



ASX ANNOUNCEMENT

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HEXAGON BUILDS FOCUS ON DOWNSTREAM STRATEGY

Hexagon Resources Limited (ASX: HXG, **Hexagon** or the **Company**) wishes to provide an update on its corporate strategy and priorities in the wake of recent trends and events in the global graphite concentrate market. In particular, these circumstances provide Hexagon with a positive transformational step as part of the Company's response to mine-sourced (upstream) graphite market concerns and its enhanced focus on downstream opportunities, where prices and margins remain strong.

The "upstream" refers to the mining (or primary processing) of natural flake graphite to produce graphite concentrate - an unfinished industrial mineral. Conversely, "downstream" (or secondary processing) refers to the technologies and processes utilised to transform raw graphite concentrates into finished, value-added products for use or consumption by customers, such as specialty anode graphite used by battery manufacturers. The graphite upstream and downstream market sectors function independently of the other.

Since mid-2017, Hexagon has focused on developing a market for its graphite concentrate material and gaining a strong understanding of the downstream processing industry. This has given Hexagon an excellent understanding of the end user market, the business model and the technical attributes of flake graphite valued by different customer groups. In the current market dynamics for graphite concentrates, management has grown in its conviction that downstream processing is more financially attractive in the immediate term and essential as a "customer" for in house graphite concentrates in the longer term.

Graphite – Upstream Market Assessment

The pricing and demand for industrial minerals, such as graphite, is driven by individual supplier-customer agreements for specific product qualities, unlike commodities where pricing is exchange based for production of broadly uniform specifications.

There is depressed pricing and significant oversupply in the graphite concentrate market at present, demonstrated by a global market that cannot currently absorb substantial amounts of additional supply causing the world's largest graphite concentrate producer reportedly selling material for more than US\$100/tonne below its cost to produce.

With oversupply and idled capacity, graphite concentrate production is not expected to be in balance until approximately 2023-2024. The increased disconnect between the graphite upstream and downstream has widened to the point where today, downstream processors see no threats to securing low-cost, high-quality graphite concentrate in the near to medium term – even in the high-growth battery materials sector.

Hexagon's detailed evaluation of the graphite market and key supply chains indicates there is currently sufficient concentrate production and, more importantly, unused capacity to meet the

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strong demand forecasts for battery-related graphite applications. Existing graphite upstream producers with idled capacity are able to rapidly ramp up production with low capital costs with material that is already “qualified” or “known” by end-users, as the market opportunities arise.

Thus, to be a new producer without an assured downstream home for production creates a serious challenge to new entrants in obtaining development finance and meeting the working capital requirements to achieve steady-state production and run operations for long periods to qualify their concentrates, to lock-in off-take agreements. This will ultimately lead to a rebalancing of supply and demand and those entities which have an integrated downstream business “in house” will be in a much stronger position to bring their upstream capacity online in a profitable way.

Supply chain pinch-points occur in the downstream with insufficient transformation capacity outside of China, coupled with extreme capacity concentration and product quality issues in China.

Hexagon’s Strategic Response

Hexagon’s response to this evolving situation over the past 18 months is to increasingly focus on downstream graphite markets where the demand and price outlook remains strong.

The Company built up a formidable technical knowledge based on testwork of its McIntosh project flake material which is applicable and highly valuable for a range of flake precursor material applications. This underpinned its Downstream Scoping Study completed in May 2019 which generated very positive outcomes assuming a *standalone downstream transformation business*, purchasing, in the immediate term, commercially available graphite concentrates from a variety of third-party suppliers.

The Company’s focus is creating sustained shareholder value by maximising near-term growth opportunities to commercialise that downstream business in the US where it has forged strong technical, commercial and investor relationships. Furthermore, the US is a marketplace with a heightened awareness of critical mineral supply chains, strong growth parameters and resulting supportive business environment.

The implications of this market appraisal are that new upstream graphite developments without committed offtake agreements or an inhouse “customer” for their material will face significant challenges to provide attractive investment returns during the crucial start-up/qualification phases which coincide with this predicted graphite concentrate oversupply in the next three to four years. The reality of the graphite upstream also impacts adversely on Hexagon’s interest in the McIntosh Project in Western Australia and its likelihood of near-term development. This is still to be formally agreed by the McIntosh Joint Venture (51% Mineral Resources Limited: 49% Hexagon) but presents a candid assessment from a Hexagon perspective which will be discussed by the Joint Venture partners and no doubt shape the future of the JV.

This evolution in Hexagon’s business strategy is the result of upstream graphite market conditions and realities – and is not a commentary on the Company’s assets, its people or its partners. This is a reflection based on a fulsome assessment of the global graphite concentrates market. Hexagon’s graphite projects, in Western Australia and the US are there for when the market rebalances and is able to easily absorb this production.

Outlook for Hexagon

Hexagon’s Managing Director, Mike Rosenstreich, said “*We are committed to create long-term shareholder value by maximising our near-term growth opportunities. We hold two exciting graphite projects for when the time is right. Today, in order to take advantage of the current market and prepare us for the future upturn, Hexagon’s money is better directed to continue with*



our stated strategy of developing opportunities for near term profitability in downstream specialised, high-value graphite products and critical energy-materials. The Hexagon team is very active on a number of opportunities and we expect to make a series of announcements in the near term”.

The Company is executing a very exciting business plan encompassing “Energy Materials” with a focus on advancing its downstream graphite transformation work to fast-track a positive cash-flow business to create shareholder value. To this end it will:

- Focus expenditure on downstream, high-margin production of advanced graphite and other aligned materials. The Company is working on a specific opportunity to accelerate business development and growth.
- Continue important downstream product development of advanced graphite materials. Test results of Hexagon’s electric-arc furnace (EAF) graphite electrode additive was completed recently, with results available soon.
- Execute a fast-track commercialisation of battery materials production via procurement of commercially available flake concentrates with specific attributes to be transformed into battery-ready materials in formats understood and acceptable to mainstream battery manufacturers, meeting the strong “Made in USA” sentiment and requirement of the burgeoning EV manufacturing industry in the US southern states. More detail on this unique strategy will be reported early in next quarter.
- Progress the Company’s two upstream graphite projects; the McIntosh and Ceylon Projects and subject to positive feasibility studies, these two projects could be brought online at some point in the future as the supply-demand situation stabilises and rebalances.
- Explore the Halls Creek Gold project, with an airborne magnetics survey due to commence this week. Whilst not a core focus, the company can add value and then seek a credible exploration partner to take the project forward.
- In response to discussions with US based investors, plan a dual listing (cross-listing or interlisting) on the OTC Markets OTCQX Best Market exchange – an efficient and cost-effective option to increase visibility and create liquidity for its shares in the US.

This is a pivotal point in the execution of a strategy commenced in 2017 and as such the Company plans to update its corporate image to better reflect its realigned business focus and US presence. It also intends to rename and restructure Charge Minerals its 80%-owned US subsidiary company to bring it under the Hexagon banner.

There is tremendous value in its downstream technical knowledge and US business connections built up over the past two years. The likely deferral by Hexagon of upstream developments is a difficult but prudent strategy, given the challenges in the current graphite concentrate market and focusing expenditure on where it can best generate shareholder value.

The Company looks forward to providing further updates on meaningful progress to implement its downstream graphite business and broader energy-materials ambitions in the very near term.

Investor Conference Call – Q & A Session

Hexagon will hold an Investor Conference call on Monday 23 September at 11:00 am (AWST) / 1:00 pm (AEST). This 45-minute event will comprise short introductory comments from Hexagon’s Chairman, Charles Whitfield and Managing Director, Mike Rosenstreich followed by a Q and A session.



Questions are invited to be submitted via email to info@hexagonresources.com by 5:00 pm (AWST) on Friday 20 September 2019 and must include senders full name.

To register please follow this link::

<https://s1.c-conf.com/diamondpass/hexagonresources-10002136-invite.html>

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