

ASX Announcement 31 July 2023

JUNE 2023 QUARTERLY ACTIVITIES REPORT

Highlights

- The Company has maintained a secured backlog of \$1,001k, of which \$825k is scheduled to be delivered in Q1-24.
- Quarterly cash receipts of \$782k received during the June quarter.
- The Company had c.\$859k cash as at 30 June 2023.
- K-TIG selected as part of General Dynamics Electric Boat US Department of Defense Mantech Award, the project "Next Generation Autogenous Welding Process and Equipment Development" to General Dynamics Electric Boat
- Subsequent to quarter end a variation to the definitive share purchase agreement to acquire Graham Engineering Limited ("GEL").

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 30 June 2023.

The Company reports the following June 2023 quarterly results:

- Quarterly cash receipts of \$782k.
- Quarterly sales revenue of \$557k.
- Secured backlog of \$1,001k.
- Cash at bank of \$859k.

Graham Engineering Limited

As announced on 24 July 2023 the Company executed a variation agreement to the sale and purchase agreement ("SPA") to acquire 100% of Graham Engineering Limited ("GEL") ("Acquisition"), subject to the satisfaction of conditions precedent.

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

1. Consideration

K-TIG will pay:

- (i) a reduced upfront cash payment of £6,500,000 payable on completion;

- (ii) a cash payment of £2,500,000 which will be subject to vendor finance over a five (5) year period;
- (iii) a cash payment for GEL's freehold property (£4,550,000) which will be subject to vendor finance over a two (2) year period; and
- (iv) Debt/Free and working capital adjustment of £2,936,546, a portion of which will be paid from GEL's cash at bank at completion, with the balance to be subject to vendor finance over a five (5) year period.

2. Conditions Precedent

The Acquisition remains subject to the remaining conditions being satisfied, including ASX providing a conditional admission letter to the Company on terms satisfactory to the Company (acting reasonably) and the Company obtaining funding for the Acquisition.

Supplementary prospectus

As a result of the variations to the acquisition agreement, the Company is required to issue a supplementary prospectus in respect of its public offer, which has been amended and seeks to raise up to \$15,000,000 (before costs) through the issue of up to 75,000,000 shares at an issue price of \$0.20.

Customer Acceleration

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

After reviewing distributor performance, K-TIG has restructured its distributor relationship management functions to provide closer connections between the global sales and support teams and individual distributors in their markets. It is believed that this change will facilitate greater cooperation in both marketing and sales effort.

Defence

As announced on 21 July 2023, subsequent to quarter end, K-TIG's technology has been selected by General Dynamics Electric Boat (a subsidiary of General Dynamics) as part of a US Department of Defense Navy Manufacturing Technology sponsored program associated with the 'Next Generation Autogenous Welding Process and Equipment Development'.

The Office of Naval Research's Navy Manufacturing Technology (ManTech) Program awarded the project "Next Generation Autogenous Welding Process and Equipment Development" to General Dynamics Electric Boat.

Under this project, K-TIG's research and development team will develop the keyhole welding process and parameters for the pipe joints and undertake the initial prototype welding. If accepted by General Dynamics Electric Boat, General Dynamics Electric Boat will purchase an initial K-TIG system and develop the welding procedures required to meet the US Navy standards.

Research and Development

During the quarter K-TIG continued to prepare its Evolve 3 software for commercial release. Weld testing has been completed in the alpha phase of the software testing, which is now ready for beta testing at our international demonstration locations and selected customer sites.

During the quarter K-TIG specifically focused on:

- Adding full multi-language capabilities to the Evolve 3 controller to support international deployment;
- Adding comprehensive security measures to address counterfeiting and unauthorised copying of K-TIG's intellectual property;
- Adding weld video functions to the quality records; and
- Resolving software bugs identified during alpha testing.

Corporate

During the quarter K-TIG held a shareholder meeting on 26 May 2023 to approve, inter alia, the acquisition of Graham Engineering. All resolutions were passed by shareholders.

In July 2023, post quarter end, the Company entered into an agreement with Radium Capital to receive advance payments of its R&D tax incentive funds. \$0.2m has since been advanced in July 2023.

Financial Summary

The attached Appendix 4C provides details on the cashflows for the quarter ended 30 June 2023. As at 30 June 2023, the Company had a cash balance of \$0.859m. The Company's net cash used in operating activities for the quarter amounted to \$0.982m comprising \$0.782m receipts from customers, \$0.003m for research and development, \$0.402m for product manufacturing and operating costs, \$0.047m for advertising and marketing, \$0.732m for staff costs and \$0.580m for administrative and corporate costs which includes \$0.4m of transaction costs associated with the GEL acquisition.

As disclosed in item 6.1 of the attached Appendix 4C, \$0.087m was accrued in respect of directors' fees and consulting fees to entities associated with the directors during the June 2023 quarter.

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

For more information, please contact:

Company enquiries

Adrian Smith
K-TIG Limited
P: +61 8 7324 6800

Corporate enquiries

George Rogers
SRG Partners
P: +61 438 815 495

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")

30 June 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	782	3,224
1.2 Payments for		
(a) research and development	(3)	(78)
(b) product manufacturing and operating costs	(402)	(2,519)
(c) advertising and marketing	(47)	(334)
(d) leased assets	-	-
(e) staff costs	(732)	(3,769)
(f) administration and corporate costs	(580)	(1,491)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	3	9
1.5 Interest and other costs of finance paid	(3)	(6)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	544
1.8 Other (provide details if material) ¹	-	-
1.9 Net cash from / (used in) operating activities	(982)	(4,420)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(11)	(181)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 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)	-	-
2.6	Net cash from / (used in) investing activities	(11)	(181)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	100
3.2	Proceeds from issue of convertible debt securities	-	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	(74)	(289)
3.7	Transaction costs related to loans and borrowings	-	(110)
3.8	Dividends paid	-	-
3.9	Other – subscription funds held on trust	-	-
3.10	Net cash from / (used in) financing activities	(74)	1,701

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,915	3,752
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(982)	(4,420)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(11)	(181)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(74)	1,701

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	11	7
4.6	Cash and cash equivalents at end of period	859	859

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	819	1,875
5.2	Call deposits	40	40
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)	859	1,915

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
87
-

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 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.

A Radium Capital loan facility was entered into in July 2023 as an advance on 80% of the Company's estimated R&D Tax Incentive (RDTI) for the financial year ended 30 June 2023.

The facility amount is \$0.2m, and the interest rate for the loan facility is 16% per annum. Repayment is timed to coincide with receipt of K-TIG's 2023 RDTI refund expected in Q2-24

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(982)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	859
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	859
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	0.87

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

- 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 ASX on 22 March 2023 K-TIG has signed a definitive share purchase agreement to acquire Graham Engineering Limited. The Company has lodged a supplementary prospectus to raise up to \$15m (before costs) through the issue of up to 75m shares at an issue price of \$0.20.

- 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.

- 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: 31 July 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.