

ASX: KTG

ASX Announcement | 27 January 2023

K-TIG signs binding agreement to acquire a specialist UK advanced manufacturer to the UK nuclear decommissioning industry

Highlights:

- K-TIG signs binding conditional agreement to acquire Graham Engineering Limited ("GEL"), a UK-based specialist advanced manufacturer, of highly engineered, large scale metal fabrications to the UK nuclear decommissioning sector
- GEL has developed a range of innovative manufacturing processes which have application to nuclear, aerospace, security and medical industries
- GEL clients include Sellafield Limited, UK Atomic Energy Authority, Magnox, Dounreay, Rolls Royce, Rapiscan Systems and Siemens
- GEL has extensive knowledge of producing 'nuclear product' and 'hazardous waste' containers for the Nuclear Industry which includes High Level Waste Flasks, Intermediate Level 4m³ and 3m³ boxes, 3m³ Drums 500L drums, Low Level boxes and store furniture
- GEL is revenue generating with reported revenue of GBP£13.5 million and adjusted EBITDA of GBP£1.3 million for FY2022
- The acquisition will be funded by a capital raise of up to A\$20 million
- K-TIG will also undertake an interim capital raise by way of a convertible note of A\$2 million

27 January 2023: K-TIG Limited ("K-TIG" or the "Company") is pleased to announce that it has entered into a binding agreement to acquire 100% of Graham Engineering Limited ("GEL") ("Acquisition"), subject to the satisfaction of conditions precedent.

In connection with the Acquisition, the Company intends to raise \$20 million (before costs) at an issue price of \$0.20 per fully paid ordinary share ("Share") pursuant to a public offer under a full form prospectus ("Capital Raising"). Together, the Acquisition and Capital Raising are the "Transaction".

On completion of the Acquisition ("Completion"), GEL will become a wholly owned subsidiary of the Company, and the Company's main undertaking will be specialist manufacturing in the nuclear decommissioning industry.

Graham Engineering Limited

GEL delivers high integrity manufacturing solutions to a wide variety of market sectors including Nuclear, Aerospace, Medical and Security.

The engineering, manufacturing and assembly relating to these products and solutions takes place at GEL's premises in Lancashire, UK, conveniently located for GEL's core customers.

GEL has continuously invested heavily in the latest manufacturing technology which has resulted in high-tech manufacturing capabilities backed by decades of engineering experience, efficient manufacturing techniques and comprehensive knowledge of materials.

Nuclear capabilities

GEL have been supplying the nuclear sector since 1985 and have extensive experience in the manufacture of containments of all varieties, plant and equipment.

This extensive knowledge of producing 'nuclear product' and 'hazardous waste' containers for the Nuclear Industry includes High Level Waste Flasks, Intermediate Level 4m³ and 3m³ boxes, 3m³ Drums 500L drums, Low Level boxes and store furniture (i.e. stillage's and MBGW stools). Product containers from 30ml to 80L for a wide range of product types. Most of the UK 3m³ ILW Boxes have been developed at GEL along with all the 500L ILW drums. The HLW WVP Flasks have been a single source supply from GEL for over 30 years.



Image: Product containers and drums produced by GEL for the UK nuclear decommissioning sector

GEL's existing customers in the nuclear sector include: Sellafield Limited, UK Atomic Energy Authority, Magnox and Dounreay.

Aerospace capabilities

GEL has been actively involved in the aerospace industry since the early 1970's. GEL's ongoing Laser Suite investment for the profiling and welding of stainless steels and exotic metals has revolutionized the company's manufacturing processes, increasing consistency and accuracy whilst eliminating waste and cost.

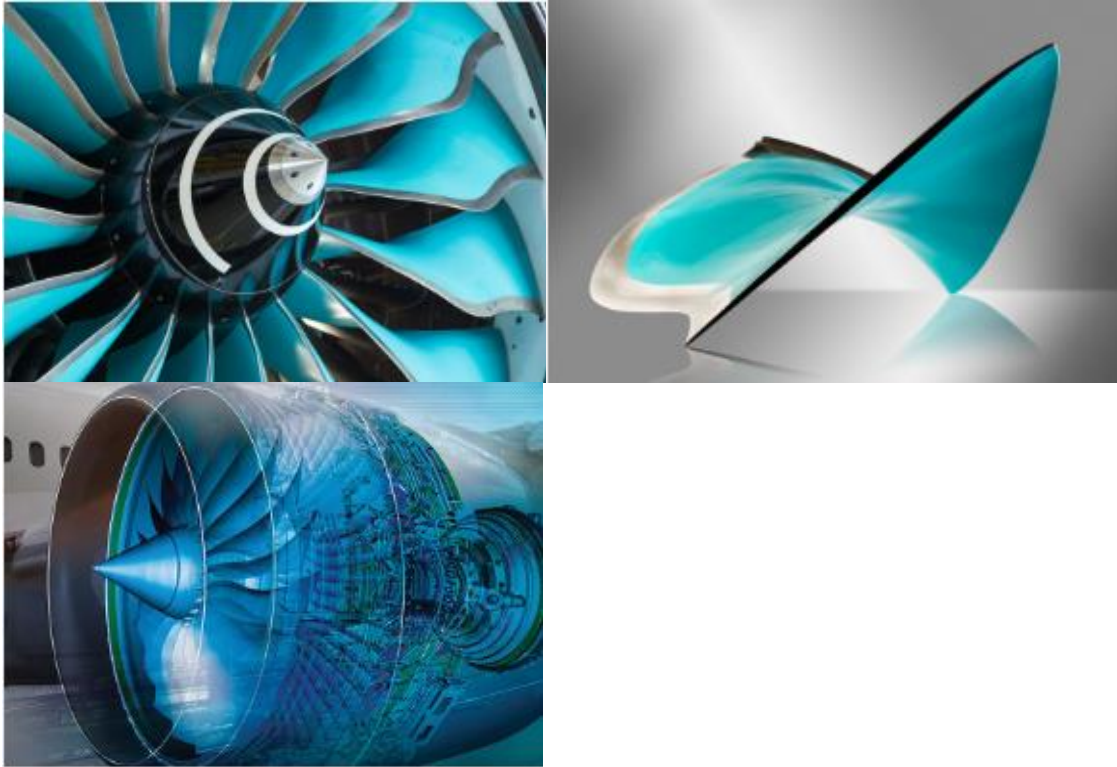


Image: GEL has been actively involved in the aerospace industry and the manufacturing of fan blades for use in aircraft engines.

Security capabilities

GEL has over 45+ years' experience supplying precision components and complex fabricated assemblies manufactured to exacting specifications into the security market.

GEL is a trusted provider of products and solutions to meet the most demanding threat detection criteria at airports, border crossings, government, military installations and high-risk facilities around the world.

By utilising the vast experience of production techniques GEL has assisted in the development of the high specification parts required to maintain the clarity of imaging needed in this fast-moving environment. Taking the initial design and creating major cost savings through removal of excess materials and automatic manufacturing techniques has drastically reduced the end cost to the customer.

Medical capabilities

GEL has over 45+ years' experience supplying demanding precision components and fabricated assemblies requiring stringent specifications at all times into the Medical Market.

GEL is a trusted provider of high-end fabrication services into the medical market. For many years GEL has worked with world leading companies within the Healthcare, Medical and Pharmaceutical industries.

GEL has entered into long term agreements for the supply of strategic pressure vessel components for the main chambers. GEL is also assisting in developing the next generation of high specification ground breaking equipment.

Key Acquisition Terms

K-TIG has executed a binding term sheet with the shareholders of GEL to acquire 100% of the issued capital of GEL, subject to the satisfaction of a number of conditions precedent (including shareholder approval) (**Term Sheet**).

The Acquisition is subject to the following key terms and conditions:

1. Consideration

K-TIG will pay up to £18,000,000 in consideration for the Acquisition, consisting of:

- (i) an upfront cash payment of £10,000,000 payable on Completion;
- (ii) cash payment for the Freehold Property (assumed at £5,000,000) payable on Completion (note the actual amount is subject to an independent valuation and subsequent agreement between the parties); and
- (iii) a deferred cash payment of up to £3,000,000 to be calculated based GEL's EBITDA for FY2023, being the financial year ending 31 August 2023 (**Deferred Payment**).

The Deferred Payment is to be calculated as follows:

EBITDA*	Deferred Payment
< £1,700,000	Nil
£1,700,000 - £2,289,999.99 (inclusive)	(i) £500,000; plus (ii) £2.933333 for each £1 in EBITDA above £1,700,000 EBITDA.
£2,290,000 - £2,449,999.99 (inclusive)	(i) £650,000; plus (ii) £2.933333 for each £1 in EBITDA above £1,700,000 EBITDA.
>£2,450,000	(i) £800,000; plus (ii) £2.933333 for each £1 in EBITDA above £1,700,000 EBITDA, up to a maximum of £3,000,000.

* Based on audited accounts of GEL for the financial year ending 31 August 2023.

2. Conditions Precedent

The Transaction is subject to a number of conditions being satisfied, including:

- (i) **(Due Diligence)**: Company completing due diligence on GEL;
- (ii) **(Material adverse change)** there being no material adverse change to the GEL business prior to completion of the Transaction;
- (iii) **(ASX Approval)** ASX providing a conditional admission letter to the Company on terms satisfactory to the Company (acting reasonably);
- (iv) **(Shareholder Approval)** The Company's shareholders approving the Transaction;
- (v) **(Independent Valuation of Freehold Property)** The provision of an independent valuation and subsequent agreement by the parties;
- (vi) **(Funding)** the Company obtaining funding for the Transaction;
- (vii) **(Receipt of clearance under the *National Security and Investment Act 2021* (the "NSI Act"))** the Secretary of State notifying the Company pursuant to section 14(8)(b)(ii) of the NSI Act that no further action will be taken in relation to the Acquisition or, if a call in notice is given by the Secretary of State under s.1(1) of the NSI Act, the Secretary of State giving a final notification that no further action will be taken in relation to the Acquisition; and
- (viii) **(Options)** the Vendors providing evidence that all outstanding options over or in respect of the share capital of the Company have been exercised or terminated.

3. Formal Agreement

The parties, acting in good faith, must use reasonable endeavours to agree and execute a longer form share sale agreement on terms materially consistent with the Term Sheet.

4. Termination

Unless otherwise agreed, the Term Sheet shall terminate automatically on 28 February 2023 in the event a longer form share sale agreement has not been agreed.

Re-compliance with Chapters 1 and 2 of the ASX Listing Rules

Listing Rules 11.1.2 and 11.1.3 apply to the Transaction. The Transaction requires Shareholder approval under the Listing Rules and therefore may not proceed if that approval is not forthcoming.

The Transaction will also require the Company to re-comply with ASX's requirements for admission and quotation and therefore the transaction may not proceed if those requirements are not met. ASX has an absolute discretion in deciding whether or not to re-admit the entity to the official list and quote its securities. The Transaction may not proceed if ASX exercises that discretion.

Investors should take account of these uncertainties in deciding whether or not to buy the Company's securities, which are currently suspended from trading.

Capital Structure

1. Existing Capital Structure

As part of the Transaction, the Company intends to consolidate the current Shares on issue on a 1.8 to 1 basis, subject to shareholder approval (**Consolidation**).

The existing capital structure of K-TIG is set out below:

Securities	Shares	Options	Performance Rights
Pre-consolidation	183,039,832	6,612,152 ⁽¹⁾	6,000,000 ⁽²⁾
Post-consolidation	102,959,906	3,719,336	3,375,000

Notes:

1. Comprising:
 - (a) 5,472,152 unquoted options with an expiry date of 30 September 2023 and an exercise price of \$0.23.
 - (b) 960,000 unquoted options with an expiry date of 30 September 2023 and an exercise price of \$0.23; and
 - (c) 180,000 unquoted options with an expiry date of 30 September 2023 and an exercise price of \$0.23.
2. Comprising:
 - (d) 2,000,000 unquoted class A performance rights expiring on 22 December 2025;
 - (e) 2,000,000 unquoted class B performance rights expiring on 22 December 2025; and
 - (f) 2,000,000 unquoted class C performance rights expiring on 22 December 2025.

2. K-TIG Convertible Note Raise

K-TIG intends to raise approximately \$2,000,000 (before costs) through the issue of up to 2,000 convertible debt notes with a face value of \$1,000 each (**Note**).

Subject to satisfaction of the following conversion conditions, the Notes will automatically convert into Shares on completion of the Capital Raising:

- (i) K-TIG Shareholders approving the issue of Shares to be issued on conversion of the Notes;
- (ii) K-TIG obtaining ASX approval that the Notes are not inconsistent with Listing Rule 6.1; and
- (iii) K-TIG successfully completing a capital raising of no less than \$4,000,000, (together, the **Conversion Conditions**).

The Notes will convert into fully paid ordinary shares in the capital of K-TIG at a conversion price which is equal to the issue price of Shares under the Capital Raising.

On conversion of the Notes, and subject to satisfaction of the Conversion Conditions, the Noteholders will receive 1 unquoted option for every Share issued on conversion, with an exercise price equal to the Conversion Price expiring approximately 36 months after the Conversion Date (**Options**).

The terms and conditions of the Notes are provided in Schedule A.

3. Capital Raising and Indicative Capital Structure

Subject to Shareholder approval, the Company intends to lodge a full form prospectus for the purpose of undertaking the Capital Raising of \$20 million (before costs) and to assist the Company to re-comply with Chapters 1 and 2 of the Listing Rules.

The proposed capital structure of the Company on completing the Transaction is set out below (on a post-Consolidation basis):

Details	Securities*
Existing K-TIG shares on issue (post-consolidation)	102,959,906
Advisor shares to be issued upon Completion	1,125,000
K-TIG Convertible Note shares **	10,000,000
Capital raise	100,000,000
Total K-TIG Shares (undiluted)	214,084,906
Existing performance rights	3,375,000
Advisor, Broker and Director options to be issued upon Completion, exercisable at \$0.25, expiring 4 years from Completion	4,000,000
Listed options on issue, exercisable at \$0.23 on or before 30 September 2023	3,719,336
Unlisted options to be issued with convertible note raise	20,000,000
Fully Diluted Capital Structure	245,179,241

*presented on a post-consolidation basis subject to ASX requirements

** Proposed convertible note capital raise of \$2 million which converts to shares in K-TIG at the completion price of \$0.20 per share

Indicative Use of Funds

The Company intends to use the funds raised under the Public Offer, together with the Company's estimated existing cash reserves post-Transaction as follows:

Indicative use of funds (\$20m capital raise)*	Year 1 (\$)	Year 2 (\$)	Total (\$)	%
Acquisition of Graham Engineering Limited	17,600,000	-	17,600,000	54.4%
Acquisition of freehold property **	8,800,000	-	8,800,000	27.2%
Lead Manager / Advisor fees	1,300,000	-	1,300,000	4.0%
Market expansion	1,000,000	1,000,000	2,000,000	6.2%
Transaction and IPO costs	600,000		600,000	1.9%
Working Capital	1,017,331	1,017,330	2,034,661	6.3%
Total funds	30,317,331	2,017,330	32,334,661	100.0%

* the use of funds noted above is indicative only and subject to change. The proposed use of funds will be contained within the full form prospectus.

** the value of the freehold property is subject to an independent valuation and subsequent agreement by the parties. For the purposes of this indicative use of funds we have assumed £5,000,000 / A\$8,800,000.

Indicative Timetable

An indicative timetable for the Transaction is set out below. The Company notes that the timetable may be subject to change. A more detailed timetable will be provided as part of the notice of meeting.

Event	Indicative Dates
Dispatch Notice of Meeting	24 February 2023
Lodge Prospectus and offer open	17 March 2023
Shareholder meeting to approve acquisition	24 March 2023
Prospectus offer close	21 April 2023
Re-admission to the ASX Official List will occur as soon as practicable following the Shareholder meeting	28 April 2023

Company Name

The Company name will remain as "K-TIG Limited". GEL will be a wholly owned subsidiary of the Company.

Board changes

Upon completion of the Acquisition, it is proposed that Mr Tony Eckford will join the board of directors.

Mr Eckford is an experienced senior executive originally trained as a Mechanical Engineer having held Executive positions in FTSE 100/250 companies encompassing a significant number of Chairmanship roles related to various industries.

Mr Eckford is currently Chairman of GEL. Mr Eckford was formerly Chairman NES Group (Nuclear Engineering Services Group/Ansaldo Nuclear Ltd); Chairman Nukem Technologies GmbH Specialist design, a consultancy and project delivery organisation in the Nuclear sector based in Germany operating primarily in Eastern Europe/South Africa; Chairman of Power Industrial Group, a total service /design and consulting company in the Power/Industrial market place; Group MD of Anglian Water, responsible for some £900m turnover including Government and Utility Services Divisions.

Suspension from Trading on ASX

In accordance with ASX's policy for entities undertaking back door listing transactions, the Company's securities will remain suspended from trading on ASX until the Company has complied with Chapters 1 and 2 of the ASX Listing Rules in accordance with listing rule 11.1.3.

Key Risks

Key risk factors associated with the GEL business include:

(a) Sales risk

While GEL is already revenue generating, its ability to maintain sales growth is dependent on maintaining existing customers and securing new contracts and customers.

(b) Product quality risks

The products and technology supplied by GEL may not be functional, may be faulty, or not meet customers' expectations. This may lead to requirements for the company to improve or refine its products, which may diminish operating margins or lead to losses.

(c) Manufacturing risks

GEL's products may be subject to product quality risks.

(d) Supplier risk

GEL sources certain key components for its systems from third party suppliers. The delivery of such components may be delayed, or a specific supplier may not be able to deliver at all, which may lead to a longer sales cycle or may force the company to shift to another supplier.

(e) Key personnel risk

GEL depends on certain key personnel and the departure of any of them may lead to disruptions of customer relationships or delays in the manufacturing and product development efforts.

(f) Development risks

GEL is currently investing into new R&D initiatives and new technologies that are still at an early stage of development and validation. While GEL is not presently aware of any potential problems, the commerciality of these new products is still uncertain.

(g) Workplace health and safety

GEL's staff work in an environment subject to heightened workplace health and safety risks. GEL and its staff must comply with various workplace health and safety laws. In the event that GEL does not maintain its strict health and safety standards, it may give rise to claims against GEL. GEL has previously incurred health and safety incidents which may give rise to future claims.

ASX Guidance Note 12 - Annexure A Disclosure

The Company provides the following disclosure in accordance with ASX Guidance Note 12 - Annexure A, to the extent that the information has not been provided elsewhere in this announcement.

1. Financial Information

Financial statements of GEL and historical financial information will be provided within the notice of meeting to Shareholders for the approval of the Transaction.

An indicative pro forma statement of financial position of the Company, as at June 2022, based on the audited accounts of the Company and audited accounts of GEL as at 31 August 2022 is set out in Schedule 2.

2. Issues in the previous 6 months

There have been no issues of capital for either the Company or GEL in the previous six (6) months.

3. No change in control

No person will acquire control of, or voting power of 20% or more, in the Company as a result of the Transaction.

4. Principal activities and jurisdictions

The Company's activities following Completion will be conducted in Australian and the United Kingdom.

5. Vendors

GEL has three existing shareholders (collectively, the **Vendors**):

- (a) the trustees of the Corry Thomas Graham (deceased) Will Trust;
- (b) Peter Manley; and
- (c) Pauline Graham.

None of the Vendors are a related party of the Company. A further two optionholders (Frank Kelly and Stuart Fraser) are expected to exercise their options prior to completion of the Transaction.

6. Fees

The Company has not yet entered into a mandate with a lead manager for either the convertible note or the re-compliance Capital Raising but expects to engage a lead manager shortly on market standard terms. SRG Partners Pty Ltd has acted as a corporate advisor to the Company and will receive the following fees:

- (a) a success fee of \$100,000;
- (b) the issue of 2 million options on a pre-consolidation basis; and
- (c) the issue of 2 million ordinary shares on a pre-consolidation basis.

7. Waivers

The Company does not intend to seek a waiver from the 20 cent rule. The Company may require further confirmations from ASX prior to completion.

8. Appropriate Enquiries

The Company is undertaking significant due diligence into the assets and liabilities, financial position and performance, profits and losses and prospects of GEL and is satisfied that the Transaction is in the interests of the Company and its security holders, subject to the completion of due diligence and finalisation of a longer form share sale agreement.

The Company notes that the Term Sheet contains a condition precedent that the Company completes due diligence to its satisfaction.

The Company has not yet satisfied or waived this condition precedent, but intends to complete due diligence prior to lodging the Prospectus and seeking reinstatement of its Shares to official quotation. The Directors confirm that this announcement includes all material and accessible information available to the Directors as at the date of this announcement.

9. Listing Rule 3.1

The Company is in compliance with its continuous disclosure obligations under Listing Rule 3.1 as at the date of this announcement but intends to remain in suspension until such time as it is able to complete the Transaction.

ASX takes no responsibility for the contents of this announcement.

For further information on GEL please refer to the website www.graham-eng.co.uk

--ENDS--

This announcement was authorised for issue by the Board of K-TIG Limited.

For more information, please contact:

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About K-TIG Limited

K-TIG is a transformative, industry disrupting welding technology that seeks to change the economics of fabrication. K-TIG's high speed precision technology welds up to 100 times faster than traditional TIG welding, achieving full penetration in a single pass in materials up to 16mm in thickness and typically operates at twice the speed of plasma welding. K-TIG works across a wide range of applications and is particularly well suited to corrosion resistant materials such as stainless steel, nickel alloys, titanium alloys and most exotic materials. It easily handles longitudinal and circumferential welds on pipes, spooling, vessels, tanks and other materials in a single pass. Originally developed by the CSIRO, K-TIG owns all rights, title and interest in and to the proprietary and patented technology and has been awarded Australian Industrial Product of the Year and the DTC Defence Industry Award.

Forward Looking Statements

Statements contained in this release, particularly those regarding possible or assumed future performance, revenue, costs, dividends, production levels or rates, prices or potential growth of K-TIG Limited, are, or may be, forward looking statements. Such statements relate to future events and expectations and, as such, involve known and unknown risks and uncertainties. Actual results and developments may differ materially from those expressed or implied by these forward-looking statements depending on a variety of factors.

Schedule 1 - Convertible Note Terms

Issuer	K-TIG Limited (KTG)
Background	KTG intends to raise approximately \$2,000,000 (before costs) through the issue of up to 2,000 convertible debt notes with a face value of \$1,000 each (Note).
Face Value	\$1,000 per Note.
Funds Raised	\$2,000,000 (before costs).
Debt Instrument	Prior to the satisfaction of the Conversion Conditions (defined below), the Notes will be debt instruments.
Subscribers	The Notes will be offered to a small number of unrelated, professional and sophisticated investors.
Conversion Conditions	<p>Subject to satisfaction of the following conversion conditions, the Notes will automatically convert into ordinary shares in KTG upon KTG's next equity raise of equal to or greater than AUD \$4,000,000 (before costs) (Conversion Date):</p> <ul style="list-style-type: none"> (a) KTG obtaining shareholder approval for the conversion of the Notes into shares and options in the capital of KTG (Shareholder Approval); (b) KTG obtaining ASX approval that the Notes are appropriate and equitable under Listing Rule 6.1; and (c) KTG successfully completing a future capital raise of no less than \$4,000,000 (Future Capital Raising), <p>(Conversion Conditions)</p>
Conversion Price	The Notes will convert into fully paid ordinary shares in the capital of KTG (Shares) at a conversion price which is equal to the issue price of the Shares under the Future Capital Raising.
Interest	<p>Simple, non-compounding interest will accrue on the Notes at the rate of 10% per annum. Interest accrues on a daily from the date of issue and is repayable on conversion or redemption:</p> <ul style="list-style-type: none"> • in cash, or • at the election of KTG and subject to shareholder approval, through the issue of Shares issued at the Conversion Price at maturity.
Placement Capacity / Shareholder Approval	<p>No equity securities will be issued until Shareholder Approval is obtained under Listing Rule 7.1.</p> <p>KTG will seek shareholder approval shortly prior to the proposed Conversion Date, and in the notice of meeting will specify either a fixed Conversion Price or a minimum price at which the conversion may occur (floor price).</p>
Security	The Notes will be unsecured, unsubordinated and rank behind any secured indebtedness of the Company whilst ranking pari-passu as between themselves.

Unquoted	The Notes will be unquoted. KTG will apply for quotation of the Shares issued on conversion.
Maturity	24 months from the issue date.
Options	<p>On conversion of the Notes, and subject to satisfaction of the Conversion Conditions, the Noteholders will receive 1 unquoted option for every Share issued on conversion, with an exercise price equal to the Conversion Price expiring approximately 36 months after the Conversion Date (Options).</p> <p>In the event the Conversion Conditions are not satisfied, the Company must, prior to maturity:</p> <ul style="list-style-type: none"> • seek shareholder approval for the issue of 20,000,000 Options with an exercise price equal to the Company's 20 day VWAP as at the date of the shareholder meeting, expiring 36 months after the issued date, such that each Noteholder is issued 10,000 Options per Note (Redemption Options); or • (in the event the shareholder approval is not obtained), reimburse the Noteholder a further \$350 for each Note in addition to accrued interest.

Schedule 2 - Indicative Proforma Statement of Financial Position (A\$)

Net assets statement

	GEL	KTG							Proforma Consolidated Balances (\$20m)
	Aug-22 AUD	Jun 2022 AUD	Convertible note raise (\$2m)	Subscription (\$20m)	Acquisition	Debt funding	Issue of advisor securities	Issue of options	
Current assets									
Cash and cash equivalents	4,749,279	3,726,745	2,000,000	18,800,000	(26,400,000)	8,800,000			11,676,024
Trade and other receivables	7,997,123	856,547							8,853,670
Inventories	2,322,313	1,309,187							3,631,500
Financial assets	-	40,000							40,000
Total current assets	15,068,715	5,932,479							24,201,194
Non current assets									
Other receivables	-	14,150							14,150
Property, plant and equipment	15,723,928	426,366							16,150,294
Right-of-use assets	-	437,320							437,320
Goodwill	-	-			9,504,723				9,504,723
Intangibles	-	30,876							30,876
Total non-current assets	15,723,928	908,712							26,137,363
Total assets	30,792,643	6,841,191							50,338,558
Liabilities									
Current liabilities									
Trade and other payables	4,363,212	1,211,147							5,574,359
Amounts received in advance	-	322,256							322,256
Lease liabilities	-	77,730							77,730
Employee benefits	-	199,935							199,935
Total current liabilities	4,363,212	1,811,068							6,174,280
Non-current liabilities									
Trade and other payables	1,194,032	-							1,194,032
Borrowings	-	-				8,800,000			8,800,000
Provision for liabilities	3,060,123	-							3,060,123
Lease liabilities	-	359,590							359,590
Employee benefits	-	16,715							16,715
Contingent consideration	-	-			5,280,000				5,280,000
Total non-current liabilities	4,254,154	376,305							18,710,459
Total liabilities	8,617,367	2,187,373							24,884,740
Net assets	22,175,277	4,653,818							25,453,818
Equity									
Issued capital	176,000	27,299,303	2,000,000	18,800,000	(176,000)		400,000	(136,849)	48,362,454
Revaluation reserve	3,068,213	-			(3,068,213)				-
Share based payment reserve	-	2,566,786						273,697	2,840,483
Foreign currency translation reserve	-	5,335							5,335
Accumulated profits / (losses)	18,931,063	(25,217,606)			(18,931,063)		(400,000)	(136,849)	(25,754,455)
Total equity	22,175,277	4,653,818	-	-	(0)	-	-	-	25,453,818

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