the exploration of the BNG CBM Project. JGM and KE concurrently entered into the BNG Investment and Management Agreement which is summarised in section 14.4.

The BNG SHA sets out the rights and obligations of JGM and KE as shareholders, including but not limited to in respect of the following matters:

- The initial shareholding proportions of JGM and KE are 66% JGM and 34% KE. JGM is obliged to fund BNG in accordance with the Investment Agreement and KE is required to cooperate with JGM in order to ensure that BNG is granted with a prospecting agreement and further with a production sharing agreement by MRPAM and the Government of Mongolia respectively in order to implement the BNG CBM Project.
- The board of BNG shall consist of five Directors, two nominated by KE and three nominated by JGM. Two thirds of the Directors constitute a quorum. Should the proportion shareholdings change, all directors shall be appointed by shareholders' meeting on a pro-rata basis.
- The Board may exercise powers in connection with BNG other than in respect of specific matters that are reserved for shareholders and require approval of holders of two thirds of all voting rights present at a shareholder meeting to be in favour to pass. These matters include, but are not limited to, amendment of the charter of BNG, any reorganisation of the capital of BNG, any issue of additional shares in BNG and completion of any conflict of interest transactions. Decisions regarding other matters required under Mongolian company law shall be approved and adopted by a simple majority of shareholder votes.
- JGM will, or may appoint and replace any of its affiliates to, act as manager of the operations to be conducted by BNG, including but not limited to operating, maintaining and protecting the property of BNG, preparing and lodging all statutory reports related to the BNG CBM Project and obeying all applicable laws of Mongolia and local government requirements in relation to the conduct of the operations of BNG. The manager must nominate an executive director of BNG for appointment by the board of BNG. The manager is liable to BNG for claims, costs, expenses, losses and liabilities sustained where same results from gross negligence or wilful default in performing its obligations under the BNG SHA of the manager.
- Subject to the commencement of production on the Baruun Naran Project, the board of BNG may resolve for BNG to distribute dividends on a pro rata basis having regard to the audited annual reports and future cash requirements of BNG, including actual and contingent liabilities.
- JGM and KE must provide written notification to the other party within five business days following the occurrence of any change of control event.
- Neither party can grant security over their shares in BNG without mutual consent and subject to meeting the following requirements:
  - the pledge is granted to an internationally recognised financial institution as agreed between the parties;
  - either party gave 45 days prior written notice to the board of BNG;
  - the pledge is granted in writing;





- o a copy of the draft pledge must be provided to the other party at least 30 business' days prior; and
- o the pledge may not affect the other party's rights under the BNG SHA.
- Neither JGM nor KE may transfer their shares in BNG to any third party without the prior written consent of the other party, except where transferring such shares to an affiliate in compliance with the BNG SHA.

The BNG SHA may be terminated where:

- JGM and KE terminate the BNG SHA by written agreement;
- BNG is liquidated;
- BNG's Board determines that the feasibility study conducted in respect of the Baruun Naran Project establishes that the Baruun Naran Project is not economically viable;
- there is failure of a significant contractual obligation, and/or significant warranty and representation are incorrect or untruthful and cannot be rectified or is incapable of being rectified within 90 days;
- the parties are not able to reach a consensus to pursue phase two of the Baruun Naran Project following completion of its phase one as contemplated in the Baruun Naran Project Investment Agreement;
- there is a failure to amend or revise the BNG SHA and the charter of BNG prior to the commencement of phase two of the Baruun Naran Project as stated in the Baruun Naran Project Investment Agreement;
- there is a significant failure to fulfill the obligations under the BNG SHA and the Baruun Naran Project Investment Agreement and additional time is given but the result is not achieved, or it is obvious that no result could be achieved;
- JGM fails to complete the feasibility study within the period stated under the BNG Investment and Management Agreement; or
- Following phase one of the Baruun Naran Project under the Baruun Naran Project Investment Agreement, JGM and KE are not able to reach consensus to pursue the Baruun Naran Project to phase two.

If the BNG SHA is terminated due to the circumstances outlined above, JGM is obliged to transfer its shares in BNG to KE for all including consideration of USD\$1.00 only, without demanding or requiring any costs, expenses, compensation or payment. The BNG SHA may also be cancelled or terminated by mutual consent if execution of substantially all works in progress is prevented for a continuous period of 90 days by reason of force majeure and it is indefinite when the event will be stopped. The BNG SHA may also be terminated if there is failure by the parties to amend the BNG SHA and the charter of BNG prior to commencement of phase two under the Baruun Naran Project Investment Agreement.

The BNG SHA is governed by the laws of Mongolia and dispute resolution is subject to the Singaporean International Arbitration Rules. The BNG SHA otherwise contains terms typical for arrangements of this kind, including provisions with respect to confidentiality, basic warranties and representations regarding power and compliance with Mongolian law and dispute resolution provisions.

### 14.4.6 *Baruun Naran Investment and Management Agreement*

In August 2019, JGM entered into an investment and management agreement (**BNG IMA**) with KE in connection with the investment, funding and legal framework of the feasibility study proposed to be conducted in respect of the BNG CBM Project. The BNG IMA contemplates the incorporation of BNG.

The BNG IMA expires on 14 August 2025 (unless terminated earlier as described below) and may be extended for up to an additional six years if the delay was caused by reasons beyond the control of JGM and subject to the required agreement or grant of the extension by respective state authorities.

BNG will apply for a Prospecting Agreement and shall be the operator company for the BNG CBM Project and the party to the Production Sharing Agreement (**PSA**) with the government of Mongolia (notably the MRPAM).

JGM agrees to solely fund phase one of the development of the Baruun Naran Project, which comprises all activities necessary to deliver and submit the feasibility study to the Mineral Council of Mongolia, including the prospecting and exploration activities, obligations under the Prospecting Agreement, conducting a preliminary technical due diligence on the Project and optimising drilling programs.

KE will be free-carried until the completion of phase one, following which JGM and KE shall be obligated to fund and/or finance all expenditures of further development. JGM and KE will finance phase two of the development of the Baruun Naran Project by mutual agreement with respect to phase two, which shall include detailed terms and conditions of each parties involvement in further development of the Baruun Naran Project, including the relevant funding obligations of each of JGM and KE.





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JGM will prepare and deliver KE timely reports about the activities and related costs and expenses of the activities of BNG at any given time requested by KE and, during Phase 1 of the Baruun Naran Project, JGM is responsible for ensuring that BNG prepare and submit reports and plans to MRPAM in accordance with the requirements and terms of applicable laws of Mongolia. KE will have full access to all geological, prospecting and exploration data and laboratory test results.

JGM warrants and represents to KE that JGM does not prevent KE from exercising their rights and obligations under the Agreement, JGM holds necessary approvals or licenses, JGM's representative signing the Agreement has full authority to represent the company, JGM has experience, capacity and team to fulfill or complete the obligations under the Agreement and JGM will comply with relevant laws, regulations and standards of Mongolia. KE warrants and represents to JGM that KE will cooperate with its best efforts for BNG to be granted and awarded a Prospecting Agreement with MRPAM and PSA with MRPAM and the Government of Mongolia for conducting prospecting and explorations activities for the Baruun Naran Project.

The IMA may be terminated where:

- BNG's Board determines that the feasibility study establishes that the BNG CBM Project is not economically viable;
- JGM fails to complete the feasibility study within the period under the BNG IMA. In such a case, JGM shall transfer and deliver all reports, data, research and survey results to KE. JGM will also be obliged to transfer its shares in BNG to BNG for \$1.00.

JGM and KE may otherwise termination the BNG IMA by mutual agreement.

The BNG IMA shall be deemed as breach or default where:

- A party has failed to perform their obligations under the BNG IMA; or
- A defaulting party's non-observance of its obligations, not taking any significant actions within ninety (90) days after receiving notice from non-defaulting party to remedy the fault.

Either JGM or KE may transfer any or all of the shares it holds in BNG to its affiliate(s) without restriction including in respect of any pre-emptive or other rights of first refusal.

The BNG IMA is governed by the laws of Mongolia and dispute resolution is subject to the Singaporean International Arbitration Rules.

### Transaction documentation

#### 14.4.7 Implementation Agreement

On 4 August 2020, the Company entered into an implementation agreement with Jade and certain key shareholders of Jade that set out the terms upon which the Company would acquire all of the issued shares, and rights convertible to shares, in Jade for aggregate consideration comprising the New Shares and New Options under the Vendor Offer (being the Transaction). The Company also agrees to appointment Joseph Patrick Burke and Daniel William Eddington as Directors on and from completion of the Transaction.

The implementation agreement was subsequently supplemented by formal sale documentation executed by the Company and each Jade Vendor, the terms of which are summarised below.

Completion of the Transaction and therefore the implementation agreement remains subject to and conditional upon the conditions precedent to the Transaction as described in detail on section 2.1.

The implementation agreement otherwise contains the following terms:

- Jade and the key Jade shareholders agreeing to certain pre-completion covenants with respect to the activities of Jade and completion of the Transaction, including in respect of the capital structure and material contracts of Jade and specific actions to be taken by Jade in connection with the licences it, or its subsidiary(ies), hold.
- The key Jade shareholders providing a statement of intentions in connection with the Transaction which accompanied and formed part of the notice of meeting for the Shareholder Meeting.
- Warranties from the Company, Jade and the key Jade shareholders including with respect to title and power and no insolvency of the parties, with Jade providing additional warranties with respect to the licenses. The formal sale documentation described below include additional warranties.
- Provisions typical for agreements of this kind, including but not limited to with respect to confidentiality, dispute resolution and governing law.



## 14. ADDITIONAL INFORMATION



**JADE GAS**

### 14.4.8 Share and convertible note sale deeds

The Company has entered into:

- A share sale deed with each of the holders of all the issued shares of Jade; and
- A convertible note sale deed with each holder of notes convertible to shares in Jade,

the share sale deeds and convertible note sale deeds are referred to collectively as the formal sale documentation. The share sale deed and convertible note sale deed have the same terms other than in respect of the reference to the interest being acquired (shares compared to notes) and the share sale deed also including references to the New Options, which are only being issued to the Jade Vendors who are shareholders of Jade.

Completion of the formal sale documentation is subject to completion of the implementation agreement. The completion of the implementation agreement remains subject to and conditional upon the conditions precedent to the Transaction as described in detail on section 2.1.

If completion of the formal sale documentation has not occurred by 1 November 2021 or the implementation agreement is termination, the formal sale documentation will be immediately terminated.

Each Jade Vendor grants to the secretary of Jade a power of attorney to do all acts and things and to complete and execute any documents, including transfers or assignments, share applications and escrow agreements, on behalf of the respective Jade Vendor as necessary for completion of the Transaction. Each Jade Vendor also acknowledges that ASX may impose escrow on the New Shares and/or New Options issued as consideration under the Transaction and agrees to provide a restriction deed, in a form satisfactory to ASX, to the Company as a condition of completion of the Transaction.

Each Jade Vendor provides warranties typical for arrangements of this kind, including but not limited to in respect of the ownership of the relevant securities in Jade free from all encumbrances, the Jade Vendors having taken all actions to execute, deliver and perform their obligations under the formal sale documentation and warranties with respect to the solvency of the Jade Vendor.

The formal sale documentation otherwise contains terms typical for arrangements of this kind, including in respect of confidentiality, the payment of stamp duty and governing law.

### 14.4.9 Lead Manager Mandate – Canaccord

Canaccord Genuity (Australia) Limited [ABN 19 075 071 466] [AFSL 234666] (**Canaccord** or the **Lead Manager**) has been engaged by the Company to act as the Lead Manager of the Equity Offer pursuant to the terms of a mandate letter (**Mandate**).

Under the Mandate, Canaccord has agreed, amongst other matters, to assist in the management and marketing of the Equity Offer (including identifying suitable potential investors to participate in the Equity Offer), providing advice as to the appropriate timing and structure of the Equity Offer, assist in the preparation of marketing documentation required in connection with the Equity Offer and the provision of other services in connection with the Equity Offer that are typical for arrangements similar to the Mandate.

Canaccord will receive (subject to and conditional upon successful completion of the Equity Offer) the following consideration for acting as Lead Manager and providing the services under the Mandate:

- A cash fee of 2% of the total amount raised under the Equity Offer as a management fee; and
- A cash fee of 4% of the total amount raised under the Equity Offer as a capital raising fee, which is payable to Canaccord and/or its nominee(s) as directed by Canaccord; and
- The issue to Canaccord and/or its nominee(s) of an aggregate of 12 million unlisted options (being the Broker Options). Canaccord will pay the Company \$50 in consideration for the issue of the Broker Options. In accordance with the valuation set out in Section 6.5, each Broker Option is attributed a value of \$0.016 (1.6 cents) (12,000,000 Broker Options having an aggregate value of \$192,064). Details of the valuation method used to value the Broker Options is set out in Section 6.5. The full terms of Broker Options are set out in Sections 14.3(b).

Canaccord is also entitled to be reimbursed for reasonable out-of-pocket and travel expenses incurred in connection with its role under the Mandate, with prior approval being required for such expenses that exceed \$2,000. Canaccord is also entitled to reasonable legal fees in connection with its role under the Mandate, such legal fees not to exceed \$20,000 without prior approval of the Company.

If the Company does not proceed with the Equity Offer and, within three months of the date of the Mandate, makes and completes another offer of securities to raise capital which is not lead managed solely by Canaccord on the same terms as the Mandate, the Company must pay Canaccord the fees under the Mandate described above in respect of such other offer.





## 14. ADDITIONAL INFORMATION

If, during the period of 12 months from the earlier of the completion of the Equity Offer or termination of the Mandate, the Company undertakes any form of equity or hybrid capital raising, the Company agrees to offer the Lead Manager the opportunity to act as a joint lead or lead manager in respect of such raising, on terms as negotiated and agreed.

The Mandate may be terminated by Canaccord providing 30 days written notice to the Company, or by the Company at any time if Canaccord commits a material breach of the Mandate. Unless otherwise extended by agreement, the Mandate is in effect for an initial term of 12 months.

The Mandate otherwise contains terms consistent with similar arrangements, including but not limited to the provision of warranties and indemnities from the Company for the benefit of Canaccord, a requirement for the Company to consult with Canaccord regarding releases, and provisions with respect to confidentiality.

### **Director engagement materials**

#### *14.4.10 Executive services agreement – Joseph Patrick Burke*

The Company has entered into an executive services agreement for the appointment of Joseph Patrick Burke as an Executive Director of the Company, with effect on and from completion of the Transaction.

The Company has engaged Joseph Patrick Burke to provide the services as an Executive Director of the Company, including without limitation to manage and maintain stakeholder relationships, work with the Board to develop a suitable business plan and companywide strategy and to seek to deliver value to all shareholders of the Company.

The Company has agreed to pay Joseph Patrick Burke \$10,000 per month for providing the services of an Executive Director, as well as reimbursing all reasonable out of pocket expenses.

The executive services agreement provides various circumstances where Joseph Patrick Burke may be terminated as an executive director, including where Joseph Patrick Burke: is prohibited by law from acting as a director, becomes of unsound mind, is removed by resolution of the shareholders, becomes bankrupt or otherwise makes an arrangement or composition with their creditors or is not re-elected when retiring by rotation. Either party may also terminate the executive services agreement upon 30 days written notice to the other party.

The executive services agreement otherwise contains terms typical for arrangements of this kind, including provisions relating to confidentiality and rights of access to corporate information and a requirement for Joseph Patrick Burke to disclose matters to the Company to allow it to comply with its reporting and regulatory requirements.

#### *14.4.11 Existing Executive Service Agreements*

The Company notes that it currently has existing executive service agreements in placement with Anthony Hall and Brad Drabsch (or entities associated with them). These arrangements will be terminated at completion of the Offers and Anthony Hall and Brad Drabsch will be engaged as non-executive directors on terms set out below.

#### *14.4.12 Non-Executive Director engagement materials*

Each of the existing and proposed non-executive Directors have been engaged pursuant to appointment letters with substantially consistent terms. For the avoidance of doubt, these terms reflect the engagement of Daniel William Eddington as a non-executive Director on and from completion of the Transaction and the terms of engagement for each of Anthony David Hall and Bradley James Drabsch following their transition(s) from executive to non-executive Directors.

The respective remuneration of the existing non-executive Directors is set out in section 10.2. The non-executive Directors are also entitled to be reimbursed for reasonable out of pocket expenses.

Each of the proposed and continuing non-executive Directors also may receive fees for consulting services performed that are outside of the scope of their role as a non-executive Director, as agreed between the Company and the relevant non-executive Director.

The office of a non-executive Director becomes vacant in each of the following circumstances where the Director: resigns, is prohibited by law from acting as a director, becomes of unsound mind, is removed by resolution of the shareholders, becomes bankrupt or otherwise makes an arrangement or composition with their creditors or is not re-elected when retiring by rotation. The Constitution also provides circumstances whether the office of a non-executive Director becomes vacant.

The non-executive Directors are otherwise engaged on terms typical for arrangements of this kind, including provisions relating to confidentiality and rights of access to corporate information, acknowledgement and confirmation of powers and duties he has as a Director and a requirement to disclose matters to the Company to allow it to comply with its reporting and regulatory requirements.





#### 14.4.13 Deeds of access, indemnity and insurance

The Company has entered into deeds of access, indemnity and insurance (**DAll**) with each of the existing and proposed Directors. The DAll provide for the Company indemnifying the relevant Director(s) to the maximum extent permitted by law in a number of circumstances, including but not limited to against any liability incurred as an officer of the Company or a related body corporate and in connection with reasonable costs and expenses incurred in connection with defending a claim or proceeding. The indemnities provided by the Company are subject to certain distinct exceptions, including where a liability is incurred by, or a claim or proceeding arising against, a Director in relation to conduct involving a lack of good faith by the Director.

Where the Company indemnifies the Director under the DAll, the Company will be entitled to conduct the defence of any claim under its sole management and control and at its sole cost. Where the Company conducts a defence, the Director must promptly render all reasonable assistance and co-operate with the Company. The Director may engage separate representation and participate in the defence of any claim made against them in their capacity as a Director of the Company.

In accordance with the DAll, Director may request and be provided with access to certain records of the Company at any time up to the latter of seven years after that relevant Director ceases to act or the period (if any) during any threatened or commenced proceeding during that seven year period. The Company will also maintain reasonable Directors' and Officers' insurance for the Director during the period for which the Director is able to access the records of the Company, such insurance to be in accordance with the terms of the DAll.

The DAll otherwise contains provisions typical for arrangements of this kind, including the Company notifying the Director of any claims and/or potential claims, confidentiality of information, the DAll applying to the extent permitted by law and the ongoing confidentiality and ownership of Company records.

#### 14.5 Litigation and claims

As at the date of this Prospectus the Company there is no legal proceedings to which the Company is a party that it believes are likely to have a material adverse impact on the future financial results of the Company and the Directors are not aware of any such legal proceedings that are pending or threatened.

#### 14.6 Consents

Each of the parties listed below (each a **Consenting Party**) has given its written consent and has not, before lodgement of this Prospectus with ASIC, withdrawn its consent to being named in this Prospectus in the form and context in which it is named and, where applicable, to the inclusion in this Prospectus of its report specified below and/or statements by it (and to references to or statements based on its report and/or statements) in the form and context in which its report or statements and references to or statements based on its report and/or statements appear:

- Canaccord Genuity (Australia) Limited as Lead Manager;
- BDO Audit (SA) Pty Ltd as auditor of the Company and Jade;
- BDO Corporate Finance (SA) Pty Ltd as the Investigating Accountant who prepared the Independent Limited Assurance Report and to inclusion of its Independent Limited Assurance Report in this Prospectus;
- RISC Advisory Pty Ltd as the author of the Technical Expert's Report and to inclusion of its Technical Expert's Report in this Prospectus;
- Minter Ellison LLP and ME MGL Advocates LLP as attorneys for the Company in Mongolia and as author of the Solicitor's Report on Oil & Gas Assets and to inclusion of its Attorney's Report on Oil & Gas Assets on this Prospectus;
- QR Lawyers Pty Ltd as legal advisors in relation to the Equity Offer; and
- Advanced Share Registry Limited as the Share Registry.





## 14. ADDITIONAL INFORMATION

### 14.7 Cost of the Offer

The total expenses of the Offer (excluding GST) are estimated to be approximately \$650,000

ASX Listing Fees	\$105,696
ASIC Lodgement	\$3,206
Independent Technical Report	\$10,000
Independent Accountant	\$25,000
Legal	\$45,000
Share Registrar	\$10,000
Other	-
<b>Sub-Total</b>	<b>\$198,902</b>
Capital Raising Fee (excludes Broker Options)	\$450,000
<b>Total</b>	<b>\$648,902</b>
Rounded up to nearest 000	\$650,000

In addition to the above, costs have been incurred by the Company in connection with the Company's notice of meeting and matters ancillary to this prospectus (refer section 10.3 for amounts paid to advisors in connection with these matters).

### 14.8 Working Capital

The existing and proposed Directors believe that upon completion of the Offers the Company will have sufficient working capital to carry out its objectives as stated in this Prospectus.

### 14.9 Continuous disclosure obligations

Following relisting, the Company will be a "disclosing entity" (as defined in Section 111AC of the Corporations Act) and, as such, is subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company will be required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of the Company's Shares.

Price sensitive information will be publicly released through ASX before it is disclosed to shareholders and market participants. Distribution of other information to shareholders and market participants will also be managed through disclosure to the ASX.

In addition, the Company will post this information on its website after the ASX confirms an announcement has been made, with the aim of making the information readily accessible to the widest audience.

### 14.10 Dividend Policy

Following completion of the Offers, the Company does not for the foreseeable future expect to pay a dividend. The Board of the Company from time to time will review the dividend policy on a regular basis. Any future payments of dividends will be at the discretion of the Board.

### 14.11 Governing law

The Offer and the contracts formed on return of an application or acceptance form are governed by the laws applicable in Victoria, Australia. Each person who applies for New Shares pursuant to this Prospectus submits to the non-exclusive jurisdiction of the courts of Victoria, Australia, and the relevant appellate courts.

### 14.12 Directors' Authorisation

This Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with section 720 of the Corporations Act, each Director and Proposed Director has consented, and as at the date of this Prospectus has not withdrawn his consent, to the lodgement of this Prospectus with ASIC.





Where the following terms are used in this Prospectus they have the following meanings:

**ASIC** means Australian Securities and Investments Commission.

**ASX** means ASX Limited (ACN 008 624 691) or the financial market operated by ASX Limited, as the context requires.

**ASX Listing Rules** means the Listing Rules of ASX.

**Baruun Naran Project** means the project to explore, develop and produce gas within coal mining licence (MV-014493).

**BNG** means Baruun Naran Gas LLC.

**BNG IMA** has the meaning set out in Section 14.4.6.

**BNG SHA** has the meaning set out in Section 14.4.5.

**Board** means the board of Directors as constituted from time to time.

**Broker Option** means an option to acquire a Share with an exercise price of \$0.045, expiry date of 3 years from issue and otherwise having the terms set out in section 14.3(b).

**Broker Option Offer** means the offer of 12,000,000 Broker Options to the Lead Manager and/or its nominee(s).

**Business Day** means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

**CHESS** the Clearing House Electronic Sub-register System.

**Closing Date** means the closing date of the Offer as set out in the indicative timetable in Section 3 of this Prospectus (subject to the Company reserving the right to extend the Closing Date or close the Offer early).

**Collecting Parties** has the meaning set out on page 1.

**Company** or **HGM** means High Grade Metals Limited (ACN 062 879 583).

**Consenting Party** has the meaning as set out in Section 14.6.

**Consolidation** means the 5 for 1 consolidation of the Company's issued capital.

**Constitution** means the constitution of the Company.

**Cooperation Agreement** has the meaning set out in Section 14.4.4.

**Corporations Act** means the Corporations Act 2001 (Cth).

**CSG or CBM** mean coal seam gas.

**DAII** has the meaning set out in Section 14.4.13.

**Directors** means the current directors of the Company at the date of this Prospectus.

**EM** means Erdenes Methane LLC.

**Equity Offer** means the offer of 250,000,000 New Shares at an issue price of \$0.03 (3 cents) per New Share to raise \$7.5 million before costs.

**Erdenes TT** means Erdenes Tavan Tolgoi JSC.

**Existing Directors** means Anthony Hall, Bradley Drabsch, Dennis Morton, Steve Formica and Adrien Wing, being the directors of the Company as at the date of this Prospectus.

**GDP** means gross domestic product.

**Incentive Option Offer** means the offer of 22,000,000 New Options to existing Directors (and/or their nominee(s)).

**Independent Limited Assurance Report** means the report attached at section 7.

**Jade** means Jade Gas Pty Limited (ACN 631 515 225).

**Jade Shareholders** means the holders of 100% of the issued capital and rights convertible to capital in Jade and **Jade Vendors** shall have a corresponding meaning.

**JGM** means Jade Gas Mongolia LLC.





## 15. GLOSSARY

**JMM** means Jade Methane LLC.

**Khangad Exploration** or **KE** means Khangad Exploration LLC.

**Lead Manager** means Canaccord Genuity (Australia) Limited [ABN 19 075 071 466] [AFSL 234666].

**Long Term Suspended Entity** has the meaning given in Section 2.7.

**Mbbl** means thousand barrels.

**MGR** means Methane Gas Resource LLC.

**MGR SHA** has the meaning set out in Section 14.4.2.

**MGR Investment Agreement** has the meaning set out in Section 14.4.3.

**MMC** means Mongolia Mining Corporation.

**MRPAM** means the Mineral Resources and Petroleum Authority of Mongolia.

**New Option** means an option to acquire a Share with an exercise price of \$0.045, expiry date of 30 June 2023 and otherwise having the terms set out in section 14.3(b).

**New Share** means a fully paid ordinary HGM share offered under this Prospectus.

**Offers** means collectively the Equity Offer, Vendor Offer, Incentive Option Offer and Broker Offer.

**Official List** means the official list of ASX.

**Official Quotation** means official quotation by ASX in accordance with the ASX Listing Rules.

**Personal Information** has the meaning set out on page 1.

**Proposed Directors** means Joseph Patrick Burke and Daniel William Eddington.

**Prospectus** means this prospectus.

**PSA** means production sharing agreement.

**Sale Deed** has the meaning set out in Section 2.1.

**Security** has the same meaning as that given in the ASX Listing Rules.

**Share** means a fully paid ordinary share in the capital of the Company.

**Share Registry** or **Registry** means Advanced Share Registry Limited.

**Shareholder** means a registered holder of a Share.

**Shareholder Meeting** means the meeting of Shareholders held on 30 June 2021 at which the resolutions required for the Transaction were approved.

**Transaction** means the acquisition by the Company of all the issued capital of Jade and **Acquisition** shall have a corresponding meaning.

**TT CBM Project** means the Tavan Tolgoi CBM Project, being the proposed exploration and exploitation of CSG potential in licences over approx. 665 km<sup>2</sup> including and surrounding the Tavan Tolgoi coal field in the South Gobi region of Mongolia.

**Vendor Offer** means the offer of 846,166,667 New Shares and 68,000,000 New Options to the Jade Vendors as consideration for acquisition by the Company of 100% of the issued capital of Jade.





### Existing Directors

Bradley James Drabsch  
Anthony David Hall  
Dennis James Morton  
Steven Allen Formica (proposed to retire)  
Adrien Michele Wing (proposed to retire)

### Proposed Directors

Joseph Patrick Burke  
Daniel William Eddington

### Company Secretary

Adrien Michele Wing

### Proposed ASX Code:

JGH

### Lead Manager to the Equity Offer

Canaccord Genuity (Australia) Limited  
Level 4, 60 Collins Street  
Melbourne VIC 3000

### Auditor

BDO Audit (SA) Pty Ltd  
Level 7, 420 King William Street  
Adelaide SA 5000

### Investigating Accountant

BDO Corporate Finance (SA) Pty Ltd  
Level 7, 420 King William Street  
Adelaide SA 5000

### Registered Office

Level 2, 480 Collins Street  
Melbourne VIC 3000  
Telephone: +61 (3) 9614 0600  
Facsimile: +61 (3) 9614 0550  
Website: <http://highgrademetals.com.au>

### Technical Expert

RISC Advisory Pty Ltd  
Level 2, 1138 Hay Street  
West Perth WA 6005

### Share Registry

Advanced Share Registry Limited  
110 Stirling Highway  
Nedland WA 6009

### Company's Legal Advisers in respect of the Equity Offer

QR Lawyers Pty Ltd  
Level 6, 400 Collins Street  
Melbourne VIC 3000

### Company's attorneys in Mongolia and author of the Solicitors Report on Tenure

### Minter Ellison LLP and ME MGL Advocates LLP

Central Tower, Sukhbaatar square  
2SBD-9 Ulaanbaatar, Mongolia



- I/We declare that I/we have received a copy of the Prospectus dated 14 July 2021 issued by High Grade Metals Limited and that I/we are eligible to participate in the Public Offer.
- I/We declare that all details and statements made by me/us are complete and accurate.
- I/We agree to be bound by the terms and conditions set out in the Prospectus and by the Constitution of the Company.
- I/We acknowledge that the Company will send me/us a paper copy of the Prospectus free of charge if I/we request so during the currency of the Prospectus.
- I/We authorise the Company to complete and execute any documentation necessary to effect the issue of Shares to me/us; and
- I/We acknowledge that returning the Application Form with the application monies will constitute my/our offer to subscribe for Shares in High Grade Metals Limited and that no notice of acceptance of the Application will be provided.
- I/We acknowledge that the Company retains absolute discretion to allocate any/all of the amount of Shares I/we have applied for under the Public Offer as these terms are defined in the Prospectus.



## INSTRUCTIONS FOR COMPLETION OF THIS APPLICATION FORM

### YOU SHOULD READ THE PROSPECTUS CAREFULLY BEFORE COMPLETING THIS APPLICATION FORM

Please complete all relevant sections of this Application Form using BLOCK LETTERS

The below instructions are cross-referenced to each section of the Application Form.

#### 1 Number of Shares

Applications for New Shares under the Equity Offer must be for a minimum of 66,667 New Shares (\$2,000) and thereafter in multiples of 33,334 New Shares (\$1,000)

#### 2 Payment Amount

Enter into section 2 the total amount payable. Multiply the number of Shares applied for by \$0.03 – the Offer Price per Share.

#### 3 Name(s) in which the Shares are to be registered

Note that ONLY legal entities can hold Shares. The Application must be in the name of a natural person(s), companies or other legal entities acceptable by the Company. At least one full given name and surname is required for each natural person.

#### CORRECT FORMS OF REGISTRABLE TITLE

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Trusts	Mr John Richard Sample <Sample Family A/C>	John Sample Family Trust
Superannuation Funds	Mr John Sample & Mrs Anne Sample <Sample Family Super A/C>	John & Anne Superannuation Fund
Partnerships	Mr John Sample & Mr Richard Sample <Sample & Son A/C>	John Sample & Son
Clubs/Unincorporated Bodies	Mr John Sample < Food Help Club A/C>	Food Help Club
Deceased Estates	Mr John Sample <Estate Late Anne Sample A/C>	Anne Sample (Deceased)

#### 4 Postal Address

Enter into section 4 the postal address to be used for all written correspondence. Only one address can be recorded against a holding. With exception to annual reports, all communications to you from the Company will be mailed to the person(s) and address shown. Annual reports will be made available online when they are released. Should you wish to receive a hard copy of the annual report you must notify the Share Registry. You can notify any change to your communication preferences by visiting the registry website – [www.advancedshare.com.au](http://www.advancedshare.com.au)

#### 5 CHESSE Holders

If you are sponsored by a stockbroker or other participant and you wish to have your allocation directed into your HIN, please complete the details in section 5.

#### 6 Email Address

You may elect to receive communications despatched by High Grade Metals Limited electronically (where legally permissible), such as the Company's annual report.

#### 7 TFN/ABN/Exemption

If you wish to have your Tax File Number, ABN or Exemption registered against your holding, please enter the details in section 7. Collection of TFN's is authorised by taxation laws but quotation is not compulsory, and it will not affect your Application Form.

#### 8 PAYMENT DETAILS

By making your payment, you confirm that you agree to all of the terms and conditions of High Grade Metals Limited's Public Offer as outlined in this Application Form and within the Prospectus.

#### Cheque or Money Order:

Your cheque should be made payable to "HIGH GRADE METALS LIMITED" in Australian currency, crossed "NOT NEGOTIABLE" and drawn on an Australian branch of a financial institution. Please complete your cheque with the details overleaf and ensure that you submit the correct amount, as incorrect payments may result in your Application being rejected.

Cheques will be processed on the day of receipt and as such, sufficient cleared funds must be held in your account as cheques returned unpaid may not be re-presented and may result in your Application being rejected. Paperclip (do not staple) your cheque(s) to the Application Form. Cash will not be accepted. A receipt for payment will not be forwarded. Completed Application Forms and accompanying cheques or money order must be received by Advanced Share Registry before 5:00pm (Sydney Time) on the Closing Date for the Public Offer at the following addresses:

#### Mailing Address

High Grade Metals Limited  
C/- Advanced Share Registry  
PO Box 1156  
Nedlands, WA 6909

#### Hand Delivery (Please do not use this address for mailing purposes)

High Grade Metals Limited  
C/- Advanced Share Registry  
110 Stirling Highway  
Nedlands, WA 6009

If the amount you pay is insufficient to pay for the number of Shares you apply for, you will be taken to have applied for such lower number of Shares as that amount will pay for, or your Application will be rejected.

#### 9 Contact Details

Please enter contact details where we may reach you between the hours of 9:00am and 5:00pm (WST) should we need to speak to you about your application.

#### 10 Declaration

Before completing the Application Form the Applicant(s) should read the Prospectus in full. By lodging the Application Form, the Applicant(s) agrees that this Application is for Shares in the Company, upon and subject to the terms of the Prospectus, agrees to take any number of Shares equal to or less than the number of Shares indicated in Section 1 that may be issued to the Applicant(s) pursuant to the Prospectus and declares that all details and statements made are complete and accurate. It is not necessary to sign this Application Form.

#### Privacy Statement

Personal information is collected on this form by ASW, as registrar for securities issuers ("the issuer"), for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. Your personal information may be disclosed to our related bodies corporate, to external service companies such as print or mail service providers, or as otherwise required or permitted by law. If you would like details of your personal information held by ASW, or you would like to correct information that is inaccurate, incorrect or out of date, please contact ASW. In accordance with the Corporations Act 2001, you may be sent material (including marketing material) approved by the issuer in addition to general corporate communications. You may elect not to receive marketing material by contacting ASW. You can contact ASW using the details provided on the front of this form.





**JADE GAS**

[WWW.JADEGAS.COM.AU](http://WWW.JADEGAS.COM.AU)