



ASX ANNOUNCEMENT

FOR IMMEDIATE RELEASE TO THE MARKET

PPK Group Limited – ASX Code: PPK

Wednesday, 10 June 2020

COVID-19 and MARKET UPDATE

While there still exists uncertainty in the economy, and there is a possibility of disruption to specific industries, it is very positive that all of PPK's businesses continued to operate during the COVID-19 pandemic and that no staff tested positive. It has been a challenge to interpret and follow government restrictions, guidance across three states and adapt our work practices to align with the requirements of our staff and customers.

BNNT TECHNOLOGY LIMITED (BNNTTL) UPDATE

BNNT Technology Limited has three distinct strategies.

Firstly, as outlined from Day 1, to produce Boron Nitride Nanotubes (BNNT) in pure grade and in commercial quantities. Production levels from a single furnace on a single shift are now running at 10 grams per day and at 99% purity.

This combination can be simply scaled up to produce far larger quantities of BNNT from multiple production units operating in multiple shifts. BNNTTL has recently ordered additional plant and equipment to move to a two plant multi shift operation to increase the production of 99% purity BNNT.

BNNTTL's scientists and engineers are continuously working on improvements in both batch production techniques and continuous production. Continuous production means a production unit producing BNNT essentially around the clock, without having to cool down and then re-heat the production unit for each batch of production.

Whilst continuous production has not yet been achieved it remains a key focus. By scaling up existing batch production to produce commercial quantities of BBNT there is inevitably a higher cost and elongated time frame.

The **Second** and **Third** strategies for BNNTTL relate to the demand side. BNNTTL is currently supplying pure grade BNNT to select parties who are trialling the infusion or blending into their component production processes. BNNT has multiple attractions because of its immense strength, lightness, conductivity and radiation qualities. Its previous unavailability has meant that many businesses have been very interested but simply unable to source enough high-quality product to test. They now can – and are, with BNNT supplied by BNNTTL.

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To encourage further demand stimulation, PPK has taken a direct interest in two upstream applications which are hugely exciting because of their potential size.

One is in the ballistic armaments sector– PPK acquired 45% of **Craig International Ballistics** on 16 December 2019. The rationale for this investment is to profit from selling BNNT and secondly by participating in the potential upside by mixing BNNT into established product verticals with a game-changing upside.

A second investment is through PPK's interest in **Lithium Sulphur (Li-S) Battery production.**

PPK's market update of 24 March 2020 advised of the application of research for flexible Lithium Sulphur Batteries (Li-S) using BNNT. Deakin holds a 25% interest, BNNTTL a 10% interest and PPK a 65% interest.

This project has been scoped and Deakin has contracted resources to meet the two-year timeline with initial funding to Deakin already provided. Li-S Energy has engaged Novus Capital Limited to raise a minimum \$2.000 million to a maximum of \$3.250 million on behalf of Li-S Energy, the company incorporated to run this joint venture. As of today's date the minimum subscription of \$2.000 million has been met.

The minimum capital raised will entitle investors to own 6.15% of the company and, if the maximum capital is raised, then the investors will be entitled to 9.10% of the company.

CRAIG INTERNATIONAL BALLISTICS (CIB) UPDATE

Craig International Ballistics (CIB) has also been impacted by supply chain disruptions with a number of key raw material suppliers in South America and Europe either temporarily closed or operating at a reduced manufacturing capability throughout March to May. Although the manufacturing plants of those key raw material suppliers are now operational, logistic disruptions remain. The cost of air transport is substantially higher than what was previously considered normal. Mitigation strategies were implemented in early March to purchase additional stock and shift all material sourcing to sea freight logistics.

As a result of supplier shutdowns and longer sea freight transit times, some small customer orders originally planned for delivery within the 2020 financial year have now been scheduled for the first quarter of the 2021 financial year, however, there have been no contracts lost.

Importantly, the Australian Federal Government recently announced the initial \$1.000 million contract to CIB for the Australian Defence Force (ADF) to receive 750 sets of soft armour inserts to replace in-service armour using world-first body armour technology that will provide superior protection, is significantly lighter than the current soft armour and offers greater comfort for Australian troops.

PPK MINING EQUIPMENT (PPKME) UPDATE

The underground coal mining industry has been impacted by three COVID-19 events in the past two months including:

- companies changing their operations to protect employees resulting in higher costs;
- international economies having slowed considerably resulting in lower demand for coal from some regions; and
- an increase in political and economic tensions between China and the US and Australia.

As a consequence PPKME has been impacted with revenues lower than budgeted in the last two months. It has seen a rapid slowdown with mines reducing labour, operating costs and

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capital budgets under review. However, there is still optimism from PPKME's major customers for expansion and reopening of 'care and maintenance' mines in the near term.

Worldwide supply chain disruption has also delayed completion of the newly designed 12 seat personnel vehicle but the final components are now in transit for assembly and testing in PPKME's Tomago site in the coming weeks. Despite these impacts, as of 30 April 2020 PPKME has achieved its 10th month of positive EBITDA and continues to generate free-cash flow.

PPK GROUP OUTLOOK

It is still difficult to provide accurate financial year end forecasts, however PPK expects the following outcomes:

- PPKME revenues should be similar to that of the 2019 financial year and deliver a positive EBITDA in the range of \$3.800 million to \$4.400 million;
- The EBITDA from associates or joint ventures in the second half of the financial year should be comparable to that of the first half of the financial year, except for additional research, legal and COVID-19 costs that are being incurred in these new ventures;
- Corporate expenses for the second half of the financial year will be significantly higher than those incurred for the first half of the financial year due to the establishment of new BNNT application projects, additional research, COVID-19 costs and additional staff costs for expanding the BNNT joint venture program;
- The second half of the financial year will include legal and professional costs of more than \$0.600 million in total to defend a claim in the Supreme Court of NSW as disclosed in previous years accounts;
- As a result, PPK Group will incur a modest overall loss of less than \$1.000 million to June 30 2020 including \$2.000 million worth of accounting standard adjustments under AASB 16;
- PPK Group will end the financial year with a positive cash bank balance, no debt and an undrawn \$4.000 million financing facility provided by NAB;
- At this stage, as the business continues to generate free cash, PPK is confident of declaring a dividend, albeit a final decision will not be made until financial statements are completed and audited.

While the prospective 30 June 2020 financial results may not look as positive as hoped, there is significant momentum that the financial benefits from the acquisition of BNNT Technology Limited will be forthcoming in the near future. With continued interest in the usage of BNNT in new application projects, there are multiple potential sources of revenue to come from investment in these applications with new investment partners, as well as the sale of BNNT via BNNT Technology Limited itself.

PPK Management and Board are excited at the potential and look forward to the year ahead.

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