

ASX Release

19 April 2017

## **March 2017 Quarterly Activities & Cash Flow Report**

- Hexagon undertakes continuing strengthening of Board, management and operational team as part of an ongoing process to advance the company from development to production and sales.
- Hexagon focuses on commercialisation of its McIntosh Flake Graphite Project refining product specification and identifying customers.
- Outcomes of current pre-feasibility study planned to be available by the end of May 2017.
- Updated Mineral Resource of 21 million tonnes grading 4.5% TGC reported on 15 February, 2017.
- Follow-up Exploration Target<sup>1</sup> of 110 to 220 million tonnes at 2.5 to 5% TGC announced 12 April, 2017, underpins potential large scale, long-term project and provides endowment “context” for the Mineral Resource estimate.
- Pilot metallurgical testwork in progress to create concentrate sample for downstream processing testwork aimed at the battery market.
- \$1 million cash payment and 2 million shares in unlisted Battery Mineral Resources Limited received in settlement for the sale of South Korean Projects.
- Hexagon closes the quarter with \$2.0 million in cash.

### **1. OVERVIEW**

During the March 2017 quarter Hexagon Resources Limited (**ASX: HXG** or the **Company**) continued to transition its project strategy and management structure to focus on the commercialisation of its high quality McIntosh Graphite Project located in northern Western Australia. This transition process at both the executive and Board levels is continuing and further announcements on this will follow.

The progress and the expected completion of the McIntosh Pre-Feasibility Study (PFS) was a core focus for management with several significant changes having been implemented recently. HXG plans to announce the key PFS outcomes by the end of May 2017. The PFS and the overall development path received a major boost when an updated Mineral Resource of 21 million tonnes grading 4.5% total graphitic carbon (TGC) was reported on 15 February, 2017 and subsequently within the context of an Exploration Target Estimate<sup>1</sup> of between 110 and 220 million tonnes reported on 12 April, 2017 – all underpinning the potential for a large-scale project generating more confidence for possible offtake parties.

Management is placing a real emphasis on marketing and offtake campaigns for its graphite products; following up on existing relationships and forging a diverse new network spanning end users and intermediate processors. Understanding the market and where in that value-chain to pitch its product is critical to this commercialisation phase.

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<sup>1</sup> **Cautionary Statement:** *The potential quantity and grade of the Exploration Target is conceptual in nature, there has been insufficient exploration work to estimate a mineral resource and it is uncertain if further exploration will result in defining a mineral resource.*



The Company plans to utilise its expanding technical and commercial team to advance the PFS straight into a Feasibility level study process, which will include assessment of several new project enhancement opportunities in order to gain and maintain momentum toward product marketing contracts, financing and project development.

On the corporate side, the Company closed the divestment of its non-core South Korean projects to Battery Mineral Resources (BMR) for \$1.0 million and 2 million BMR shares. Also a new Managing Director commenced on 17 March, 2017 as part of broader corporate and executive level restructuring currently in progress.

Finally, the Company is presenting at the Australian Graphite Conference in Perth on 27 April, 2017 and has some free passes available for shareholders if they would like to attend. Please use contact details at the end of this report to contact the Company.

## 2. MCINTOSH FLAKE GRAPHITE PFS

Several changes have been implemented recently to ensure that the Company can report the outcomes of its PFS work before the end of May 2017. Management of the various input consultants and integration of those individual studies will be undertaken by Scope Australia (Scope), a Perth based project engineering firm who undertook and completed in a timely manner, the process plant design, operating and capital cost estimates as well as assessment of options on power generation and the accommodation camp inputs for the PFS. Mr Noel O'Brien a highly experienced metallurgist and process engineer has been engaged by HXG to co-ordinate between HXG and Scope and also to manage some additional optimisation type metallurgical testwork that has to be completed.

### a. Mineral Resource

An updated Mineral Resource estimate was reported by HXG on 15 February, 2017 with total contained graphite of 941,500 tonnes as summarised in Table 1 below.

The new resource estimate includes the results of the 2016 drilling campaign and represents a 22% increase in total resource tonnage compared to the previous resource reported in January 2016. Locations of the four deposits, Emperor, Longtom, Wahoo and Barracuda are presented in Figure 1.

Subsequent to the end of the quarter, on 12 April, 2017, the Company reported an Exploration Target estimate of 110 to 220 million tonnes grading between 2.5 to 5% TGC containing between 3 to 11 million tonnes of graphite – in addition to the Mineral Resource estimate. This provides important context for the potential of the Company to add additional resources to support a long-term graphite project. *Please note - the potential quantity and grade of the Exploration Target is conceptual in nature, there has been insufficient exploration work to estimate a mineral resource and it is uncertain if further exploration will result in defining a mineral resource.*

**Table 1. McIntosh Mineral Resource Summary (February 2017).**

Deposit	JORC Classification	Material Type	Tonnes (Mt)	TGC %	Contained Graphite (Tonnes)
Emperor	Indicated	Oxide	-	-	-
		Primary	6.9	4.4	300,000
	Inferred	Oxide	-	-	-
		Primary	4.5	4.5	202,000
	<b>Indicated + Inferred</b>	<b>Oxide + Primary</b>	<b>11.4</b>	<b>4.4</b>	<b>502,000</b>
Longtom	Indicated	Oxide	-	-	-
		Primary	4.5	4.7	210,500
	Inferred	Oxide	0.5	4.5	24,500
		Primary	2.1	4.8	103,000



	Indicated + Inferred	Oxide + Primary	7.1	4.7	338,000
Wahoo	Indicated	Oxide	-	-	-
		Primary	1	4.4	44,500
	Inferred	Oxide	0.2	4.2	9,500
		Primary	0.3	4	13,500
	<b>Indicated + Inferred</b>	<b>Oxide + Primary</b>	<b>1.6</b>	<b>4.3</b>	<b>67,500</b>
Barracuda	Inferred	Oxide	0.3	4.5	11,500
		Primary	0.5	4.4	21,500
		<b>Indicated + Inferred</b>	<b>Oxide + Primary</b>	<b>0.7</b>	<b>4.4</b>
<b>Total Resource</b>	<b>Indicated + Inferred</b>	<b>Oxide + Primary</b>	<b>20.9</b>	<b>4.5</b>	<b>940,500</b>

- Notes:
1. Longtom has a 2% TGC lower cut-off grade. Emperor, Wahoo and Barracuda have a 3% TGC lower cut-off grade.
  2. Rounding may result in differences in total and average grade figures.
  3. Full details of the Mineral Resource Estimate are available in report to ASX 15 February, 2017.

## b. Metallurgy & Processing

Sufficient metallurgical testwork has been completed to support a flow sheet and plant designs to a  $\pm 30\%$  level by Scope. There are opportunities for further optimisation work, which may have important capital and operating cost benefits, even at a pre-feasibility level. The current status is summarised below:

- Draft design and pre-feasibility cost estimates have been received from Scope for processing plant options and site infrastructure including an accommodation camp and power station.
- Late in 2016, a 2.5 tonne sample of McIntosh mineralisation was despatched to ALS Global in Adelaide for blending and mineral dressing work in preparation for the pilot scale testwork to produce a flake graphite concentrate. In late March 2017, pilot processing of that sample commenced at ALS's Perth pilot plant facility. This work will provide important confirmatory information of the previous bench scale batch testwork and also generate approximately 100kg of flake graphite concentrate for spheronisation, purification and battery cell testwork; the 3-phases to produce spherical graphite for battery manufacturers as well as samples for other potential end-users to assess. This pilot program is expected to be completed by the 26 May, 2017.
- Whilst the PFS will assess viability to the point of selling a flake graphite concentrate, the 100kg sample of concentrate will be utilised as trial samples for potential customers and the downstream processing testwork targeting mainly the battery industry as described above.

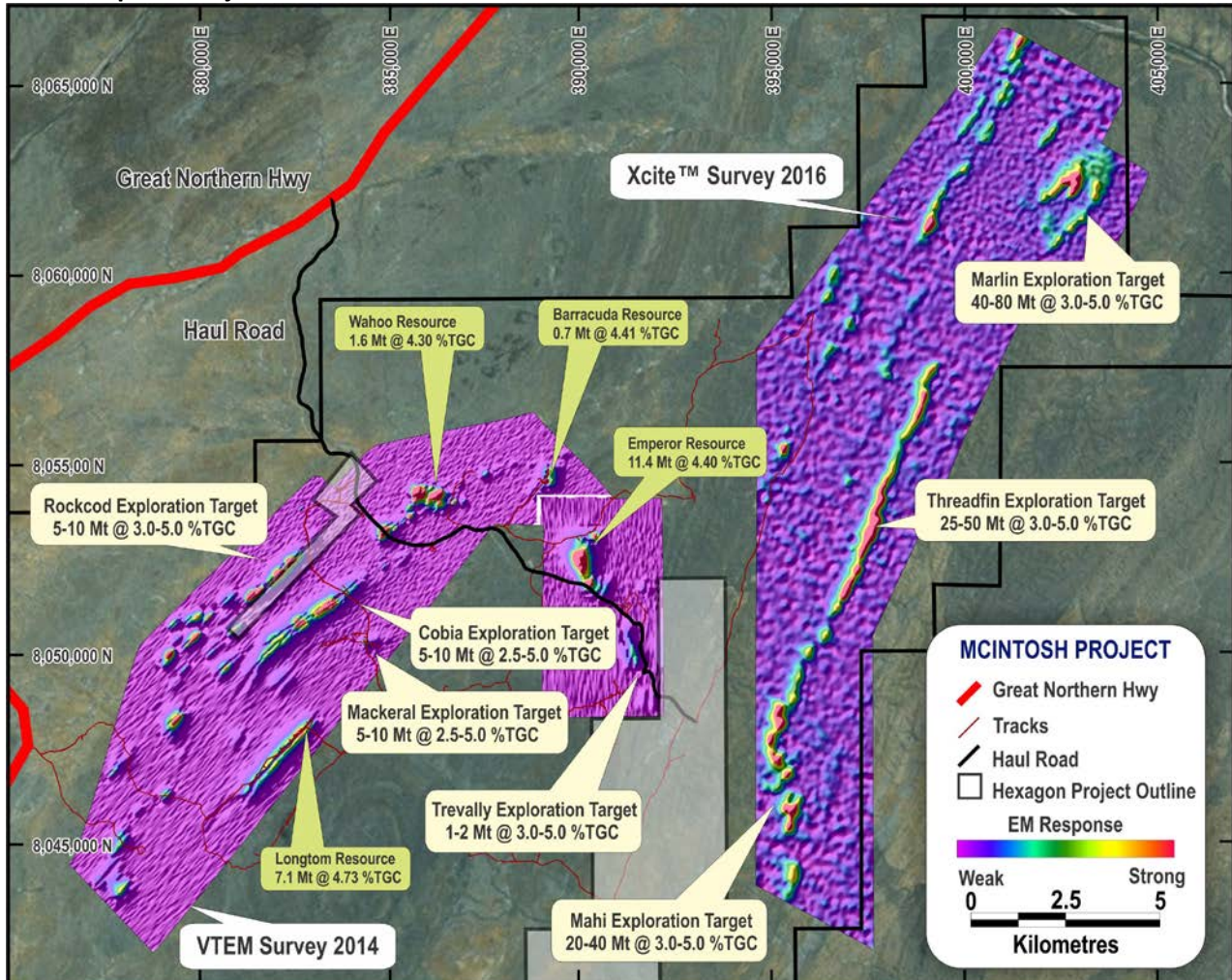
Due to the corporate acquisition of Hexagon's previous testing partner, the Company is now working on a proposal to undertake the spheronisation testwork with an experienced, well regarded equipment manufacturing group in China. Approximately 30kg of concentrate sample is required to generate spheronisation results including, the particle size distribution, yield (i.e. conversion ratio of concentrate into usable spheronised product), tap density and crystallinity from scanning electron microscopy. These results will determine the detailed scope of the follow-up testwork phases and the entire testwork program will take several months to complete and likely fall into the Definitive Feasibility Study (DFS) scope.

- In late March, Hexagon initiated testwork to examine the amenability of the McIntosh mineralisation to various ore-sorting technologies. Samples were submitted to several leading global suppliers of ore-sorting technology. Initial results are encouraging and the Company is currently assessing a proposal for further testwork. This is an opportunity to



reduce operating and capital costs and improve process performance by rejecting gangue material from the ore feed stream before it enters the flotation circuit. It is very preliminary at this stage and no assumptions around ore-sorting are planned to be included in the PFS outcomes. Subject to results, this could also comprise part of the DFS process.

**Figure 1. Location and summary of Mineral Resources and Exploration Target estimates for the McIntosh Flake Graphite Project.**



**Note** – the Exploration Target figures announced on the 12 April, 2017, exclude the Mineral Resource figures (in yellow call-outs) which were reported to ASX on 15 February, 2017.

### c. Other Study Inputs

Other critical PFS inputs, such as graphite market analysis, mine design and planning, geotechnical modelling, tailings storage, site hydrology for process water and surface water management, tails and waste rock characterisation as part of the environmental management systems, heritage and permitting processes, are all currently in progress and generally expected to be completed by the end of April 2017. Follow-on work to complete the PFS includes financial modelling and assessment, a review of risks and mitigation strategies, and finally report compilation.

### d. PFS Schedule and Development Strategy

Hexagon has recently taken clear steps to ensure, as far as possible, that it can report the outcomes of its PFS work before the end of May 2017.



Scope has been engaged to complete the PFS as well as ensuring that the separate technical inputs dovetail and integrate to form a cohesive project description and development narrative. As well, the overall PFS structure has been revised and Mr Noel O'Brien has been appointed as a specialist technical advisor to HXG as well as several other parties to assist on marketing and commercial matters.

As discussed above, several potential enhancements to the project are emerging. The Company plans to assess these in parallel with completing the PFS which will involve additional drilling and testwork which is currently being planned. The Company is building up its "in-house" team and plans to roll straight into a DFS process to capture and maintain momentum toward product marketing contracts and project development.

### **3. EXPLORATION**

In the December quarter, the Company reported highly encouraging outcomes of an independent review by CSA Global on the prospectivity of its other 100% owned tenements in the East Kimberley region of WA. CSA Global identified areas prospective for gold, magmatic sulphide nickel-copper (platinum group elements) and volcanic hosted massive sulphide base metal deposits as well as graphite that warrant follow-up exploration work.

A long and intense wet season has precluded Hexagon from undertaking any ground assessment but the Company is planning some preliminary assessment activities whilst it considers the best options for continuing to evaluate these promising projects.

The Company's exploration interests are summarised in Attachment 1, Tenement Holdings.

### **4. CORPORATE**

#### **a. Transactions**

The sale of the Company's South Korean projects, first announced on 5 December, 2016 was settled on amended terms on 11 January, 2017. The sale of 100% of HXG's shares in Opirus Minerals Pty Ltd, the holding company for the South Korean projects, was completed for a \$1.0 million cash payment and 2 million shares in the acquirer, Battery Mineral Resources Limited (BMR). BMR has a diversified portfolio of cobalt, graphite and lithium projects aimed at supplying the growing battery materials market and is presently advancing its plans to list on NASDAQ.

#### **b. Financial**

The Company finished the March 2017 quarter with \$2.0 million cash at bank after receipt of the BMR cash payment and after expenditure of \$563,000 on exploration and evaluation, \$225,000 on administration costs and \$51,000 on staff. A similar level of expenditure is planned for the June quarter.

The Company has no debt.

#### **c. Board**

Mr Mike Rosenstreich was appointed Managing Director on 17 March, 2017 replacing Mr Tony Cormack, who has agreed to remain as a non-executive director. This is part of the Board's stated objective of continuous development of both the Board and management to ensure the capability to take the Company into production. Further details are available in a report to ASX dated 16 March, 2017.

#### **d. Capital Structure**

During the quarter 312,500 unlisted options were exercised at 12 cents. The Company has 246,366,747 fully paid ordinary shares on issue and 20,681,250 unlisted options on issue at the end of the quarter.

**Competent Person**

The information within this report that relates to exploration results, Exploration Target Estimates, geological data and Mineral Resources at the McIntosh Project is based on information compiled by Mr Shane Tomlinson and Mr Mike Rosenstreich who are both employees of the Company. Mr Rosenstreich is a Fellow of The Australasian Institute of Mining and Metallurgy and Mr Tomlinson is a Member of the Australian Institute of Geoscientists. They both, individually, have sufficient experience relevant to the styles of mineralisation and types of deposits under consideration and to the activities currently being undertaken to qualify as a Competent Person(s) as defined in the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves and they consent to the inclusion of this information in the form and context in which it appears in this report.

**Technical Detail**

This Report aims to provide a high level summary of various technical aspects of the Company's projects. For more details on the underlying technical parameters, the reader is referred to the ASX Reports on the Hexagon Resources Limited website, [www.hexagonresources.com](http://www.hexagonresources.com).

**Forward-Looking Statements:** This document includes forward-looking statements. Forward-looking statements include, but are not limited to, statements concerning Hexagon Resources Limited's planned development and exploration programmes and other statements that are not historical facts. When used in this document, the words such as "could," "plan," "estimate," "expect," "intend," "may," "potential," "should," and similar expressions are forward-looking statements. Although Hexagon Resources Ltd believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements.

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**Contact**

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Managing Director

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**Attachment 1: Hexagon Tenement Holdings as at 31 March, 2017**

Project	Tenement	Type	Number	Ownership Status at end of Quarter
McIntosh, WA	Melon Patch	E	E80/3864	100% Hexagon
	McIntosh Hills	E	E80/3928	100% Hexagon
	Melon North	E	E80/3906	100% Hexagon
	Melon South	E	E80/3907	100% Hexagon
	White Rock South	E	E80/4688	100% Hexagon
	Panton West	E	E80/4734	100% Hexagon
	Black Rock Creek	E	E80/4739	100% Hexagon
	Togo	E	E80/4732	100% Hexagon
	Edle Creek	E	E80/4825	100% Hexagon
	Alice Downs	E	E80/4842	100% Hexagon
	White Rock	E	E80/4841	100% Hexagon
	Carolyn Hills South	P	P80/1821	100% Hexagon
	Panton North	E	E80/4733	100% Hexagon
	Mabel Hill	E	E80/4879	100% Hexagon
	Wills Creek	E	E80/4931	100% Hexagon
Mabel, WA	Mabel Downs	E	E80/4385	100% Hexagon
	Spring Creek	E	E80/4797	100% Hexagon
	Six Mile Bore	E	E80/4814	100% Hexagon
Halls Creek, WA	Golden Crown South	E	E80/4794	100% Hexagon
	Highway	E	E80/4793	100% Hexagon
	Granite	E	E80/4795	100% Hexagon
	Granite	P	P80/1816	100% Hexagon
	Granite	P	P80/1817	100% Hexagon
	Granite	P	P80/1815	100% Hexagon
	Granite	P	P80/1818	100% Hexagon
	Granite	P	P80/1414	100% Hexagon
	Granite	P	P80/1799	100% Hexagon
	Granite	P	P80/1801	100% Hexagon
	Granite	P	P80/1800	100% Hexagon

## Appendix 5B

# Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

### Name of entity

<b>HEXAGON RESOURCES LIMITED</b>	
<b>ABN</b>	<b>Quarter ended ("current quarter")</b>
29 099 098 192	31 March 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(563)	(2,003)
(b) development	-	-
(c) production	-	-
(d) staff costs	(51)	(113)
(e) administration and corporate costs	(225)	(687)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	3	8
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	602
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(836)</b>	<b>(2,193)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-



## Mining exploration entity and oil and gas exploration entity quarterly report

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	1,000	1,000
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>1,000</b>	<b>1,000</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	-	2,000
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	67	304
3.4	Transaction costs related to issues of shares, convertible notes or options	-	(110)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>67</b>	<b>2,194</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	1770	1,000
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(836)	(2,193)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	1,000	1,000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	67	2,194
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>2,001</b>	<b>2,001</b>

<b>5. Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1 Bank balances	68	75
5.2 Call deposits	1,933	1,695
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
<b>5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>2,001</b>	<b>1,770</b>

<b>6. Payments to directors of the entity and their associates</b>	<b>Current quarter \$A'000</b>
6.1 Aggregate amount of payments to these parties included in item 1.2	36
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

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<b>7. Payments to related entities of the entity and their associates</b>	<b>Current quarter \$A'000</b>
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

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## Mining exploration entity and oil and gas exploration entity quarterly report

<b>8. Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		


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<b>9. Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1 Exploration and evaluation	400
9.2 Development	-
9.3 Production	-
9.4 Staff costs	90
9.5 Administration and corporate costs	210
9.6 Other (provide details if material)	-
<b>9.7 Total estimated cash outflows</b>	<b>700</b>

<b>10. Changes in tenements (items 2.1(b) and 2.2(b) above)</b>	<b>Tenement reference and location</b>	<b>Nature of interest</b>	<b>Interest at beginning of quarter</b>	<b>Interest at end of quarter</b>
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	-	-	-	-
10.2 Interests in mining tenements and petroleum tenements acquired or increased	-	-	-	-

### Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:   
(Company secretary)

Date: 19 April 2017

Print name: Leni Stanley

### Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.