

ASX Announcement 26 April 2023

## MARCH 2023 QUARTERLY ACTIVITIES REPORT

### Highlights

- The Company has achieved a record secured backlog of \$1,138k, of which \$986k is scheduled to be delivered in Q4-23.
- Quarterly cash receipts of \$801k received during the March quarter.
- The Company had c.\$1.9m cash as at 31 March 2023.
- K-TIG announced the signing of a definitive share purchase agreement to acquire Graham Engineering Limited ("GEL").
- K-TIG raised \$2m before costs through the issue of convertible debt notes from sophisticated investors.

**K-TIG Limited (ASX: KTG) ("K-TIG" or the "Company")**, a technology company deploying a fully commercialised industry-disruptive high-speed welding technology, provides the following summary of activities during the quarter ended 31 March 2023.

The Company is pleased to report the following March 2023 quarterly results:

- Quarterly cash receipts of \$801k.
- Quarterly sales revenue of \$694k
- Secured backlog of \$1,138k.
- Cash at bank of \$1.9m.

### Graham Engineering Limited

As announced on 22 March 2023 the Company executed a definitive sale and purchase agreement ("SPA") to acquire 100% of Graham Engineering Limited ("GEL") ("Acquisition"), subject to the satisfaction of conditions precedent.

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

## **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 4m<sup>3</sup> and 3m<sup>3</sup> boxes, 3m<sup>3</sup> 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 3m<sup>3</sup> 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.

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.

## **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

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

### 1. Consideration

K-TIG will pay up to £17,550,000 in consideration for the Acquisition, consisting of:

- (i) an upfront cash payment of £10,000,000 payable on completion;
- (ii) cash payment for the GEL's freehold property (£4,550,000) payable on completion; 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**).

### 2. Conditions Precedent

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

- (i) **(ASX Approval)** ASX providing a conditional admission letter to the Company on terms satisfactory to the Company (acting reasonably);
- (ii) **(Shareholder Approval)** The Company's shareholders approving the Acquisition;
- (iii) **(Funding)** the Company obtaining funding for the Acquisition; and
- (iv) **(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.

## Acquisition update

The Company continues to progress the Acquisition and intends to dispatch its notice of meeting seeking shareholder approval shortly. The notice of meeting will provide an update to the transaction timetable previously disclosed by the Company.

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.

## Customer Acceleration

The Company continues to build sales momentum, despite seeing a lengthening in the sales cycle due to current economic conditions, with strong progress made during the quarter in the US, UK and European markets.

On 9 January 2023, the Company announced that it has received a EURO €385,000 (~A\$600,000) purchase order from Ireland based Brewery Chemical & Dairy Engineering Limited, ("BCD Engineering"), for the supply and onsite commissioning of a Linear Precision Grow Line Circumferential Welding System. This welding system will be installed in BCD Engineering's Stainless Steel Process Vessel & Process Plant and will be delivered later this fiscal year following its manufacture in the UK and Australia.

This sale represents the largest turnkey welding cell order received since the announcement in November 2021 of K-TIG's intention to diversify its products by adding integrated Industry 4.0 compatible automated welding cells, based on K-TIG's industry leading keyhole welding technology, into its portfolio.

## Defence

The Company continues to make progress with its Defence initiatives both in Australia and the USA. During the quarter, K-TIG focused on its naval ship building projects making good progress on its previously announced NSRP project to undertake qualification of the K-TIG welding process for US warships as well as its projects to qualify CuNi pipe welding for both the USA and Australian naval markets.

K-TIG has commenced the process of qualifying its USA and Australian facilities and key personnel to manage classified defence information in anticipation of future defence efforts in the armoured land vehicles and military ship segments.

K-TIG notes the release of the Australian Government's Defence Strategic Review made on 24 April 2023 regarding the Land 400 project. K-TIG will continue to monitor Government and Defence announcements for further updates including the successful defence prime contractor.

## Research and Development

The Company continues to make good progress with the Evolve 3 product development which supports data centric automated welding cells to drive productivity.

During the quarter K-TIG specifically focused on:

- expanding software enabled controller functionality in Evolve 3 to incorporate live weld pool imagery to measure and improve weld quality as well as provide permanent quality records;
- redesigning elements of the data acquisition system in the existing Evolve 2 system to address persistent supply chain issues;
- improvements to K-TIG torch technology to increase robustness to abuse in an industrial workshop; and
- further developing software enabled plug and play options for recurrent revenue.

## Corporate

During the quarter K-TIG raised \$2,000,000 (before costs) through the issue of 2,000 convertible debt notes with a face value of \$1,000 each ("Note"). Proceeds from the capital raise are being used to support sales momentum, progress with the UK nuclear strategic initiatives and for working capital purposes.

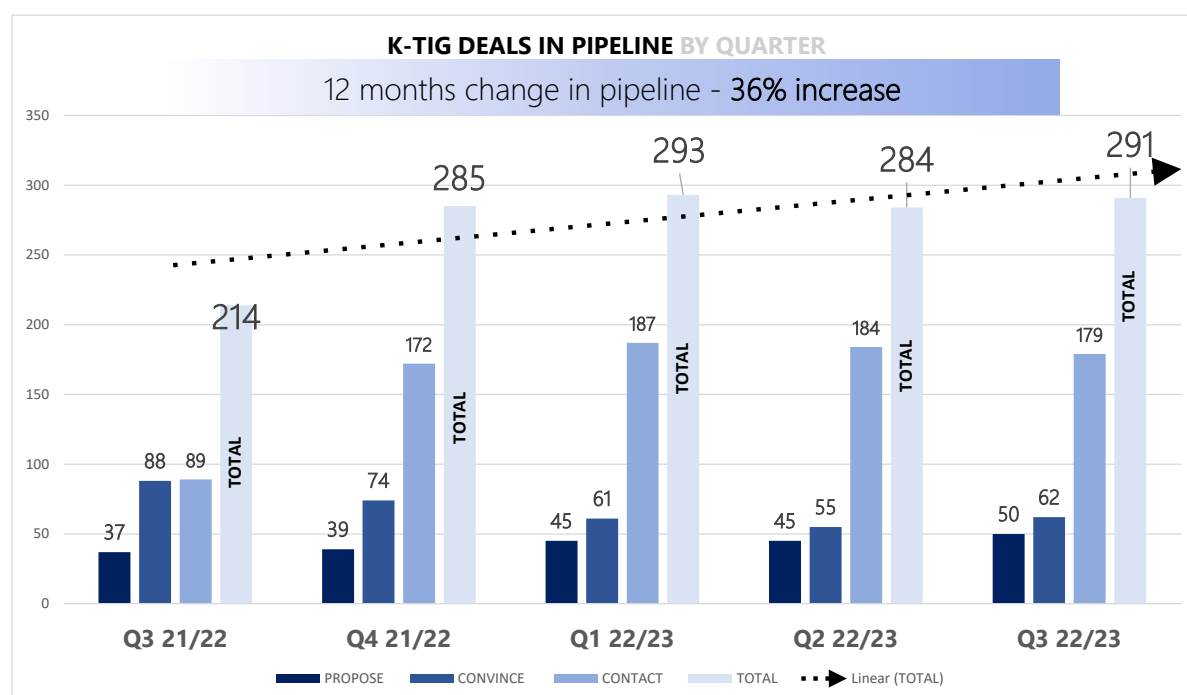
## Financial Summary

The attached Appendix 4C provides details on the cashflows for the quarter ended 31 March 2023. As at 31 March 2023, the Company had a cash balance of \$1.9m. The Company's net cash used in operating activities for the quarter amounted to \$1.397m comprising \$0.801m receipts from customers, \$0.047m for research and development, \$0.726m for product manufacturing and operating costs, \$0.045m for advertising and marketing, \$1.025m for staff costs and \$0.353m for administrative and corporate costs which includes \$0.2m of transaction costs associated with the GEL acquisition.

As disclosed in item 6.1 of the attached Appendix 4C, \$0.088m was paid in respect of directors' fees and consulting fees to entities associated with the directors, including Company secretarial and accounting & bookkeeping services during the March 2023 quarter.

## Pipeline

A summary of the current lead pipeline broken down by sales stage as at 31 March 2023 is set out below.



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

For more information, please contact:

### Company enquiries

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### Corporate enquiries

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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.

## Appendix 4C

### Quarterly cash flow report for entities subject to Listing Rule 4.7B

**Name of entity**

K-TIG Limited

**ABN**

28 158 307 549

**Quarter ended ("current quarter")**

31 March 2023

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	801	2,442
1.2 Payments for		
(a) research and development	(47)	(75)
(b) product manufacturing and operating costs	(726)	(2,117)
(c) advertising and marketing	(45)	(287)
(d) leased assets	-	-
(e) staff costs	(1,025)	(3,037)
(f) administration and corporate costs	(353)	(911)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	2	6
1.5 Interest and other costs of finance paid	(4)	(4)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	544
1.8 Other (provide details if material) <sup>1</sup>	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,397)</b>	<b>(3,439)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(10)	(170)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) 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)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(10)</b>	<b>(170)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	100
3.2	Proceeds from issue of convertible debt securities	2,000	2,000
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(96)	(215)
3.7	Transaction costs related to loans and borrowings	(110)	(110)
3.8	Dividends paid	-	-
3.9	Other – subscription funds held on trust	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>1,794</b>	<b>1,775</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	1,519	3,752
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,397)	(3,439)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(10)	(170)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,794	1,775



Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	9	(3)
4.6	<b>Cash and cash equivalents at end of period</b>	<b>1,915</b>	<b>1,915</b>

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	1,875	1,479
5.2	Call deposits	40	40
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,915</b>	<b>1,519</b>

**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
88
-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Included in payments to related parties are payments for Director Fees as well as related entities performing services on behalf of K-TIG Limited.

**7. Financing facilities**

*Note: the term "facility" includes all forms of financing arrangements available to the entity.*

*Add notes as necessary for an understanding of the sources of finance available to the entity.*

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 <b>Total financing facilities</b>	-	-

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.

N/A

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(1,397)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	1,915
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	1,915
8.5 <b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	1.4

8.6 If Item 8.5 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?

As announced to the market on 16 March 2023 K-TIG raised \$2m before costs through the issue of convertible debt notes from sophisticated investors.

As announced to the market on 22 March 2023 K-TIG has signed a definitive share purchase agreement to acquire Graham Engineering Limited. The acquisition will be funded by a capital raise of up to \$25m.

Please refer to the announcement for further information.

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?

Please see the above response.

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Please see the above response.

## 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: 26 April 2023

Authorised 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 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 standard applies 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.