

1 February 2019

Isabelle Andrews
Adviser, Listings Compliance (Perth)
By E-Mail: Isabelle.Andrews@asx.com.au; ListingsCompliancePerth@asx.com.au

Dear Isabelle

Response to ASX QUERY – APPENDIX 4C

We refer to your letter dated 30 January 2019 in relation to K2fly Limited (ASX: K2F) (**K2F** or the **Company**) Appendix 4C for the period ended 31 December 2018 and respond to each of your questions as follows:

- 1. Does K2F expect that it will continue to have negative operating cash flows for the time being and, if not, why not?*

The Company is in a development stage and it has a stated strategy to “invest in growth”. It is very common for companies to have negative operating cash flows during their development stage. Although it should be noted K2F’s strategy is to grow revenue and move to a net positive cashflows.

In relation to the operating cash out flow for Q2FY19 of \$780,000, there were some one-off expenditures in the period. Namely, the marketing spend was high in the quarter (for international and other conferences as previously advised) and staff costs (relating to bonuses and redundancies (in particular for one long serving staff member who was involved in ADAM, Novin, Docman or Tagman and could not be redeployed). These expenses are not expected to be repeated in the coming quarter.

K2F has now implemented an employee incentive plan (approved by shareholders at K2F’s Annual General Meeting on 26 November 2018) with a view to having performance metrics and non-cash rewards which will result in a lower overall cash expenditure for our executive team.

We would also note that the estimated cash outflows for the next quarter of \$1,422,000 (section 9 of the Appendix 4C) are gross rather than net and does not take into account any cash receipts. The following information is relevant when reviewing the cash-outflows for the next quarter:

- Sales revenue – Our revenue growth for each quarter over the prior year corresponding quarter (pcp) continues to grow. Historically this has been Q2 2018: 365% growth on pcp, Q3 2018: 90% growth pcp, Q4 2018: 345% growth pcp, Q1 2019: 211% growth pcp, and Q2 2019: 30% growth pcp. In K2F’s most recent quarterly operational update K2F advised the market that it already has had a much better start to Q3 2019 than to Q3 2018.

Historically K2F's operating cash outflow by quarter has been Q2 2018: (\$479,000), Q3 2018: (\$785,000), Q4 2018: \$12,000 (inflow), Q1 2019: (\$692,000), Q2 2019: (\$780,000). As is evident from this historical information, K2F's cash inflow from software licenses is not smooth and is currently concentrated in Q4.

The Company has a substantial level of sales predicted for the March 2019 quarter. The sales pipeline for 2018-2019 continues to grow and K2F is confident of achieving further sales growth across a number of clients and different product offerings (although until achieved there are no guarantees).

- Accounts Receivable – K2F had outstanding cash receivables from Tier 1 clients of more than \$600k as at 31 December 2018. These funds are expected to be received in the March 2019 quarter. Although it should be noted in terms of receipt of revenue and payment of our largest costs (payroll and subcontractors) there is a potential timing issue. With revenue often being received after 30 days from invoice and our staff /contractors being paid within 15-30 days. This results in our cash being tied up in working capital.
- Cost of Sales – The estimated operating costs outflows for the next quarter of \$827k are for product and manufacturing operating costs and are associated with the revenue K2F expects to receive in that quarter. Most of these costs are variable in nature relating to the cost of consulting services and 3rd party software sales. If K2F is not successful in securing the expected consulting work or 3rd party software sales in the quarter, then it will not incur the cost of sales associated with that revenue.
- Strategy - The Company is working towards being a positive cash generating business. However, in the interim we expect some quarters will have a net cash inflow and some will have a net cash outflow. This will be dependent on the timing of our revenue, the size of our revenue growth, prompt payment of our invoices by customers and close management of our costs.

2. Has K2F 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?

The Company prepares an annual budget, incorporating in it a profit and loss, balance sheet and cash flow budget for internal management purposes. This management budget is updated and reviewed during the year based on actual results and revised estimates for revenue and costs based on the latest available information at the time. Our last update was as at 30 November 2018, completed in December 2018.

Based on the management budget and our ongoing monitoring of our revenue, costs and cash position, at this stage the Company has no immediate plans to raise further cash to fund operations.

3. Does K2F expect to be able to continue its operations and to meet its business objections and, if so, on what basis?

As explained above the Company has a management budget in place and is monitored closely, with actual performance against that budget reported monthly to the Board. The Company

expects to be able to continue its operations and to meet its business objectives for the foreseeable future.

- 4. Please confirm that K2F is complying with Listing Rule 3.1 and that there is no information that should be given to ASX about its financial condition in accordance with that Rule that has not already been released to the market.*

K2F lodges quarterly cashflow reports, which provide up to date and transparent disclosure of its cashflows and cash balances.

K2F confirms that it is in compliance with the ASX Listing Rules, and in particular ASX Listing Rule 3.1 concerning its continuous disclosure obligations.

- 5. Please confirm that K2F's responses to the questions above have been authorised and approved in accordance with the published continuous disclosure policy or otherwise by its board or an officer of K2F with delegated authority from the board to respond to ASX on disclosure matters.*

The responses to the questions above have been approved by the Company's board of Directors.

Yours faithfully



Melissa Chapman
Joint Company Secretary
K2fly Limited



30 January 2019

Ms Catherine Edwards
Company Secretary
K2Fly Limited
Level 1, 8 Parliament Place
West Perth WA 6005

By email:

Dear Ms Edwards

K2Fly Limited ('K2F'): Appendix 4C Query

ASX refers to K2F's Appendix 4C quarterly report for the period ended 31 December 2018 lodged with the ASX Market Announcements Platform and released on 25 January 2019 (the 'Appendix 4C').

ASX notes that K2F has reported:

- negative net operating cash flows for the quarter of \$780,000;
- cash at the end of the quarter of \$995,000; and
- estimated cash outflows for the next quarter of \$1,422,000.

It is possible to conclude, based on the information in the Appendix 4C, that if K2F were to continue to expend cash at the rate indicated by the Appendix 4C, K2F may not have sufficient cash to continue funding its operations.

Request for Information

In view of that, ASX asks K2F to answer separately each of the following questions and provide the following confirmations in a format suitable for release to the market under Listing Rule 18.7A:

1. Does K2F expect that it will continue to have negative operating cash flows for the time being and, if not, why not?
2. Has K2F 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?
3. Does K2F expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?
4. Please confirm that K2F is complying with Listing Rule 3.1 and that there is no information that should be given to ASX about its financial condition under that rule that has not already been released to the market.
5. Please confirm that K2F's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of K2F with delegated authority from the board to respond to ASX on disclosure matters.

Please also provide any other information that K2F considers may be relevant to ASX forming an opinion on whether K2F is complying with Listing Rule 12.2 that a listed entity's financial condition must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **09:00 AM AWST Monday, 4 February 2019**.

If we do not have your response by then, ASX will have no choice but to consider suspending trading in K2F's securities under Listing Rule 17.3. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, K2F's obligation is to disclose the information "immediately". This may require the information to be disclosed before the deadline set out in the previous paragraph.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market. Your response should be sent to me by e-mail at ListingsCompliancePerth@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Listing Rule 3.1 and 3.1A

Listing Rule 3.1 requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. Exceptions to this requirement are set out in Listing Rule 3.1A. In responding to this letter, you should have regard to K2F's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*. It should be noted that K2F's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in K2F's securities under Listing Rule 17.1. If you wish to request a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We may require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted.

You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

Enquiries

If you have any queries or concerns about any of the above, please contact me immediately.

Kind regards

Isabelle Andrews
Adviser, Listings Compliance (Perth)