

ASX ANNOUNCEMENT

CODE: SRJ



30 July 2021

June 2021 Activity Report

SRJ Technologies (ASX:SRJ; “SRJ” or “the Company”) is pleased to provide its June Quarterly Report with an update on recent operational and corporate progress. The Company has also attached the Appendix 4C to the end of this report.

Highlights

- **Bolting campaign awarded for MODEC FPSO in West Africa which will use SRJ BoltEx® generating £95k (A\$180k) revenues with two further larger campaigns in final stages of approval**
- ***Secured order for initial weld-free mechanical coupling with MODEC offshore New Zealand***
- **Saudi Basic Industries Corporation (SABIC) engagement for on-line leak repairs continues with an additional purchase order**
- **SBM Offshore engages SRJ for Asset Integrity consulting for the design of new FPSOs under a contract valued at £60k (A\$113k); further work is expected to follow**
- **Further integrity consulting jobs won with MODEC and Petrofac**
- **CY21 purchase orders fulfilled or being processed is £362k (A\$684k)**
- **Joint industry Project (JIP) grant announcement delayed until August 2021 due to COVID**

Increased maintenance and repair activities are creating strong demand for SRJ’s BoltEx® and together with continued development of strategically important opportunities, SRJ is delivering on its business model despite one of the most challenging periods for the energy industry in recent history. Conversion from opportunities to generating revenue remains protracted but as the industry adapts to the pandemic and SRJ’s product adoption increases this is expected to reduce.

BoltEx® campaign secured for global FPSO operator

SRJ has secured an initial hot bolting campaign for a MODEC FPSO offshore West Africa worth £95k (A\$180k). This formed part of a strategic initiative to locate inventory and train local partners in key territories to enable quick mobilisation for global operators. Discussions are at advanced stages with other industry operators offshore West Africa to undertake hot bolting campaigns to remediate the increasing number of integrity issues. SRJ is replicating this strategy across Australia, Middle East, Europe and South America where regulatory pressure to resolve integrity issues is driving demand. Delayed maintenance across the oil and gas industry is now becoming a serious issue.

Weldless Coupling solution

Following MODEC’s fleetwide approval of the SRJ’s weld-free mechanical coupling for permanent repairs, SRJ secured its first order for installation on a high integrity hydrocarbon line. This represented progress into permanent asset integrity solutions for global operators.

Head Office

Ph: +44 (0) 1534 626 818

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St Helier, Jersey JE2 3TN

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Australia

Ph: +61 8 9482 0500

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SABIC engagement growth

The engagement with SABIC (reported in the last period) at their facilities in Jubail Industrial City continues to grow with an additional purchase order for a bespoke BoltEx® for flange bolt replacement on large diameter flanges. This presents follow-on opportunities with SABIC, who are majority owned by Saudi Aramco. The initial value of the combined purchase order is £36k (A\$68k).

Consulting growth

SBM Offshore engaged SRJ for Asset Integrity consulting to support the engineering design of new standardised floating production storage and offloading vessels (FPSO's). Initial order value is £60k (A\$113k) with further work currently under negotiation which has the potential to double this value to completion. Other FPSO operators such as MODEC, BW Offshore, Bumi Armada are all following a similar process demonstrating opportunities for SRJ to provide expertise across the industry.

The consulting purchase orders to date from SBM total £130k (A\$246k) in CY21. Working at a strategic level with our customers provides clear line of sight to product/solution sales opportunities. In the last month, SRJ has been retained further by SBM to provide asset integrity review and design verification services for new FPSO developments. This will be a long-term engagement throughout the design stage of the new facility.

SRJ has also commenced consulting work for MODEC to scope two further bolting campaigns. MODEC has issued purchase orders for £42K (A\$79k) for this work.

SRJ continues to generate consulting revenue from Petrofac on asset integrity scopes with another purchase order received in the quarter. Vendor registration also progressed with Petrom OMV to enable it to single source asset integrity consulting services to SRJ.

Research & development

SRJ submitted a formal grant application in April 2021 for a Joint Industry Project (JIP) for the development of hydrogen compatible pipe connection technologies that will see SRJ partnering with Curtin University and SixDe Engineering for the project. A decision on this grant application has been delayed until August 2021.

As previously highlighted, this project focuses on the proof of concept and manufacturing commercialisation of a new weld-free coupling technology for pipelines. This would eliminate the need for welding of pipeline joints, thereby mitigating the occurrence of hydrogen embrittlement or weld cracking. This project will also explore the further enhancement of manufacturing materials and processes with specific application to hydrogen.

Bureau Veritas, a world leader in audit and certification services, has now successfully completed the Independent Design Verification exercise on the BoltEx® product line. This certification demonstrates that SRJ's BoltEx® product is a robust proven technology that can contribute to our clients meeting the best operational, safety, and environmental performance standards.

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Financial performance

Cash inflows in the quarter are not an accurate reflection of SRJ's progress across several fronts. Cash receipts were £24k (A\$43k) a significant reduction compared to Q1 2020 of £98k (A\$176k). The fairer reflection of progress can be seen in business won but yet to generate revenue. Purchase orders for CY21 (up to the release date of this document) that have either been fulfilled or are being processed now stand at £362k (A\$684k) up from £143k (A\$262k) at the release date of the previous quarters report. Conversion from opportunities to receipt of funds is still protracted but as the industry adapts to the pandemic and SRJ's product adoption increases management expect this to reduce.

Outlook

Securing the first product campaign to a global FPSO operator in July 2021 represents a marked shift from the provision of initial trial orders. With multiple further campaigns in the final stages of negotiation, SRJ is embedding itself as the solution provider for asset integrity with its existing clients and is advancing efforts to replicate this across other operators. BoltEx® is proving to be a powerful client entry point creating visibility to a wide range of asset integrity opportunities in addition to any future campaigns for bolting anomaly rectification.

Business opportunities continue to present themselves with both new and existing clients, and we expect this to continue as SRJ product adoption and brand awareness increases within the industry. The pandemic continues to impact business processes throughout the energy industry and until a 'new norm' is established there will be inefficiencies to contend with. Despite this, SRJ has positioned itself to be a leading asset integrity solutions provider to global operators. It has the cornerstone clients, and it has commenced product placement.

The pandemic has also presented opportunities to add value to shareholders through the acquisition of complementary businesses at attractive valuations. SRJ remains open to pursuing such opportunities which is consistent with its objective of growth set out in the prospectus.

The CEO has written a general update to investors and a copy of the letter can be found in the Investor section of the SRJ website.

Use of Funds

The Company was admitted to the official list of the ASX on 18 September 2020 following completion of an IPO raising \$8m. The period from admission to 30 June 2021 is included in a period covered by a use of funds statement in the IPO prospectus lodged with ASX under Listing rule 1.1 condition 3.

A comparison of the Company's actual expenditure since admission to 30 June 2021 against the estimated expenditure in the use of funds statement is set out below as required by ASX Listing Rule 4.7C.2.

Source of Funds	A\$'000	£'000
Estimated cash at IPO date	1,583	856
Offer proceeds from the issue of new CDIs	8,000	4,324
Total source of funds	9,583	5,180

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Use of Funds	Est. Expenditure at IPO		Pro-rata Est. Expenditure from IPO to date		Actual Expenditure to date		Variance between Pro-rata and Actual Expenditure to date	
	A\$'000	£'000	A\$'000	£'000	A\$'000	£'000	A\$'000	£'000
Sales and marketing	2,960	1,600	1,110	600	1,695	934	(585)	(334)
Research & development	2,035	1,100	763	413	945	521	(182)	(108)
Working capital	3,428	1,853	1,286	695	1,620	893	(334)	(198)
Costs of the Offer	1,160	627	1,160	627	1,079	595	81	32
Total uses of funds	9,583	5,180	4,319	2,334	3,826	2,143	(1,020)	(608)

Notes:

Variance IPO to date

There is a difference relative to the Pro-rata estimate of expenditure of approximately £608k since IPO in the areas of sales and marketing, research and development and working capital which is reflective of the fact that expenditure settlement doesn't occur in a smooth timely manner. SRJ has now completed the setup of the Australian office, hired additional engineering and business development staff in Australia and the United Kingdom and now holds inventory for rapid deployment to clients.

Research and development

A portion of salaries and wages in the Use of Funds is allocated to R&D which is not reflected in the 4C (below). This is due to the fact a percentage of the engineering team's time is focused on developing systems, procedures and tools for SRJ to sell to its customers. It is expected that SRJ will achieve a R&D refund for a portion of the work related to these activities in various jurisdictions.

Working capital

SRJ use working capital to pay for manufacturing of products by third party manufacturers, establish new offices, corporate administration, directors' fees, share registry fees, legal, audit, company secretarial, insurance and travel costs. There are also realised foreign exchange gains and losses included in working capital.

Related party payments

For the purpose of Section 6 of the Appendix 4C, all payments made to related parties have been paid in relation to salary for the CEO and independent Directors/Chairman remuneration including superannuation and pension as applicable, or consulting fees.

- Ends -

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Investor Inquiries

Alexander Wood
CEO, SRJ Technologies
info@srj-technologies.com

Media Inquiries

Simon Hinsley
NWR Communications
simon@nwrcommunications.com.au

This announcement has been authorised for release by the Board.

ABOUT SRJ TECHNOLOGIES

SRJ Technologies provides specialised engineering services and containment management solutions, elevating customer's integrity management performance.

We see real value in offering a wider range of asset integrity consulting services helping our customers to better understand the operational risks and where best to focus resource to minimise these risks.

SRJ's range of industry accredited products are designed to maintain and assure the integrity of pressure containment systems and therefore play an important role in the overall integrity of operating facilities.

Using pre-qualified service providers and manufacturers local to customer, SRJ is geolocation-flexible and able to deliver a range of high quality, agile and cost-conscious solutions globally.

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Appendix 4C

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

Name of entity

SRJ Technologies Group plc

ABRN

642 229 856

Quarter ended ("current quarter")

30 June 2021

Consolidated statement of cash flows	Current quarter GBP £'000	Year to date (6 months) GBP £'000
1. Cash flows from operating activities		
1.1 Receipts from customers	24	122
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(187)	(216)
(c) advertising and marketing	(4)	(7)
(d) leased assets	-	-
(e) staff costs	(438)	(830)
(f) administration and corporate costs	(163)	(382)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(1)	(2)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(769)	(1,312)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(63)	(65)

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Consolidated statement of cash flows		Current quarter GBP £'000	Year to date (6 months) GBP £'000
	(d) investments	-	-
	(e) intellectual property	(3)	(10)
	(f) other non-current assets	2	(32)
2.2	Proceeds from disposal of:		
	(g) entities	-	-
	(h) businesses	-	-
	(i) property, plant and equipment	-	-
	(j) investments	-	-
	(k) intellectual property	-	-
	(l) 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	(64)	(107)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
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	-	(7)
3.5	Proceeds from borrowings	59	59
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	59	52

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Consolidated statement of cash flows		Current quarter GBP £'000	Year to date (6 months) GBP £'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,499	4,093
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(769)	(1,315)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(64)	(105)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	59	52
4.5	Effect of movement in exchange rates on cash held	(2)	(2)
4.6	Cash and cash equivalents at end of period	2,723	2,723

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 GBP £'000	Previous quarter GBP £'000
5.1	Bank balances	2,723	3,499
5.2	Call deposits	-	-
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)	2,723	3,499

6.	Payments to related parties of the entity and their associates	Current quarter GBP £'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(91)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>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.</i>		

The amount in 6.1 includes wages for the CEO and independent Directors/Chairman remuneration including superannuation and pension as applicable or consulting fees and some travel expenses for the CEO.

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7.	Financing facilities <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>	Total facility amount at quarter end GBP £'000	Amount drawn at quarter end GBP £'000
7.1	Loan facilities	59	59
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.		
	Loan to acquire a commercial vehicle in Australia from Australian Alliance Automotive Finance Pty Limited that is secured on the vehicle. The interest rate of 4.99% is over a 5-year period. The first repayment occurred in April 2021.		

8.	Estimated cash available for future operating activities	GBP £'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(770)
8.2	Cash and cash equivalents at quarter end (item 4.6)	2,723
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	2,723
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	4 Quarters
	<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	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: N/A	
8.6.2	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: N/A	

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

Answer: N/A

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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: 30 July 2021

Authorised by the Board of SRJ Technologies Group Plc.

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.

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