

ASX Announcement Quarterly Activities Report | 29 January 2021

Hexagon progresses Ebony Energy acquisition and completes \$0.5m equity raising during December quarter

Highlights:

- Agreed terms for a proposed all-script acquisition of 100% of Australian public, unlisted hydrogen company Ebony Energy Limited
- Acquisition is subject to shareholder approval.
- Ebony Energy is developing its Pedirka Project in the Northern Territory, which plans to utilise a surface gasification plant to produce 'blue' hydrogen for export and domestic markets
- Key ESG focus, the Pedirka project is targeting zero carbon emissions
- Hexagon successfully completed a \$0.5m placement to sophisticated and professional investors
- Monies provided by the WA Government's Exploration Incentive Scheme (EIS) will help fund Hexagon's planned comprehensive 2021 drilling programme at the Bent Ridge prospect in its Halls Creek Project
- Hexagon continues to explore ways to continue exploration and create shareholder value at its McIntosh and Alabama Projects

Australian resources company **Hexagon Energy Materials Limited (ASX: HXG)** ('Hexagon' or 'the Company') is pleased to provide its quarterly activities report for the period ending 31 December 2020 (Q2 FY21).

The Company currently has three exploration projects. Two of these, the wholly-owned Western Australian assets, Halls Creek Gold and McIntosh Graphite, Nickel and PGE's Projects are currently being explored. The third is an interest in several early-stage graphite exploration projects located in Alabama, USA. The Company is continuing to progress these exploration assets to the point they can be developed, farmed out or joint ventured with suitable partners.

Acquisition of Ebony Energy progresses

During the quarter, Hexagon announced its proposed acquisition of Ebony Energy Limited ("**Ebony Energy**").

Following Hexagon's decision to withdraw from the option to acquire an interest in rare earth element (REE) separation technology from Innovation Metals Corp in October, the Company has been actively seeking ways in which it can progress value-added businesses that are consistent with its strategy, skill set and focus on energy materials and clean energy.

Consistent with this, Hexagon in October signed a confidentiality agreement with Ebony Energy permitting Hexagon to conduct due diligence on Ebony Energy's Pedirka Hydrogen project in the Northern Territory. This is planned to be a zero-emission 'blue' hydrogen project targeting domestic and international markets.

In December, Hexagon announced it had made an off-market takeover bid to acquire all of the issued capital of unlisted company Ebony Energy. Strong in principle support has been received from Ebony's Board who will recommend the acquisition subject to no superior proposal being announced. The proposed deal aligns with Hexagon's stated strategy to become a diversified minerals explorer and producer, developer and operator with a focus on clean energy solutions.

HEXAGON ENERGY MATERIALS LIMITED

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The sole asset of Ebony is the Pedirka 'Blue' Hydrogen Project, located in the Northern Territory. It is proposed that this Project will host a surface gasification plant to produce 'blue' hydrogen with 'clean' zero carbon emissions. It is anticipated that the hydrogen produced will be sold to domestic and export markets. In addition to being 'clean', hydrogen is a versatile energy source with applications across the transport, electricity, industrial and heating sectors. The next stage for Ebony is to undertake a major drilling program to establish a JORC compliant resource to underpin a prefeasibility study (PFS) to advance the Pedirka Project.

Hexagon's Offer to acquire Ebony involves the Company issuing 1 Hexagon share for every 1.32 Ebony shares. Following completion of the Offer and subsequent exchanges with Ebony option holders and convertible note creditors, Ebony investors and those creditors will ultimately hold approximately 23% of the merged entity's share capital.

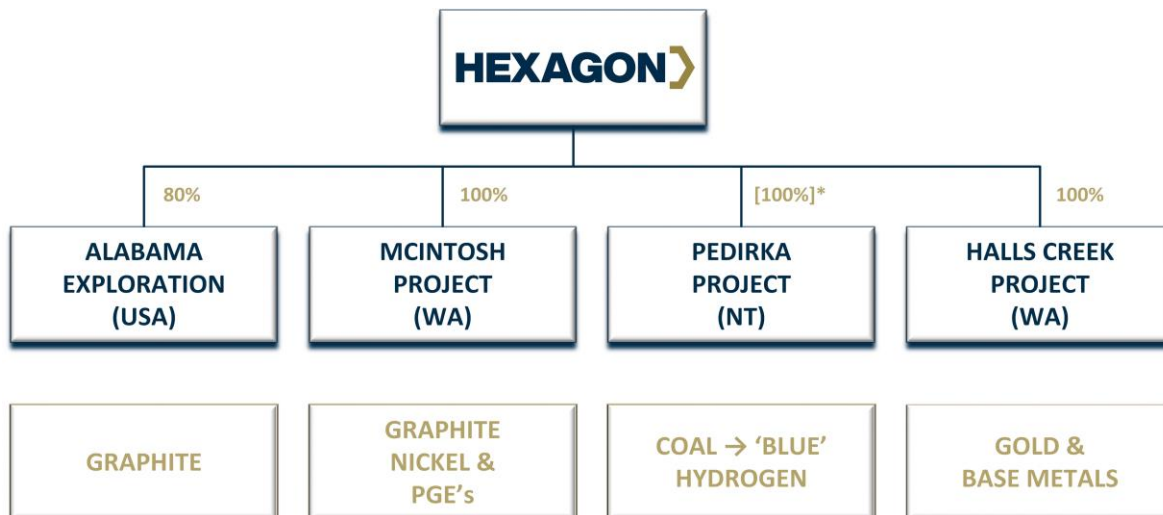
The anticipated capital structure of the Company post-completion of the Takeover Offer, assuming 100% acceptance is set out below.

	Shares
Current	301,205,327
Issues under Takeover Offer	77,037,758
Sub-total on issue immediately upon completion of Takeover Offer	378,243,085
Issues to Ebony convertible note creditors	11,462,550 ¹
Issues to Ebony option holders	39,721
TOTAL	389,745,356

The Company is presently finalising the Notice of Meeting (NoM) in order to schedule the extraordinary general meeting (EGM) required to obtain shareholder approval for the deal. The meeting will be held approximately one month after the NoM is despatched to shareholders. Details of the bid were set out in Hexagon's ASX announcement dated 21 December 2020.

Further details and information on the Takeover Offer will be contained in Hexagon's Bidder's Statement, which is expected to be lodged in February 2021. The following schematic shows the make-up of Hexagon assuming the proposed acquisition of Ebony is completed:

¹ An entity associated with Hexagon's Chairman Charles Whitfield, will be entitled to receive a total of 875,000 Hexagon shares in exchange for Ebony shares converted from convertible notes held by that entity subject to the bid conditions.



*Subject to successful completion of the proposed Ebony Energy transaction

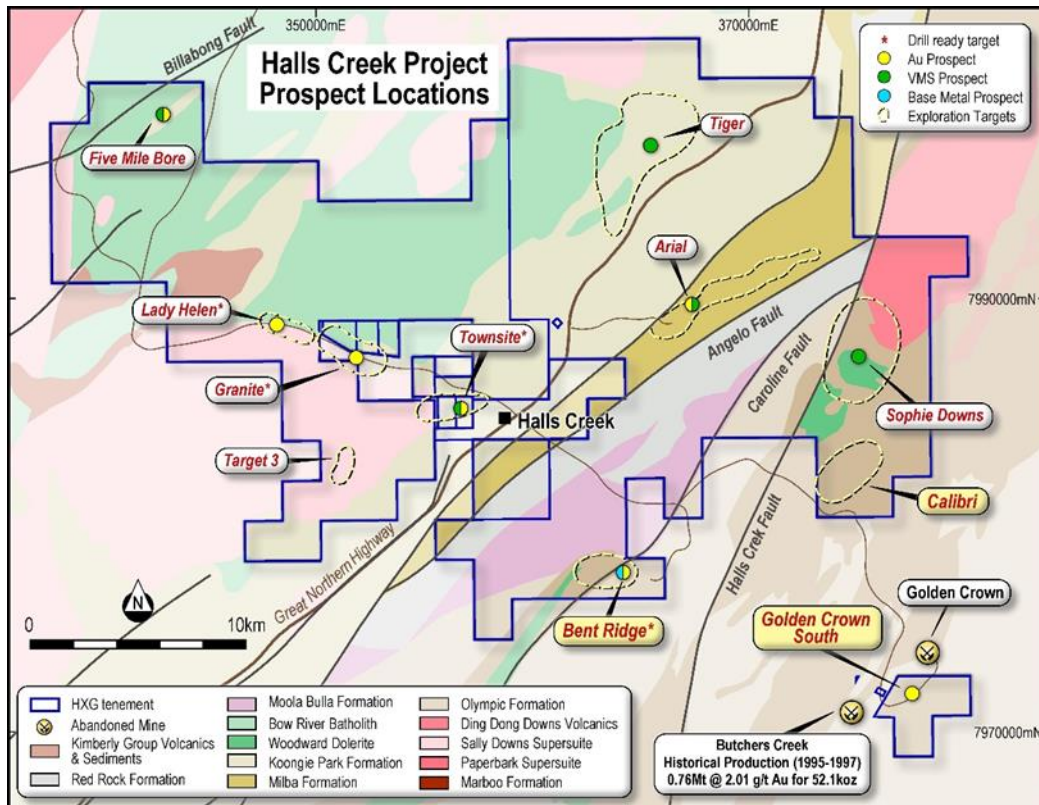
Drilling to start at Halls Creek Gold and Base Metals Project in mid-2021

In its September 2020 quarter activities report, Hexagon announced gold in soil anomalies were defined over lengths of 1.4 km and 3.0 km at the Golden Crown South and Bent Ridge Prospects which form part of the Company's Halls Creek Project.

In November 2020, Hexagon subsequently announced monies provided by the WA Government's Exploration Incentive Scheme (EIS) will help fund the Company's planned comprehensive drilling programme at the Bent Ridge Prospect to evaluate targets.

Drilling is currently planned for the 2021 field season with ground works commencing in early April 2021, depending on the duration of the wet season. The planned drilling campaign will include the co-funded Bent Ridge program as well as the Golden Crown South Prospect and various other high-grade gold targets along the Townsite-Lady Helen trend. Preliminary activities also to be undertaken at the Tiger VMS prospect.

Figure 1: Halls Creek Project – schematic geology and location plan

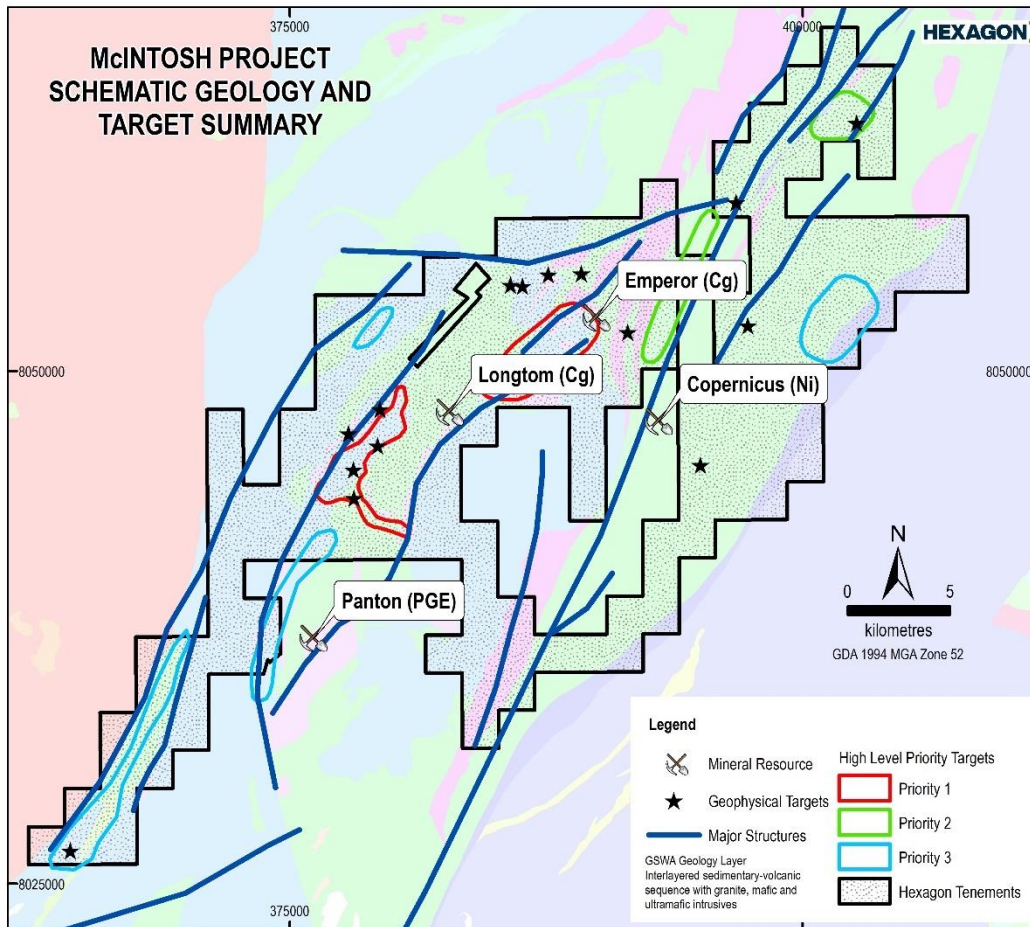


Plans to explore for other metals in McIntosh project

Until recently, exploration activity at the McIntosh Project has mainly been graphite-focused. The Company had successfully defined a JORC-compliant graphite resource within its tenements at the Project and completed a positive pre-feasibility study. However, the subsequent depressed market for flake graphite concentrates prompted Hexagon to engage an independent consulting group to review the Project’s potential to host other base and precious metal deposits in addition to the existing graphite Mineral Resources.

This work indicated the McIntosh project, with its rare combination of a consolidated large land package spread across highly prospective geology with abundant mineralised surface occurrences, warranted further investigation. Hexagon is now examining whether this East Kimberley province has the right criteria to host world-class deposits and is considering ways to continue exploration and create shareholder value.

Figure 2: McIntosh Project – schematic geology and target location plan



Potential additional investment in Alabama Project considered

Hexagon has an 80% interest in several early-stage graphite exploration projects located in Alabama, USA, including the historic Ceylon Mine workings.

In July 2019, the Company committed to undertake the first metallurgical test work on a series of bulk samples excavated from the site totalling over 100 tonnes. Bench-scale and pilot-scale tests were carried out on one composite sample and a 20-tonne bulk sample from Ceylon Mine Project. Concentrate assaying 97.4% Total Graphite Content was produced through rougher, one re-grind and five cleaning stages. Recovery was high with only 1.6% of the graphite reporting to tails and as much as 8.2% of the final concentrate premium jumbo flake. The high concentrate grade and coarse size distribution highlight good market potential for Ceylon flake-graphite concentrate.

With a renewed interest in graphite in the US, the Company is considering alternative pathways to undertake a work plan in the coming year.

Hexagon’s capital position strengthened by \$0.5m equity raising

Cash flow movements

With the COVID-19 pandemic continuing to impact economic conditions both in Australia and overseas, Hexagon management has focused on expenditure control. Quarterly cash flow movements for Hexagon are summarised in the attached Appendix 5B. The Company finished the period with a cash balance of \$0.64m.

Operating cashflows during the quarter totalling \$0.348m included rehabilitation at McIntosh, deal costs and staff and general and administration costs. In accordance with ASX Listing Rule 5.3.5, Hexagon confirms that payments made to directors during the December 2020 quarter totalling \$0.144m were comprised of salaries and fees paid to directors including payment in respect of unused annual leave to the former Managing Director.

Capital structure movements

24.1m unlisted options in Hexagon expired on 16 October 2020.

On 30 December 2020 Hexagon raised \$0.5m in new equity from sophisticated and professional investors. The 8,771,930 new shares issued in this raising were priced at 5.7 cents/share. The raising was accompanied by the issuance of 4m options with an exercise price of 10 cents/share and an expiry date of 30 December 2022. The following table shows Hexagon's shares and options on issue position as at 31 December 2020.

Security Code	Security Name	Total Holdings
HXG	ORDINARY FULLY PAID SHARES	301,205,327
HXGUOPT7	UNL OPTIONS EXPIRING 30/12/2022 @ \$0.10	4,000,000

Revamp of Hexagon Board and Management Team Underway

Some changes were made to the Hexagon board and management team over the December 2020 quarter. More changes are likely if the Ebony acquisition is successfully completed.

Mr Mike Rosenstreich, who had been the Company's Managing Director and CEO since March 2017, exited this role effective 1 December 2020. He also resigned as a director of the Company at that date.

Mr Justyn Stedwell joined the Hexagon board as a non-executive director on 1 December 2020. He is now also the Company's joint Company Secretary, ahead of becoming the sole Company Secretary in calendar year 2021. Justyn is an experienced Company Secretary consultant and Director, with around 15 years' with ASX-listed companies in various industries.

As part of the planned Ebony Energy transaction, Hexagon's management team will be expanded by the appointment of Mr Adam Bacon, the current Managing Director of Ebony, subject to completion of the Ebony acquisition. His brief will be to undertake executive management duties and deliver the key milestones for the Pedirka Hydrogen Project.

During the quarter, Hexagon also held its Annual General Meeting. All resolutions put to the AGM were passed via a poll.

Hexagon's Chairman Charles Whitfield said: "Even as we await all the necessary steps for completion of this transaction, Ebony Energy continue to move forward with all aspects of the project development and we look forward to some exciting progress. We were attracted to Ebony by its Pedirka zero emission solution to "Blue" Hydrogen production which fits in perfectly with Hexagon's objectives to become an important resource explorer, developer and operator with a focus on clean energy solutions. We are now awaiting finalisation of the Notice of Meeting in order to schedule the extraordinary general meeting required to obtain shareholder approval for the deal.

In the meantime, the team continue to progress our wholly-owned WA assets, the Halls Creek and the McIntosh Projects. Aided by monies sourced from the WA Government's Exploration Incentive Scheme (EIS), we will commence a comprehensive drilling programme at the Bent Ridge prospect in the Halls Creek Project in mid-2021. This pending exploration activity demonstrates the

Company's commitment to progressing its WA-based assets to the point where they can be developed, farmed out or joint ventured with suitable partners."

Ends

Competent persons' attributions

The information within this report that relates to exploration results, Exploration Target estimates and geological data at the McIntosh and Halls Creek Projects is based on information compiled by Ms Cherie Leeden who is a Consultant to the Company and reviewed by Mr Mike Atkinson also a Consultant to the Company. Both are Members of the Australian Institute of Geoscientists and 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 both consent to the inclusion of this information in the form and context in which it appears in this report.

About Hexagon Energy Materials Limited

Hexagon Energy Materials Limited (ASX: HXG): Hexagon Energy Materials Limited (ASX: HXG) is an Australian resources company with three projects on its books. It is currently exploring at two wholly-owned Western Australian assets, the Halls Creek Gold Project and the McIntosh Graphite, Nickle and PGE's Project. The Company also has an 80% interest in several early-stage graphite exploration projects located in Alabama, USA, including the historic, Ceylon Mine workings. More recently Hexagon has been actively seeking involvement in value-added businesses that are consistent with its strategy, skill set, and focus on clean energy. To this end, Hexagon is currently progressing the acquisition of Ebony Energy, owner of the Pedirka 'Blue' Hydrogen Project in the Northern Territory.

To learn more, please visit www.hxgenergymaterials.com.au

Authorisation

This announcement has been authorised by the Board of Directors.

FOR FURTHER INFORMATION, please contact:

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Appendix 5B

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

HEXAGON ENERGY MATERIALS LIMITED

ABN

27 099 098 192

Quarter ended ("current quarter")

31 December 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation (if expensed)	(169)	(293)
(b) development	(49)	(85)
(c) production	-	-
(d) staff costs	(125)	(195)
(e) administration and corporate costs	(180)	(397)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	1
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	162	162
1.8 Other (Covid-19 Grant)	13	68
Reimbursement McIntosh rehabilitation	-	150
1.9 Net cash from / (used in) operating activities	(348)	(589)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) tenements	-	(17)
(c) property, plant and equipment	-	-
(d) exploration & evaluation (if capitalised)	(231)	(375)
(e) investments	-	-
(f) other non-current assets	-	-

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(231)	(392)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	500	500
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(30)	(30)
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 (Office Rental Lease Liability)	(15)	(28)
3.10	Net cash from / (used in) financing activities	455	442

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	766	1,206
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(348)	(589)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(231)	(392)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	455	442

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(2)	(27)
4.6	Cash and cash equivalents at end of period	640	640

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	593	719
5.2	Call deposits	47	47
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	640	766

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1,
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
144
-

6.1 – Includes payments to Managing Director.

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	-	-
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
-		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(348)
8.2 Capitalised exploration & evaluation (Item 2.1(d))	(231)
8.3 Total relevant outgoings (Item 8.1 + Item 8.2)	(579)
8.4 Cash and cash equivalents at quarter end (Item 4.6)	640
8.5 Unused finance facilities available at quarter end (Item 7.5)	-
8.6 Total available funding (Item 8.4 + Item 8.5)	640
8.7 Estimated quarters of funding available (Item 8.6 divided by Item 8.3)	1.1
8.8 If Item 8.7 is less than 2 quarters, please provide answers to the following questions:	
1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: Yes	
2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: Yes, the entity is planning to raise additional capital in the next quarter to enable the Company to continue to fund its operations. The Directors are in discussions to optimise funding options available. The Directors have historically raised successful capital raisings on the ASX.	
3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
Answer: Yes. The entity expects to continue its operations and meet its business objectives in the coming quarters based on the current cashflow forecast prepared for internal purposes and as per point 8.8.2 above.	

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.

Date:29/1/21.....

Authorised by:By the Board.....
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.