

**High
Grade Metals**

Interim Financial Report

**For the Half-Year Ended
30 June 2020**

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CORPORATE INFORMATION

Board of Directors

Mr Anthony Hall – Executive Chairman
Mr Bradley Drabsch – Executive Director
Mr Adrien Wing – Non-Executive Director
Mr Steven Formica – Non-Executive Director
Mr Dennis Morton – Non-Executive Director

Registered Office

Level 2
480 Collins Street
MELBOURNE VIC 3000
Phone: +61 3 9614 0600
Fax: + 61 3 9614 0550

Auditors

BDO Audit (SA) Pty Ltd
Level 7
420 King William Street
ADELAIDE SA 5000

Australian Solicitors

Baker McKenzie
Tower One – International Towers Sydney
Level 46, 100 Barangaroo Avenue
SYDNEY NSW 2000

Company Secretary

Mr Adrien M Wing

Company website

www.highgrademetals.com.au

Australian Securities Exchange Listing

Code: HGM (previously: QNL)

Share Registry

Advanced Share Registry Ltd
110 Stirling Highway
NEDLANDS WA 6009
Phone: +61 8 9389 8033

Austrian Solicitors

Baker McKenzie
Diwok Hermann Petsche Rechtsanwälte
LLP & Co KG
Schottenring 25
1010 WIEN
AUSTRIA

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DIRECTORS' REPORT

Your Directors submit their report for High Grade Metals Limited (“the Company” or “HGM”) and its controlled entities (“the Group”) for the six-month period ended 30 June 2020 (prior period comparatives 30 June 2019).

DIRECTORS

The names of the Company’s directors in office during the financial period and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Director	Position	Appointed	Last elected or re-elected	Resigned
Mr A Hall	Executive Chairman ⁽ⁱⁱⁱ⁾	11 February 2019	29 May 2019	-
Mr B Drabsch	Executive Director ^(iv)	3 April 2019	29 May 2019	-
Mr A Wing	Non-Executive Director ⁽ⁱ⁾	8 October 2018	30 November 2018	-
Mr S Formica	Non-Executive Director ⁽ⁱⁱ⁾	3 January 2017	30 July 2020	-
Mr Dennis Morton	Non-Executive Director ^(v)	7 July 2020 30 July 2020	-	30 July 2020
Mr S Francis	Non-Executive Chairman	8 October 2018	30 November 2018	11 February 2019
Mr T Marshall	Managing Director	26 February 2018	19 January 2018	11 February 2019
Mr H Locke	Non-Executive Director	26 February 2018	19 January 2018	11 February 2019

(i) Appointed Company Secretary on 8 October 2018.

(ii) Retired as Chairman on 8 October 2018.

(iii) Appointed Executive Chairman on 11 February 2019.

(iv) Appointed Executive Director on 3 April 2019

(v) Appointed 7 July 2020. Retired as was not put up for election at the AGM on 30 July 2020. Re-appointed as Non-Executive Director post AGM on same day.

COMPANY SECRETARY

Mr Adrien Wing was appointed company secretary on 8 October 2018.

Mr Wing is a certified practicing accountant. He worked in audit and corporate advisory of a chartered accounting firm before working with a number of public companies listed on the ASX as a corporate and accounting consultant and company secretary.

COMPANY REVIEW

The principal activity of the Group during the financial period was mineral exploration including the exploration and evaluation of opportunities located domestically and internationally.

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DIRECTORS' REPORT

The Group (through its wholly-owned subsidiary APC, and APC's wholly-owned Austrian subsidiaries) is the sole holder of a 100% legal and beneficial interest in the Projects.

REVIEW OF OPERATIONS

The Company is currently looking to transition from seeking to explore and develop gold and cobalt projects in Austria to seeking to become a coal seam gas producer in Mongolia (refer ASX dated 7 July 2020).

Mongolian Coal Seam Gas Projects

As noted in the ASX release, the Company is proposing to acquire 100% of the shares in Jade Gas Pty Ltd.

About Jade Gas Pty Ltd

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

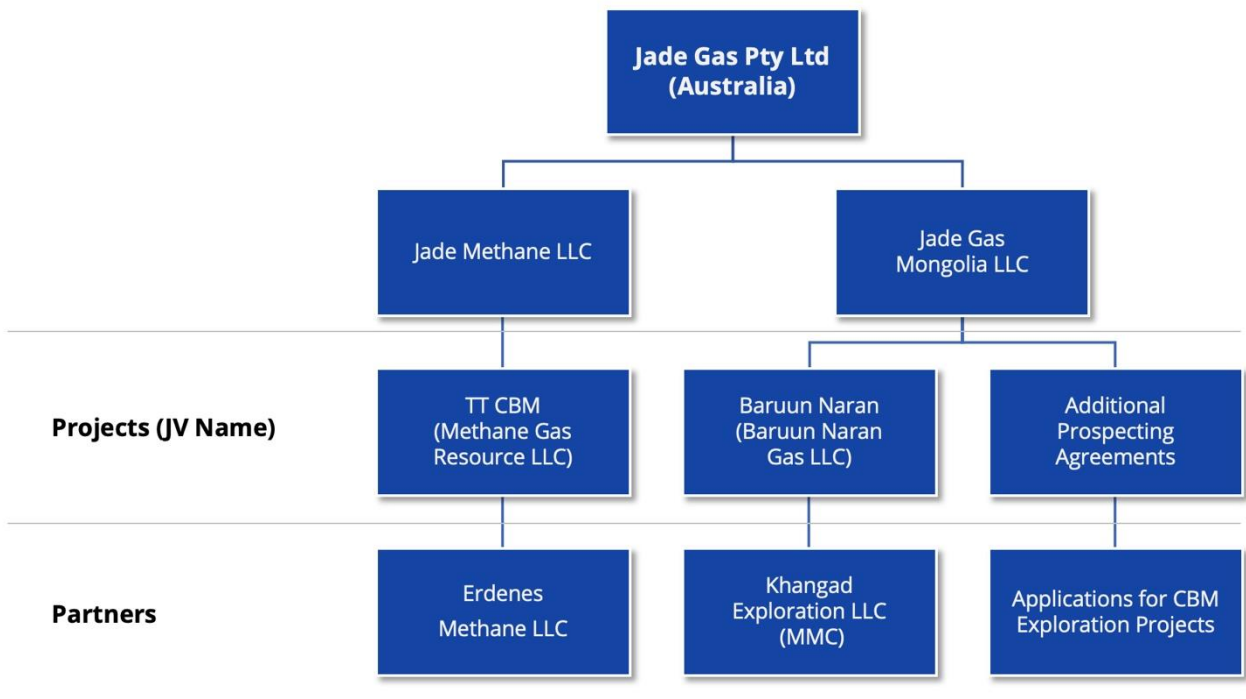


Figure 1: Jade Gas Corporate and Project Structure

Jade Gas Projects & Partners

Overview

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

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Figure 2: Mongolia location map

Executives of Jade have been involved in Mongolian natural resource projects dating back to 2009. In 2018, the team commenced an investigation of the CSG potential in and around the abundant coal resources in the South Gobi region of Mongolia. In May 2019, Jade entered into an Investment Agreement with Erdenes Methane and in 2HCY19 undertook and successfully completed a detailed work program under a Prospecting Agreement held by EM over the licence area. The joint venture with Khangad Exploration LLC (KE) was established in August 2019.

Joint Venture with Erdenes Methane LLC (EM)

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

The Production Sharing Agreement (PSA) with the Mineral Resources and Petroleum Authority of Mongolia (MRPAM) provides the right to explore and exploit CSG over the area of the Tavan Tolgoi coal field covered by seven mining licenses MV-016881, MV-016882, MV-016883, MV-011953, MV-011954, MV-011955 and MV-011956 covering a total of 665km².

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

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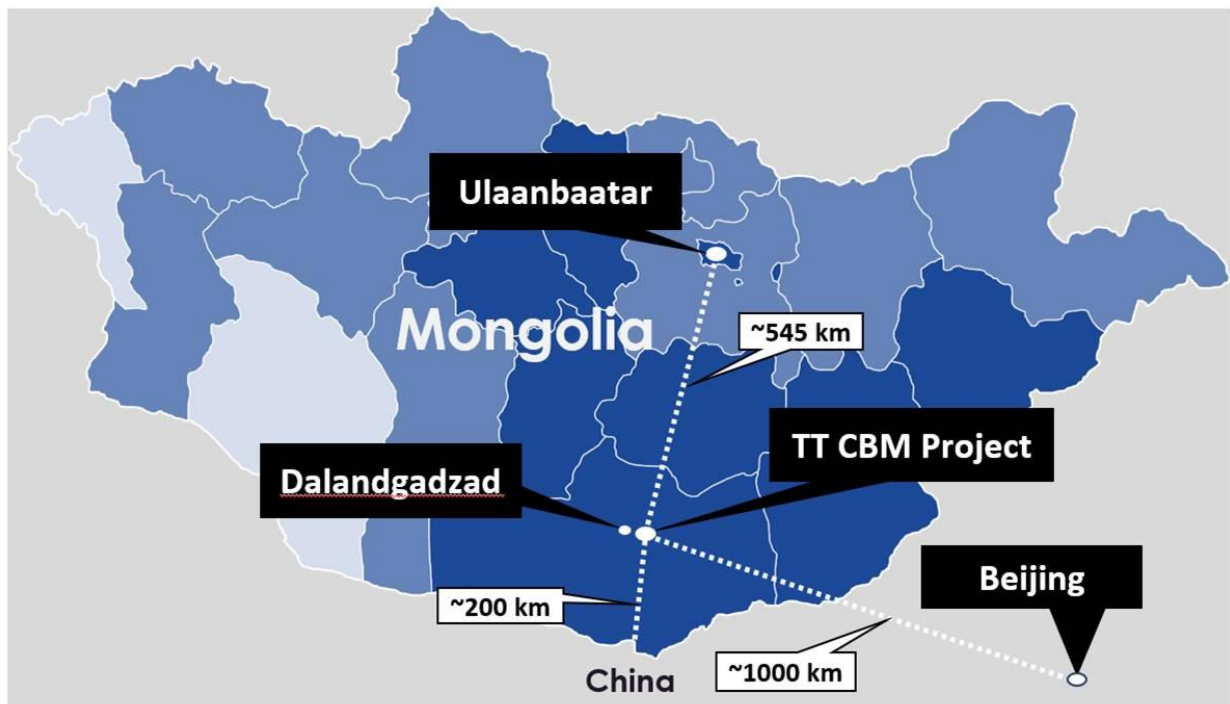


Figure 3: Map showing the location of the Projects within Mongolia

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

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

Joint Venture with Khangad Exploration LLC (KE)

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

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

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

Exploration Data and Studies

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

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DIRECTORS' REPORT

Other Proposed Projects

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

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

Austrian Gold and Cobalt Projects

The Company continues to retain a 100% interest in nine gold and cobalt projects located in Austria covering an area of around 200km² per Figure 4 below.

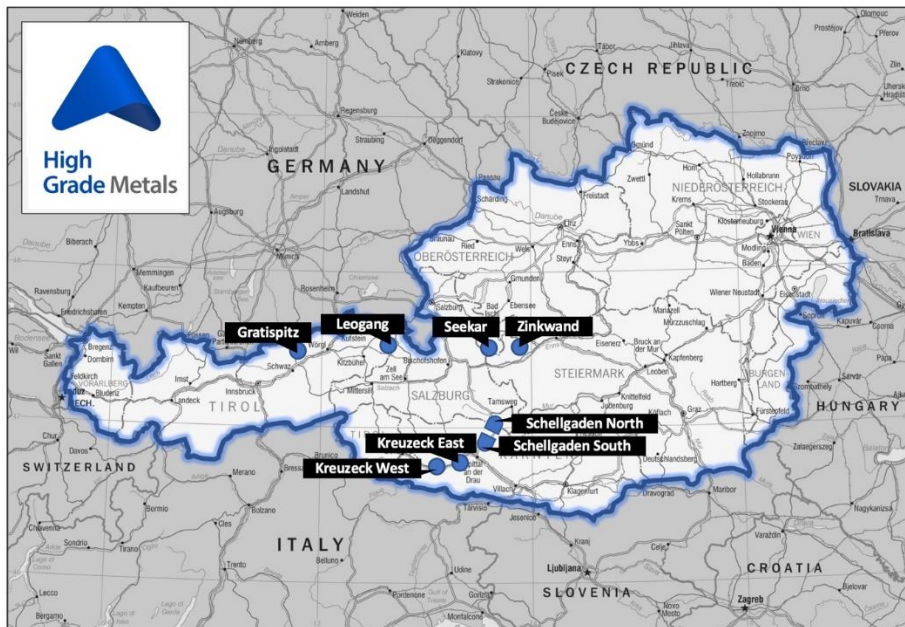


Figure 4: Location map of all projects that the Company has within Austria

On 26 July 2019 the Company announced it had completed a strategic review into the Austrian projects and concluded:

1. The Projects remain prospective for gold and cobalt mineralisation with the Leogang Cobalt Project and Kreuzeck Gold Projects considered key to the suite of Projects whilst Schellgaden has been downgraded as a result of poor drilling results; and
2. The Board has determined that the best strategy for the advancement of the Projects is to introduce a partner. The current market conditions preclude HGM from raising sufficient funds to advance the Projects effectively.

Consistent with the above, the Company continues to seek a partner to progress the projects.

DIRECTORS' REPORT

Corporate

Material Acquisition

On 7 July 2020 the Company announced it had signed a binding agreement to acquire 100% of the issued capital of Jade Gas Pty Ltd. Key highlights were noted as follows:

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

Important Note:

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

Key acquisition terms are as follows:

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

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DIRECTORS' REPORT

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

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DIRECTORS' REPORT

Annual General Meeting

The Annual General Meeting was held on Thursday 30 July 2020 with all resolutions approved by shareholders.

RESULTS

The operating result for the half-year ended 30 June 2020 was a loss after income tax of \$369,667 (30 June 2019 \$284,328)

SUBSEQUENT MATTERS

On 7 July the Company announced the proposed acquisition of Jade Gas Pty Ltd discussed above.

In addition, on 7 July the Company appointed Mr Dennis Morton to the Board as a Non-Executive Director. Mr Morton has over 40 years' experience in the oil and gas industry, including seven years as Founding CEO and Managing Director of Eastern Star Gas Limited which was acquired by Santos in 2011 for around A\$1bn. The appointment has been made to enhance Board skills in advance of the anticipated acquisition of coal seam gas projects by the Company. Mr Morton was not put up for election at the Company's AGM on 30 July 2020 as the Notice of AGM was released prior to Mr Morton's appointment.

Mr Morton was re-appointed as a Non-Executive Director of the Company post the AGM on the same day, being 30 July 2020.

On 24 July 2020, the Company announced a non-renounceable rights issue to shareholders with addresses in Australia and New Zealand on the register of members of High Grade as at the record date of 29 July 2020, on the basis of one (1) new fully paid ordinary High Grade share for every one (4) existing fully paid ordinary High Grade share held at an issue price of A\$0.005 (0.5 cent) per share to raise up to \$565,000 before costs. The Offer closed on 19 August 2020 with all funds raised.

The Company is currently working with the ASX to satisfy its requirements with respect to the material acquisition and subsequent release to the market.

AUDITOR INDEPENDENCE

The auditor's independence declaration for the period ending 30 June 2020 has been given and is set out on the following page.

SIGNED in accordance with a resolution of the directors,



Anthony Hall
Executive Chairman

Signed on 10 September 2020

**DECLARATION OF INDEPENDENCE
BY G K EDWARDS
TO THE DIRECTORS OF HIGH GRADE METALS LIMITED**

As lead auditor for the review of High Grade Metals Limited for the half-year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of High Grade Metals Limited and the entities it controlled during the period.



G K Edwards
Director

BDO Audit (SA) Pty Ltd

Adelaide, 10 September 2020

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 30 JUNE 2020**

	Note	6 months ended 30 Jun 2020 \$	6 months ended 30 Jun 2019 \$
Other income			
Financial income		293	4,803
Sale of Asset		24,893	381,443
Total other income	3	<u>25,186</u>	<u>386,246</u>
Expenses			
Corporate expenses	4	(331,685)	(627,452)
Administrative expenses		(58,876)	(59,006)
Austria Expenses		(78,329)	-
Total Expenses		<u>(468,890)</u>	<u>(686,458)</u>
Loss before income tax expense		(443,704)	(300,213)
Income tax expense	5	73,791	-
Loss for the period		<u>(369,913)</u>	<u>(300,213)</u>
Item that will not be reclassified subsequently to profit or loss net of tax			
Other comprehensive income			
Foreign exchange on the translation of subsidiaries		(3,506)	15,885
Total other comprehensive loss, net of tax		<u>(3,506)</u>	<u>15,885</u>
Total comprehensive loss for the period		<u>(373,419)</u>	<u>(284,328)</u>
Basic and diluted loss per share			
Loss per share (cents per share)	6	(0.08)	(0.07)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020**

	Note	30 Jun 2020	31 Dec 2019
		\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		121,253	230,142
Trade and other receivables		47,873	49,485
Other assets		95,900	137,169
Investment in listed companies		-	172,500
Total current assets		<u>265,026</u>	<u>589,296</u>
Non-current assets			
Exploration and evaluation expenditure	9	4,689,565	4,689,565
Accumulated Impairment Losses		(4,689,565)	(4,689,565)
Total non-current assets		<u>-</u>	<u>-</u>
TOTAL ASSETS		<u>265,026</u>	<u>589,296</u>
LIABILITIES			
Current liabilities			
Trade and other payables		500,335	459,028
Total current liabilities		<u>500,335</u>	<u>459,028</u>
TOTAL LIABILITIES		<u>500,335</u>	<u>459,028</u>
NET ASSETS		<u>(235,309)</u>	<u>130,270</u>
EQUITY			
Contributed equity	10	10,184,747	10,184,747
Reserves	11	113,379	109,519
Accumulated losses		(10,533,435)	(10,163,522)
TOTAL EQUITY		<u>(235,309)</u>	<u>130,268</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 30 JUNE 2020**

	Contributed Equity \$	Accumulated Losses \$	Other Reserves \$	Total Equity/ (Deficiency) \$
Balance at 1 January 2020	10,184,747	(10,163,523)	109,043	130,268
Loss after income tax expense for the period	-	(369,913)	-	(369,913)
Other comprehensive income for the period, net of tax	-	-	(3,506)	(3,506)
Total comprehensive loss for the period	-	(369,913)	(3,506)	(373,419)
Securities issued during the period	-	-	7,842	7,842
Share issue costs	-	-	-	-
Transactions with owners	-	-	7,842	7,842
Balance at 30 June 2020	10,184,747	(10,533,435)	113,379	(235,309)
Balance at 1 January 2019	10,184,747	(4,522,605)	109,519	5,771,661
Loss after income tax expense for the period	-	(300,211)	-	(300,211)
Other comprehensive income for the period, net of tax	-	-	15,885	15,885
Total comprehensive loss for the period	0	(300,211)	15,885	(284,326)
Securities issued during the period	-	-	2,689	2,689
Share issue costs	-	-	-	-
Transactions with owners	-	-	2,689	2,689
Balance at 30 June 2019	10,184,747	(4,884,254)	128,093	5,490,023

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

Note	6 months ended 30 Jun 2020 \$	6 months ended 30 Jun 2019 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	293	4,803
Payment to suppliers and employees	(311,093)	(495,703)
Net cash used in operating activities	(310,800)	(490,900)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for Exploration assets	-	(715,061)
Sale of Exploration assets	-	200,000
Sale of SRN Shares	198,500	
Net cash provided by investing activities	198,500	(515,061)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of ordinary shares and options	-	-
Net cash used by financing activities	-	-
Net decrease in cash held	(112,300)	(1,005,961)
Cash and cash equivalents at beginning of financial period	231,832	1,802,663
Effect of Exchange rate changes	1,721	(46,978)
Cash and cash equivalents at end of financial period	121,253	749,724

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTH ENDED 30 JUNE 2020**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These general purpose interim financial statements for the half-year reporting period ended 30 June 2020 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: *Interim Financial Reporting*. The Group is a for-profit company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange (ASX:HGM).

This interim financial report does not include all notes of the type normally included within the annual financial report, it is intended to provide users with an update on the latest annual financial statements of High Grade Minerals Limited and its controlled entities (referred to as the “Consolidated Group” or “the Group”). It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2019, together with any public announcements made during the following half-year.

These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards. The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period. The Group has not elected to early adopt any other Standards or amendments that are issued but not yet effective. The adoption of all new and revised Standards and Interpretations has not resulted in any changes to the Group’s accounting policies and has no effect on the amounts reported for the current or prior periods.

These interim financial statements were authorised for issue on 5 August 2020.

Accounting policies

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period other than the adoption of AASB 16 which came into effect on 1 July 2019.

New and revised standards

The Company adopted AASB 16 Leases from 1 January 2019. The entity currently has no leases; there is no impact from the adoption of AASB 16.

Impact of COVID-19 pandemic

Judgment has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the operations of the Group and its financial position and results. At present it is not expected that the pandemic will have any significant impact on the Group’s planned exploration activities and operations in Austria nor its administrative functions in Austria and Australia. Group personnel, key supply chains, and other important stakeholder relationships have remained largely unaffected by the pandemic. As at 30 June 2020 and the date of this report, there has been no significant impact upon the financial results and position of the Group reported on in these consolidated financial statements as a result of the COVID-19 pandemic. The Board and management will continue to monitor the impact of the pandemic on the Group’s operations and state of affairs.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTH ENDED 30 JUNE 2020**
Going concern

For the period ended 30 June 2020 the Group recorded an operating loss of \$369,916, a cash outflow from operating activities of \$310,800 for the period ended 30 June 2020. As at 30 June 2020 the group recorded net liabilities of \$235,309 and cash and cash equivalents of \$121,253.

These matters indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. The Group's ability to continue as a going concern is contingent on raising additional capital and scaling back expenditure in the short term, the Board has implemented these measures and as such the financial statements are prepared on the going concern basis. The financial statements do not include any adjustments that may be necessary if the Group is unable to continue as a going concern.

NOTE 2: DIVIDENDS

No dividends were paid or proposed during the half year ended 30 June 2020.

NOTE 3: OTHER INCOME

	Note	6 months ended 30 Jun 2020	6 months ended 30 Jun 2019
		\$	\$
Interest income		293	4,803
Sale proceeds in relation to disposal of exploration asset		-	847,500
Cost associated with the disposal of exploration asset		-	(310,146)
Carrying value of exploration asset disposed	8	-	(155,911)
Profit on sale of financial assets		24,893	
Total other income		<u>25,186</u>	<u>386,246</u>

On 24 April 2019 the Group completed the sale of its non-core Victory Bore vanadium project asset which was recognised as an asset held-for-sale at 31 December 2018, to ASX listed Surefire Resource NL ("SRN") for:

- \$500,000 in cash of which \$50,000 was received in the period ended 31 December 2018;
- 62,500,000 SRN shares (escrowed for six months) valued at \$312,500 on 29 April 2019;

Future sale consideration amounting to \$1,300,000 will be recognised when the following is achieved:

- \$650,000 in cash consideration within 60 days of SRN announcing a PFS for the project with an IR of over 20%; and
- \$650,000 in cash consideration within 60 days of SRN announcing a decision to mine.

At 30 June 2020 57,500,000 SRN shares have been sold for a total \$198,500.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTH ENDED 30 JUNE 2020**
NOTE 4: EXPENSES

Loss from ordinary activities before income tax expenses has been arrived at after charging the following items:

	Note	6 months ended 30 Jun 2020	6 months ended 30 Jun 2019
Corporate expenses		\$	\$
ASX & ASIC		24,301	26,070
Accounting and company secretarial fees		10,340	16,257
Audit fees		30,100	24,240
Consulting fees		16,521	514
Director fees		208,842	322,159
Superannuation expense		-	11,771
Legal fees		35,223	14,625
Marketing and travel expenses		-	88,301
Share registry fees		6,358	8,516
Loss in financial assets measured at fair value through profit or loss		-	115,000
		<u>331,685</u>	<u>627,452</u>

NOTE 5: INCOME TAX

A reconciliation between tax revenue and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:

	6 months ended 30 Jun 2020	6 months ended 30 Jun 2019
	\$	\$
Accounting loss before tax from continuing operations	(443,704)	(300,213)
At the parent entity's statutory income tax rate of 27.5% (2019: 27.5%)	(122,019)	(82,558)
- Non-deductible expenses	-	-
- Deductible equity raising costs	-	-
- Unused tax losses and temporary differences not recognised as deferred tax assets	122,019	82,558
- Reverse prior year income tax liability	73,791	-
Income tax attributable to entity	<u>73,791</u>	<u>-</u>

As at 30 June 2020, the Company recognised a current tax liability of \$0 (2019: 73,791), consisting of Australian tax relating to the gain on sale of its non-core Victory Bore vanadium project on 24 April 2019.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTH ENDED 30 JUNE 2020**
Franking Credits

	6 months ended 30 June 2020	12 months ended 31 Dec 2019
	\$	\$
Franking credits available for subsequent financial years based on a tax rate of 27.5% (2019: 27.5%)	-	73,791

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for: franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date

Deferred tax not brought to accounts, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur:

	6 months ended 30 Jun 2020	6 months ended 30 Jun 2019
	\$	\$
Losses available for offset against future tax liabilities (at 27.5%)	7,029,601	5,311,598
Deductible temporary differences	(80,571)	(7,670)
	<u>6,949,030</u>	<u>5,303,928</u>

The Group has based its workings on the current 27.5% tax rate, on the basis that the Group has future taxable profits it is likely that the Group will not be a Small Business Entity (SBE) and therefore the tax rate applicable will be 27.5%.

The Continuity of Ownership Test (COT), or failing that, the Same Business Test, has not been considered to determine whether tax losses can be carried forward as at 30 June 2020. The recovery of the losses is subject to satisfaction of the tax loss recoupment rules.

NOTE 6: EARNINGS PER SHARE

	6 months ended 30 Jun 2020	6 months ended 30 Jun 2019
	\$	\$
Earnings used in the calculation of EPS		
Loss for the period	(369,913)	(300,213)

	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic EPS	<u>452,937,867</u>	<u>452,937,867</u>

The Company's 135,500,000 (2019:136,350,000) options on issue are not considered dilutive and accordingly basic loss per share is the same as diluted loss per share.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTH ENDED 30 JUNE 2020
NOTE 7: OPERATING SEGMENTS**

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on geographical location. The Group's reportable segments under AASB 8 are therefore as follows:

- Australia Vanadium
- Austria Gold
- Austria Cobalt

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments. Segment assets include all assets used by a segment and consist principally of cash, receivables, exploration and evaluation expenditure. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables and accrued expenses. Segment assets and liabilities do not include deferred income taxes.

Intersegment Transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the Company at an arm's length. These transfers are eliminated on consolidation. At 30 June 2020 there were no such intersegment transfers.

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

	Australia Vanadium Projects	Austria Gold Projects	Austria Cobalt Projects	Australia Corporate	Total
30 June 2020	\$	\$	\$	\$	\$
Revenue from external sources					
Interest revenue	-	-	-	293	293
Sale of Asset	-	-	-	24,893	24,893
Total Group Revenue	-	-	-	25,186	25,186
Segment loss	73,791	(49,692)	(28,637)	(386,023)	(390,562)
Total Group profit/(loss)	73,791	(49,692)	(28,637)	(365,375)	(369,914)
Segmental current assets	1,690	88,907	41,046	12,130	143,773
Segment non-current assets	-	-	-	-	-
Segment assets	1,690	88,907	41,046	12,130	143,773
Cash and receivables	-	424	36	120,793	121,253
Total Group assets	1,690	89,331	41,082	132,923	265,026
Segment liabilities	-	(15,885)	(5,935)	-	(21,820)
Corporate trade payables	-	-	-	(478,515)	(478,515)
Total Group liabilities	-	(15,885)	(5,935)	(478,515)	(500,335)
Total Group equity	1,690	73,446	35,147	(345,592)	(235,309)

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTH ENDED 30 JUNE 2020**

	Australia Vanadium Projects	Austria Gold Projects	Austria Cobalt Projects	Australia Corporate	Total
30 June 2019	\$	\$	\$	\$	\$
Revenue from external sources					
Interest revenue	-	-	-	4,803	4,803
Sale of Asset	381,443	-	-	-	381,443
Total Group Revenue	381,443	-	-	4,803	386,246
Segment loss	(115,000)	-	-	(571,458)	(686,458)
Total Group profit/(loss)	266,443	-	-	(566,655)	(300,212)
Segmental current assets	174,190	117,371	45,080	50,283	386,923
Segment non-current assets	-	2,406,077	2,094,244	-	4,500,321
Segment assets	174,190	2,523,448	2,139,323	50,283	4,887,244
Cash and receivables	-	58,435	121,262	570,027	749,724
Total Group assets	174,190	2,581,883	2,260,585	620,310	5,636,968
Segment liabilities	-	(35,161)	(21,958)	-	(57,119)
Corporate trade payables	-	-	-	(89,826)	(89,826)
Total Group liabilities	-	(35,161)	(21,958)	(89,826)	(146,945)
Total Group equity	174,190	2,546,722	2,238,627	530,485	5,490,023

NOTE 8: ASSETS HELD FOR SALE

	Note	30 Jun 2020	30 Jun 2019
Current Assets: exploration assets held for sale		\$	\$
Balance at beginning of period		-	155,911
Exploration and evaluation expenditure incurred			
Asset sold		-	(155,911)
Balance at end of period		-	-

NOTE 9: EXPLORATION AND EVALUATION EXPENDITURE

	30 Jun 2020	31 Dec 2019
Non-current assets: exploration assets	\$	\$
Balance at beginning of the period	-	4,108,874
Foreign exchange gains/(losses)	-	(12,543)
Exploration and evaluation expenditure incurred		593,234
Impairment of Austrian Asset	-	(4,689,565)
Balance at end of period	-	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTH ENDED 30 JUNE 2020**

On 26 July 2019, the Company noted the following in an ASX release:

“The current market conditions preclude HGM from raising sufficient funds to advance the Projects effectively.”

The Board is of the view these market conditions continue to prevail.

As a result of the above, The Group has assessed the carrying amount of the exploration and evaluation expenditure in accordance with AASB 6 “Exploration for and Evaluation of Mineral Resources” and has impaired \$4,689,565 at 31 December 2019 due to the uncertainty surrounding the recoupment of this expenditure through successful development and exploitation of the area, or by its sale. The impairment expense is shown as a separate line item on the Statement of Profit or Loss and Other Comprehensive Income.

NOTE10: ISSUED CAPITAL

	30 Jun 2020	31 Dec 2019
	\$	\$
Issued share capital		
452,937,867 fully paid ordinary shares (2019:452,937,867)	10,184,747	10,184,747
	<u>10,184,747</u>	<u>10,184,747</u>

NOTE 11 RESERVES

	30 Jun 2020	31 Dec 2019
	\$	\$
Option reserve (Note a)	102,322	94,480
Foreign exchange reserve on the conversion of subsidiary undertakings	11,057	14,563
Total	<u>113,379</u>	<u>109,043</u>

a. Share Option Reserve

	30 June 2020	31 Dec 2019
	\$	\$
Opening balance	94,480	85,173
Issue of 3,500,000 options on 20 May 2019 ⁽²⁾	7,842	9,307
Total	<u>102,322</u>	<u>94,480</u>

At 30 June 2020 135,500,000 (31 Dec 2019:135,500,000) options on issue.

(2) On 20 May 2019 35,000,000 options were granted to Directors at a fair value of \$0.001 per option. The issue of options was approved by shareholder at the Company’s Annual General Meeting held on 20 May 2019. The Company have calculated the fair value using the Black-Scholes option pricing model. The fair value at 30 June 2020 of the options granted is \$48,603.

The option value in the period were calculated using the Black-Scholes option pricing model applying the following inputs:

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTH ENDED 30 JUNE 2020**

Options issued	35,000,000
Share price on date granted	\$0.005
Grant date	20 May 2019
Exercise price	\$0.03
Expected volatility	100%
Risk-free interest rate	1.21%
Annualised time to expiry	3.09

Annual expense as per Black-Sholes calculations as follows:

	30 June 2019	30 June 2020	30 June 2021	30 June 2022	Total
	\$	\$	\$	\$	\$
35,000,000 (20 May 2019)	1,379	15,770	15,727	15,727	48,603
Total Year	1,379	15,770	15,727	15,727	48,603
Cumulative	1,379	17,149	32,876	48,603	

NOTE 12: COMMITMENTS

Since the last annual reporting date, there has not been a material change to commitments or contingencies.

NOTE 13: CONTINGENT ASSETS AND LIABILITIES

On 24 April 2019 the Group completed the sale of its non-core Victory Bore vanadium project asset, future sale consideration amounting to \$1,300,000 will be recognised when the following is achieved:

- \$650,000 in cash consideration within 60 days of SRN announcing a PFS for the project with an IIR of over 20%; and
- \$650,000 in cash or share consideration within 60 days of SRN announcing a decision to mine

The Directors are not aware of any contingent liabilities as at the date of the financial statements.

NOTE 14: EVENTS SUBSEQUENT TO REPORTING PERIOD

On 7 July 2020 the Company announced it had signed a binding agreement to acquire 100% of the issued capital of Jade Gas Pty Ltd. Key highlights were noted as follows:

- Binding agreement to acquire 100% of the issued capital of Jade Gas Pty Ltd (Jade);
- Jade is focused on the emerging coal seam gas (CSG) sector in Mongolia;
- The key asset of Jade is:
 - A 60% interest in a joint venture with state-owned enterprise, Erdenes Methane LLC (EM), which holds a Production Sharing Agreement with the Mineral Resources and Petroleum Authority of Mongolia (MRPAM) to explore and exploit coal seam gas

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTH ENDED 30 JUNE 2020**

- HGM to consolidate existing shares, performance shares and options on issue on a 1 for 5 basis, and then issue a prospectus to raise up to A\$6 million at 3c per share;
- HGM to issue the Jade shareholders, 826,166,667 fully paid ordinary shares and 68,000,000 options (refer Table 1 below);
- Jade to appoint two additional directors to the Board of HGM; and
- The Transaction is subject to conditions, including completion of satisfactory due diligence, shareholder approval, ASX approval and the Company's re-compliance with Chapters 1 and 2 of the ASX Listing Rules. The Company's shares will remain voluntarily suspended until such time as the Transaction completes or is terminated.

Important Note:

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

Key acquisition terms are as follows:

Consideration	<p>Subject to the satisfaction of the relevant conditions, and on the assumption that the Company conducts and completes a consolidation on 5:1 basis (i.e. that every five existing shares are consolidated to one share), the Company intends to acquire 100% of the issued capital in Jade in consideration of the issue of the following to the shareholders of Jade:</p> <ul style="list-style-type: none"> - 826,166,667 fully paid Ordinary Shares at Completion; and - 68,000,000 Options with a term of four years from 30 June 2019 and a strike price of 4.5c.
Conditions	<p>The Transaction is subject to and conditional upon the satisfaction of certain conditions precedent including:</p> <ul style="list-style-type: none"> - Both parties obtaining all regulatory and shareholder approvals - Completion of the Capital Raising (described below) - Completion of detailed due diligence by the Company - Execution of definitive legal documentation - The Company obtaining confirmation from ASX that the Transaction and the post-completion structure and operations of the Company are suitable for listing and thereafter the Company re-complying with Chapters 1 and 2 of the ASX Listing Rules - Various other conditions related to pre-completion actions of Jade including conditions relating to maximum net liabilities, the absence of material adverse events and the status and progression of the proposed projects discussed above.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTH ENDED 30 JUNE 2020**

	The Terms Sheet provides that additional conditions may be included in the definitive documentation arising from the outcome of due diligence.
Proposed Board and Management	<p>On completion of the Transaction, the Company proposes to appoint two Jade directors to the Board of HGM, being Mr Joseph Burke and Mr Daniel Eddington. Messrs Dennis Morton, Brad Drabsch and Anthony Hall will remain on the Board.</p> <p>Mr Burke has spent 30 years working in Asia and has lived in China, Korea, Japan and Thailand, and has been involved in Mongolian mining enterprises since 2009. He was instrumental in the 2011 US\$500m takeover by Thai energy focused conglomerate Banpu plc of ASX listed Hunnu Coal Limited (ASX:HUN). Mr Burke was a Director and founding partner of Starboard Global, CEO of ASX listed Voyager Resources Limited (ASX: VOR), and a Director of ASX listed Avenue Resources Limited (ASX:AVY) (now Harvest Minerals Limited). He has also undertaken advisory roles with other ASX listed entities including American Pacific Borates Ltd (ASX:ABR), and Black Rock Mining Limited (ASX:BKT).</p> <p>Mr Burke holds an MBA from the Australian Graduate School of Management (AGSM).</p> <p>Mr Eddington has over 20 years' experience in the financial markets with experience across multiple sectors including the resource, energy and industrial sectors. He specialises in equity capital markets and has been responsible for IPO's, placements, reverse takeovers, underwritings, corporate negotiations and corporate advisory for companies predominantly in the resource sector.</p> <p>Mr Eddington has a Bachelor of Commerce Degree from The University of South Australia and a Graduate Diploma in Applied Finance & Investment from the Securities Institute of Australia.</p>
Other Terms	The Terms Sheet otherwise contains terms which are typical for an agreement of a similar nature including warranties and representations, requirements on Jade to maintain (or procure the maintenance of) licences, pre-completion activities of the parties, confidentiality and dispute resolution.

On 7 July 2020 the Company appointed Mr Dennis Morton to the Board as a Non-Executive Director. Mr Morton has over 40 years' experience in the oil and gas industry, including seven years as Founding CEO and Managing Director of Eastern Star Gas Limited which was acquired by Santos in 2011 for around A\$1bn. The appointment has been made to enhance Board skills in advance of the anticipated acquisition of coal seam gas projects by the Company. Mr Morton was not put up for election at the Company's AGM on 30 July 2020 as the Notice of AGM was released prior to Mr Morton's appointment.

Mr Morton was re-appointed as a Non-Executive Director of the Company post the AGM on the same day, being 30 July 2020.

On 24 July 2020 the Company announced a non-renounceable rights issue to shareholders with addresses in Australia and New Zealand on the register of members of High Grade as at the record date of 29 July 2020, on the basis of one (1) new fully paid ordinary High Grade share for every one (4)

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTH ENDED 30 JUNE 2020**

existing fully paid ordinary High Grade share held at an issue price of A\$0.005 (0.5 cent) per share to raise up to \$565,000 before costs. The Offer closed on 19 August 2020 with all funds raised.

Except for the above, no matters or circumstances have arisen since the end of the financial year, that have significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

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DIRECTORS DECLARATION

The directors of the Group declare that:

1. The financial statements and notes
 - a. Comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations; and
 - b. Give a true and fair view of the economic entity's financial position as at 30 June 2020 of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the group will be able to pay its debts when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Anthony Hall
Chairman

Dated 10 September 2020

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF HIGH GRADE METALS LIMITED

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of High Grade Metals Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2020 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain 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.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

A handwritten signature in blue ink that reads 'BDO'.

BDO Audit (SA) Pty Ltd

A handwritten signature in blue ink that reads 'G K Edwards'.

G K Edwards
Director

Adelaide, 10 September 2020

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