

# Appendix 4D

## K2FLY LIMITED

ABN 69 125 345 502

### Half-Year Report – 31 December 2017

#### RESULTS FOR ANNOUNCEMENT TO THE MARKET

(This information should be read in conjunction with the last annual report and any announcements to the market by K2fly Limited during the period)

	Half - Year Ended 31/12/17 \$A	Half - Year Ended 31/12/16 \$A	Amount change \$A	Percentage change %
Revenue from ordinary activities	937,396	139,330	798,066	573%
(Loss) from ordinary activities after tax attributable to members	(2,688,695)	(1,357,813)	(1,330,882)	(98%)
Net (loss) for the half year attributable to members	(2,688,695)	(1,357,813)	(1,330,882)	(89%)

#### Comment

The increase in revenue from ordinary activities is due to the acquisition of new contracts and sales to Tier 1 clients. K2fly established some significant partnerships with global companies in the period July-December 2017. The capabilities gleaned with these partnerships has allowed K2fly to win new-name business in clients such as Programmed and Arc Infrastructure. In addition, the Company's revenues have been enhanced by revenue derived from the Infoscope Pty Ltd business which was acquired during the period.

#### Dividends (distributions)

There are no dividend or distribution reinvestment plans in operation and there have been no dividend or distribution payments during the financial year ended 31 December 2017.

Net tangible asset per ordinary security	31 December 2017	31 December 2016
Net tangible assets	290,266	2,111,129
Number of shares on issue at reporting date	54,592,542	50,667,335
Net tangible asset per ordinary security	0.53 cents	4.17 cents

#### Control Gained or Lost over Entities

On 7 July 2017, the Company acquired 100% of the issued capital of Infoscope Pty Ltd.

<b>Associates and joint ventures</b>
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Not Applicable
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<b>Foreign Entities Accounting Framework</b>
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Not Applicable
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<b>Audit / Review Status</b>
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This Appendix 4D and the attached interim financial statements are based on accounts which have been subjected to review. The accounts are not subject to dispute or qualification.
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	<b>Current period</b>	<b>Previous corresponding period</b>
Basic (loss) per share in cents	(4.95) cents	(8.36) cents

**Independent Auditor's Review Report**

The Independent Auditor's Review Report can be found on page 23 of the attached financial report for the Half Year ended 31 December 2017.



Brian Miller  
Executive Chairman  
20 February 2018

The information required by listing rule 4.2A is contained in both this Appendix 4D and the attached half-year report. This half-yearly reporting information should be read in conjunction with the most recent annual financial report of the company.



**K2fly Limited**

ABN 69 125 345 502

**Half-Year Financial Report**  
**For the Half-Year Ended**  
**31 December 2017**

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**CORPORATE DIRECTORY**

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**DIRECTORS**

Brian Miller (Executive Chairman and CEO)  
Neil Canby (Non-Executive Director)  
James Deacon (Non-Executive Director)  
Jenny Cutri (Non-Executive Director)

**JOINT COMPANY SECRETARY**

Melissa Chapman  
Catherine Grant-Edwards

**REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS**

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26 Railway Road  
Subiaco WA 6008  
Telephone: (08) 6333 1833  
Website: [www.k2fly.com](http://www.k2fly.com)

**SHARE REGISTRY**

Advanced Share Registry  
110 Stirling Highway  
Nedlands WA 6009  
Telephone: (08) 9389 8033  
Facsimile: (08) 9262 3723

**AUDITORS**

HLB Mann Judd  
Level 4  
130 Stirling Street  
Perth WA 6000  
Telephone: (08) 9227 7500

**AUSTRALIAN SECURITIES EXCHANGE**

K2fly Limited Shares (K2F) and options (K2FOA) are listed on the Australian Securities Exchange

## DIRECTORS' REPORT

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Your Directors present their half-year report on K2fly Limited (**K2fly**) (the **Company**) and its controlled entities (**Group**) for the half-year ended 31 December 2017.

### 1. DIRECTORS

The names of the Directors of the Company in office during the financial period and up to the date of this report are as follows.

Directors were in office from the beginning of the financial period until the date of this report, unless otherwise stated.

Brian Miller	Executive Chairman / CEO	
Neil Canby	Non-Executive Director	
James Deacon	Non-Executive Director	
Jenny Cutri	Non-Executive Director	Appointed 15 September 2017
Gino D'Anna	Non-Executive Director	Resigned 15 September 2017
Russell Moran	Non-Executive Director	Resigned 15 September 2017

### 2. RESULTS

#### Operating Results

The Group incurred a net loss after income tax during the half year of \$2,688,695 (31 December 2016: net loss of \$1,357,813).

#### Financial Position

At 31 December 2017, the Group had cash reserves of \$423,854 (30 June 2017: \$1,743,582).

### 3. ACTIVITIES REPORT

#### Acquisition of Infoscope Pty Ltd

During the period, the Group completed the acquisition of Infoscope Pty Ltd (**Infoscope**) (**Infoscope Acquisition**). This represents a highly complementary, synergistic and value accretive acquisition for K2fly. Infoscope is an established and successful business that owns and operates a leading edge data collaboration platform.

Infoscope's client base includes major corporates, Fortescue Metals Group (**FMG**), The National Trust and Metals X. The business delivered revenue of approximately \$1.5 million for the year ended 30 June 2017 and an EBIT of approximately \$400,000.

Infoscope is a data collaboration platform that specialises in the connection of disparate data sources and assembles the different information layers to create a visually presentable data store that is easily configured and readily accessible. With leading edge market solutions, Infoscope is engaged with major entities, including FMG, Metals X and The National Trust, to bring innovative solutions to the market around data collaboration and operational efficiency. Infoscope was designed and developed to address a pressing corporate problem – information silos. The unique Infoscope platform eliminates boundaries found in traditional systems by optimising every piece of information. This is achieved through a new approach to data connections, where the user defines and connects disparate data sources to make sense of it all. Infoscope provides new perspectives to data through limitless connections and visually integrated presentation.

The system provides secure, powerful, comprehensive management of all information to operate efficiently, meet compliance requirements and reduce risk. Within major clients such as FMG, the Infoscope solution is used to control and manage their Enterprise Land Management Function.

The Infoscope solution is directly applicable to the resources, utilities, infrastructure, environment & biodiversity, and cultural heritage sectors.

In October 2017, K2fly joined the SAP Partner Edge Program and soon afterwards negotiated with the large European software company to convert or port the Infoscope technology on to the SAP Cloud Platform (SCP) and their HANA database. SAP has a large user base, especially in the Resources sector, and the SAP salesforce will be able to sell the Infoscope solution to their existing clients once the port has been completed. This is scheduled to be completed during Q3 of the full year ending 30 June 2018.

A number of synergies have been harvested through the acquisition. The operations of Infoscope have been integrated with the operations of K2fly, ensuring:

- Business Development leverages the opportunities to position Infoscope into existing K2fly clients and position K2fly in existing Infoscope customers.
- Development Teams will be gradually combined. The Infoscope platform is based on the Microsoft Suite, which is the same as the core K2fly product, ADAM. Infoscope also used the same nearshore development partner Mitrais, allowing this core relationship to be strengthened and optimised.

Back office consolidation occurred across Accounting, Legal, HR, Insurance, IT and other overlapping functions to remove duplication and to leverage economies of scale.

#### K2fly Becomes Value Added Reseller of KONY

K2fly announced in August, that it had entered into a partnership and signed a reseller agreement with Kony Inc. (**Kony**). Under the terms of the Agreement, K2fly will target high-value enterprise customers who have specific asset management challenges to offer Kony's cloud-based enterprise application and mobility solutions within Australia.

Built on the industry's leading digital platform, Kony provides innovative and secure omni-channel applications, with exceptional user experience and application design. Kony's cross-platform, low-code solution empowers organisations to develop and manage their own apps to better engage with their customers, partners and employees.

#### K2fly Joins GE Digital Alliance Program

In September, K2fly announced that it had joined the GE Digital Alliance Program. K2fly believes that digital industrial transformation promises both immediate cost benefits and long term strategic advantages to its growing list of industrial clients. Under the terms of the Agreement, K2fly plans to work with the GE Digital teams with a range of clients in the Resources, Transport and Utilities sectors.

GE Digital's Predix edge-to-cloud platform for the Industrial Internet of Things is specifically designed for the unique and complex challenges of industrial companies. Organisations use this platform to create innovative Industrial Internet applications that turn real-time operational data into insights for better and faster decision-making while maximising machine efficiency.

#### K2fly Executes Smart Energy Technology Reseller Agreement

K2fly announced in September that it had entered a partnership and signed a reseller Agreement with AMT-SYBEX, part of Capita plc, for its Affinity Meterflow, Affinity Marketflow and Affinity Networkflow products. This partnership sees K2fly well positioned as the 'industry experts' in a fast-moving field within the Australian marketplace, and represents a major coup for the Company.

Under the terms of the Agreement, K2fly is targeting clients within the energy retail sector who have a need for software solutions that support innovation in customer acquisition as well as smart metering. This partnership allows K2fly to offer a range of solutions to address some of the biggest challenges currently facing energy companies and how they interact with their customers.

### K2fly Wins Major Contract in Transport Infrastructure Sector

K2fly announced in November, a major contract win with Arc Infrastructure. K2fly is deploying the market-leading Mobility software, Fieldreach, to this transport infrastructure manager. This further enhances K2fly's presence in the asset intensive sectors and proves that it has the right people, products and industry alliances to offer solutions to Tier 1 clients.

### K2fly Awarded New Contract Win with API Management

In September, K2fly announced sales of its Infoscope Enterprise Land Management solution to a new account in the mining sector. API Management is the manager of assets owned by the Australian Premium Iron Joint Venture and the Red Hill Joint Venture. These entities are working in the West Pilbara Iron Ore Project. The software has been delivered in October 2017 and will be deployed as a Software as a Service (SaaS) Solution

## 4. CORPORATE

### Board Changes

During the period, the following board changes occurred:

- Ms Jenny Cutri was appointed Non-Executive Director effective 15 September 2017
- Mr Gino D'Anna resigned as a Non-Executive Director effective 15 September 2017
- Mr Russell Moran resigned as a Non-Executive Director effective 15 September 2017

### Change in Company Secretary

During the period, Mr Gino D'Anna resigned as Company Secretary. Ms Melissa Chapman and Ms Catherine Grant-Edwards were appointed as Joint Company Secretary effective 22 November 2017.

### Annual General Meeting

The Company's Annual General Meeting (**AGM**) was held 21 November 2017, where all resolutions put to shareholders were passed. For more information, refer to the Notice of AGM and Results available via the Company's website at [www.k2fly.com](http://www.k2fly.com).

### Securities

During the period, the Company issued the following shares:

- 3,525,642 shares issued on 7 July 2017 as part consideration for the Infoscope Acquisition
- 120,000 shares issued on 1 November 2017
- 79,365 shares issued on 28 December 2017

During the period, the Company issued the following unlisted options:

- 350,000 unlisted options with an exercise price of \$0.25 expiring 7 July 2020
- 350,000 unlisted options with an exercise price of \$0.20 expiring 1 November 2019
- 400,000 unlisted options with an exercise price of \$0.225 expiring 28 December 2019
- 450,000 unlisted options with an exercise price of \$0.25 expiring 28 December 2019

During the period, the Company issued the following performance rights:

- 1,000,000 performance rights issued on 27 November 2017
- 2,740,000 performance rights issued on 4 December 2017

A total of 9,799,364 fully paid ordinary shares previously held under escrow trading restrictions were released from escrow on 18 November 2017.



**5. SIGNIFICANT EVENTS AFTER BALANCE DATE****Placement**

On 24 January 2018, the Company announced it had received firm commitments to raise approximately \$1.2m via an over-subscribed share placement at a price of \$0.25 per share (**Placement**). The issue price represents a discount of approximately 10% to K2fly's closing price of \$0.28 and a discount of 16.5% to the 5 day volume weighted average price (VWAP) prior to the Placement. For every three shares subscribed under the Placement, investors were entitled to receive one listed \$0.20 option (ASX Code: K2FOA).

Funds raised from the Placement will be used to grow the business, including employing additional business development staff to support the sales roll out of the Infoscope land management software within the SAP S/4 HANA Enterprise Resource Planning system, and for other working capital purposes relating to the training and developing of staff in advance of implementation projects.

On 2 February 2018, the Company issued 4,897,209 shares at \$0.25 each to raise \$1,224,302 (before costs) and issued 1,632,403 listed options exercisable at \$0.20 expiring 18 May 2020 upon completion of the Placement. The Placement shares and options were issued using K2fly's existing 15% placement capacity under ASX listing rule 7.1.

**Share Cancellation and Replacement Share Issue**

As approved by shareholders at the special general meeting held on 15 January 2018, the Company completed the cancellation of 200,000 shares. As approved by shareholders at the general meeting held on 15 January 2018, the Company has issued 200,000 shares. These shares refer to those issued to K2fly former director, Mr Noel Bonnicks, in lieu of director's fees of \$18,000.

Other than noted above, there has been no additional matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial periods.

**5. AUDITOR'S INDEPENDENCE DECLARATION**

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the Directors of the Company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 6 and forms part of this Directors' report for the half-year ended 31 December 2017.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s.306(3) of the Corporations Act 2001.



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Brian Miller  
Executive Chairman  
Perth, 20 February 2018

**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the review of the consolidated financial report of K2fly Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) any applicable code of professional conduct in relation to the review.

Perth, Western Australia  
20 February 2018



**D I Buckley**  
Partner

**HLB Mann Judd (WA Partnership) ABN 22 193 232 714**

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CONDENSED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Notes	Consolidated 31 December 2017	Consolidated 31 December 2016
		\$	\$
Revenue		937,396	139,330
Cost of sales		(462,169)	(43,416)
<b>Gross profit</b>		<b>475,227</b>	<b>95,914</b>
Interest revenue		173	1,999
Administration expense		(111,755)	(29,902)
Compliance & regulatory expense		(64,007)	(98,452)
Consultancy expense		(157,962)	(809,892)
Depreciation & amortisation		(370,591)	(77,263)
Research costs		(46,538)	(38,700)
Directors fees		(72,000)	(203,171)
Employee benefit expense		(799,656)	(41,642)
Impairment of intangible asset	3	(913,573)	-
Impairment of exploration and evaluation		(309)	(32,091)
Occupancy expense		(18,700)	(15,600)
Public relation & marketing expense		(81,650)	(21,456)
Share-based payments	10	(452,310)	(64,000)
Travel expense		(75,044)	(23,557)
Loss before income tax benefit		(2,688,695)	(1,357,813)
Income tax benefit		-	-
<b>Loss for the period</b>		<b>(2,688,695)</b>	<b>(1,357,813)</b>
<b>Other comprehensive income, net of income tax</b>			
<i>Items that may be reclassified to profit or loss</i>			
<b>Other comprehensive income for the period, net of tax</b>		-	-
<b>Total comprehensive (loss) for the period</b>		<b>(2,668,695)</b>	<b>(1,357,813)</b>
<b>Basic and diluted loss per share (cents)</b>		<b>(4.95)</b>	<b>(8.36)</b>

The accompanying notes form part of the financial statements

CONDENSED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2017

	Note	Consolidated 31 December 2017	Consolidated 30 June 2017
		\$	\$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		423,854	1,743,582
Trade and other receivables	2	613,508	360,297
<b>Total Current Assets</b>		<b>1,037,362</b>	<b>2,103,879</b>
<b>Non-Current Assets</b>			
Other financial assets		844	844
Intangible assets	3	1,809,277	3,075,726
Goodwill	4	731,543	-
Restricted cash	5	54,145	-
Plant and equipment		19,374	13,486
Other assets		2,000	2,480
<b>Total Non-Current Assets</b>		<b>2,617,183</b>	<b>3,092,536</b>
<b>Total Assets</b>		<b>3,654,545</b>	<b>5,196,415</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	6	799,534	345,844
<b>Total Current Liabilities</b>		<b>799,534</b>	<b>345,844</b>
<b>Non-Current Liabilities</b>			
Trade and other payables	6	-	68,750
Provisions	7	23,925	-
<b>Total Non-Current Liabilities</b>		<b>23,925</b>	<b>68,750</b>
<b>Total Liabilities</b>		<b>823,459</b>	<b>414,594</b>
<b>Net Assets</b>		<b>2,831,086</b>	<b>4,781,821</b>
<b>EQUITY</b>			
Issued capital	8	11,987,697	11,682,697
Reserves	9	657,846	224,886
Accumulated losses		(9,814,457)	(7,125,762)
<b>Total Equity</b>		<b>2,831,086</b>	<b>4,781,821</b>

The accompanying notes form part of the financial statements

CONDENSED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Consolidated	Issued capital	Performance Rights reserve	Option reserve	Available-for-sale reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$	\$
<b>Balance as at 30 June 2017</b>	<b>11,682,697</b>	<b>79,560</b>	<b>145,206</b>	<b>120</b>	<b>(7,125,762)</b>	<b>4,781,821</b>
Loss for the year	-	-	-	-	(2,688,695)	(2,688,695)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	(2,688,695)	(2,688,695)
Shares issues	275,000	-	-	-	-	275,000
Share-based payments - shares	30,000	-	-	-	-	30,000
Share-based payments – performance rights	-	293,340	-	-	-	293,340
Share-based payments - options	-	-	139,620	-	-	139,620
<b>Balance as at 31 December 2017</b>	<b>11,987,697</b>	<b>372,900</b>	<b>284,826</b>	<b>120</b>	<b>(9,814,457)</b>	<b>2,831,086</b>
<b>Balance as at 1 July 2016</b>	<b>4,813,977</b>	-	-	<b>120</b>	<b>(4,890,677)</b>	<b>(76,580)</b>
Loss for the year	-	-	-	-	(1,357,813)	(1,357,813)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	(1,357,813)	(1,357,813)
Shares issues	9,092,000	-	-	-	-	9,092,000
Share issue costs	(2,231,500)	-	-	-	-	(2,231,500)
Share-based payments – performance rights	-	64,000	-	-	-	64,000
Share-based payments – options	-	-	43,871	-	-	43,871
<b>Balance as at 31 December 2016</b>	<b>11,674,477</b>	<b>64,000</b>	<b>43,871</b>	<b>120</b>	<b>(6,248,490)</b>	<b>5,533,978</b>

The accompanying notes form part of the financial statements

CONDENSED STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Note	Consolidated 31 December 2017	Consolidated 31 December 2016
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from customers		1,120,005	42,530
Payments to suppliers and employees		(1,818,343)	(868,030)
Interest received		173	1,999
Interest paid		-	(1,199)
Reclassification to restricted cash		(54,145)	-
Net cash (used in) operating activities		<u>(752,310)</u>	<u>(824,700)</u>
<b>Cash flows from investing activities</b>			
Payments for plant and equipment		(11,418)	(11,878)
Payments for exploration and evaluation expenditure		(309)	(7,904)
Cash paid on acquisition of subsidiary	14	(475,000)	-
Cash acquired on acquisition of subsidiary	14	69,013	-
Net cash (used in) investing activities		<u>(417,714)</u>	<u>(19,782)</u>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of shares		-	4,125,000
Payments for share issue costs		-	(720,630)
Proceeds from borrowings		-	30,000
Repayment of borrowings	14	(150,247)	(130,000)
Net cash (used in)/provided by financing activities		<u>(150,247)</u>	<u>3,304,370</u>
Net increase/(decrease) in cash held		(1,320,271)	2,459,888
Cash at beginning of the half-year		1,743,582	30,126
Effects of exchange rate fluctuations on cash held		543	-
<b>Cash and cash equivalents at the end of the half year</b>		<b><u>423,854</u></b>	<b><u>2,490,014</u></b>

The accompanying notes form part of the financial statements

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Statement of compliance**

These half-year consolidated financial statements are general purpose financial statements prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

This condensed half-year financial report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Group as in the full financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2017 and any public announcements made by K2fly Limited (**K2fly**) (the **Company**) and its subsidiaries (the **Group**) during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

**(b) Basis of preparation**

The half-year report has been prepared on a historical cost basis, except for the revaluation of certain financial instruments to fair value. Cost is based on the fair value of the consideration given in exchange for assets. The Company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

**(c) Accounting policies and methods of computation**

The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding interim reporting period. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

**(d) Significant accounting judgments and key estimates**

The preparation of interim financial reports requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

**(e) Adoption of new and revised standards**

***Standards and Interpretations applicable to 31 December 2017***

In the half-year ended 31 December 2017, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the half-year reporting periods beginning on or after 1 July 2017.

As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Company and therefore no material change is necessary to Group accounting policies.

***Standards and Interpretations in issue not yet adopted***

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted that are relevant to the Company and effective for the half-year reporting periods beginning on or after 1 January 2018.

*AASB 15 Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

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Including in respect to multiple element arrangements. It replaces existing revenue recognition guidance, *AASB 111 Construction Contracts*, *AASB 118 Revenue* and *AASB 1004 Contributions*. AASB 15 is effective from reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The core principle of AASB 15 is that it requires identification of discrete performance obligations within a transaction and associated transaction price allocation to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of goods or services is transferred, rather than on transfer of risks and rewards. Revenue received for a contract that includes a variable amount is subject to revised conditions for recognition, whereby it must be highly probable that no significant reversal of the variable component may occur when the uncertainties around its measurement are removed.

The Group had commenced the process of evaluating the impact of the new standard on existing revenue streams and will first apply AASB 15 in the financial year beginning 1 July 2018.

Other than the above, there is no other material impact of the new and revised standards and interpretations on the Group and therefore no change is necessary to Group accounting policies.

**(f) Significant accounting judgement and key estimates**

The preparation of the half-year financial report requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Except as described below, in preparing this half-year financial report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2017.

In the half-year ended 31 December 2017, management reassessed its estimates in respect of:

- Intangible assets (Note 3 and Note 14)
- Impairment of intangible asset (Note 3)
- Unlisted options (Note 10(b))
- Performance rights (Note 10(c))



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

2. TRADE AND OTHER RECEIVABLES

	Consolidated 31 December 2017 \$	Consolidated 30 June 2017 \$
Trade receivables	555,668	316,079
GST receivable	-	4,247
Other	57,840	39,971
	<u>613,508</u>	<u>360,297</u>

3. INTANGIBLE ASSETS

	Consolidated 31 December 2017 \$	Consolidated 30 June 2017 \$
Customer contracts at cost (a)	12,185	-
Customer contracts – accumulated amortisation (a)	(12,185)	-
	<u>-</u>	<u>-</u>
Software at cost (b)	3,500,000	3,500,000
Software – accumulated amortisation (b)	(777,150)	(424,274)
Software – impairment (b)	(913,573)	-
	<u>1,809,277</u>	<u>3,075,726</u>
Net carrying value	<u><b>1,809,277</b></u>	<u><b>3,075,726</b></u>
<i>Movements:</i>		
Carrying amount at the beginning of the period	3,075,726	-
Additions	12,185	3,500,000
Amortisation	(365,061)	(424,274)
Impairment - Software	(913,573)	-
Carrying amount at the end of the period	<u><b>1,809,277</b></u>	<u><b>3,075,726</b></u>

(a) The fair value of contracts acquired as part of the Infoscope Acquisition (refer note 14) at acquisition date has been calculated using the discounted cash-flow model based on the following assumptions:

- i. Life of Contracts - Using the remaining life of each contract at acquisition date and the net cash flows from each contract;
- ii. Cash flows from Contracts - Cash revenues are based on the contract values for each contract. The values assigned to the operating costs on each contract represent management's assessment of estimated costs to deliver on the contracts based on internal sources (historical data); and
- iii. Discount rate - The discount rate used is based on the estimated weighted average cost of raising funds by the Company.

Amortisation of the contracts is based on the remaining life of the contracts at acquisition date, and has been fully amortised in the period to 31 December 2017.

(b) During the year ended 30 June 2017, the Company issued 16,000,000 shares at \$0.20 per share to K2fly NL for the acquisition of technology as well as 1,500,000 shares at \$0.20 per share to K2 Technology Pty Ltd for the balance of the acquisition of the technology assets.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

As detailed in the Company's 30 June 2017 Annual Report, management conducted an impairment assessment in relation to the recoverable amount of its intangible assets given an impairment indicator arising being ongoing losses. Based upon the results of that impairment assessment (through the engagement of an independent valuer), the intangible assets were not considered impaired at 30 June 2017.

During the half-year ended 31 December 2017, management have conducted an impairment assessment in relation to these intangible assets. The recoverable amount was based on a value-in-use calculation and was determined at the cash-generating unit level (**K2 Technology CGU**) being the business as a whole (excluding the separate Infoscope CGU). The post-tax discount rate adopted was 34.5% (pre-tax discount rate of 25%) and the value-in-use was based upon forecast cash flows over a five year period with a final year terminal value. Based on the value in use calculation over the carrying amount of the K2 Technology CGU, management have recognised an impairment expense of \$913,573. In performing this recent impairment assessment, management have revisited and revised the cashflows used in the previous 30 June 2017 value-in-use calculation, to reflect the current anticipated cashflows of the K2 Technology CGU. During the half-year ended 31 December 2017, management have refined the Group's focus into the areas of Infoscope and the partnership with SAP, deploying 3<sup>rd</sup> party field working solutions and growing a digital capability within the Company. This refinement in focus has led management to revise the previous period's cash flows to better reflect the future direction of the Company and therefore de-risking those cash flow forecasts (compared to those used previously for the 30 June 2017 impairment assessment).

4. **GOODWILL**

	<b>Consolidated 31 December 2017 \$</b>	<b>Consolidated 30 June 2017 \$</b>
Goodwill (a)	731,543	-

- (a) Goodwill acquired in relation to Infoscope Acquisition (refer note 14). During the half-year ended 31 December 2017, management have conducted an impairment assessment in relation to goodwill. The recoverable amount was based on a value-in-use calculation and was determined at the cash-generating unit level (**Infoscope CGU**). The post-tax discount rate adopted was 34.5% (pre-tax discount rate of 25%) and the value-in-use was based upon forecast cash flows over a five year period with a final year terminal value. Based upon the value in use calculation, no impairment has been recognised.

5. **RESTRICTED CASH**

	<b>Consolidated 31 December 2017 \$</b>	<b>Consolidated 30 June 2017 \$</b>
Bank guarantees	54,145	-

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

6. TRADE AND OTHER PAYABLES

	Consolidated 31 December 2017 \$	Consolidated 30 June 2017 \$
<b>Current</b>		
Accounts payable	309,068	75,155
Accrued expenses	29,000	44,208
Other payables (a)	215,665	172,646
Employee liabilities	195,297	53,835
Unearned revenue	50,504	-
	<u>799,534</u>	<u>345,844</u>
<b>Non-current</b>		
Other payables (a)	-	68,750
	<u>-</u>	<u>68,750</u>

(a) Includes an amount of \$151,250 (30 June 2017: \$233,750) owing to Kalgoorlie Mine Management as stipulated in the Amended and Restated Sale of Asset Agreement in respect of consulting fees.

7. PROVISIONS

	Consolidated 31 December 2017 \$	Consolidated 30 June 2017 \$
<b>Non-current</b>		
Employee benefits	23,925	-
	<u>23,925</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

8. ISSUED CAPITAL

	Consolidated 31 December 2017 \$	Consolidated 30 June 2017 \$
Issued and paid up capital	14,228,977	13,923,977
Share issue costs	(2,241,280)	(2,241,280)
	<u>11,987,697</u>	<u>11,682,697</u>

Reconciliation	31 December 2017		30 June 2017	
	Number	\$	Number	\$
Opening balance	50,867,535	11,682,697	47,187,501	4,813,977
Shares issued - Infoscope Acquisition	3,525,642	275,000	-	-
Shares issued to advisor	120,000	15,000	-	-
Shares issued to advisor	79,365	15,000	-	-
Capital reconstruction (1:9.4)	-	-	(42,167,466)	-
Placement of Shares via prospectus	-	-	20,625,000	4,125,000
Placement of Shares (acquisition of technology assets) – 12 months' escrow	-	-	16,000,000	3,200,000
Placement of Shares – 24 months' escrow	-	-	7,250,000	1,450,000
Convertible note conversion (1:25)	-	-	937,500	150,000
Lead manager placements	-	-	835,000	167,000
Director fees	-	-	200,000	18,000
Share issue costs	-	-	-	(2,241,280)
Closing balance	<u>54,592,542</u>	<u>11,987,697</u>	<u>50,867,535</u>	<u>11,682,697</u>

9. RESERVES

	Consolidated 31 December 2017 \$	Consolidated 30 June 2017 \$
Performance rights reserve (a)	372,900	79,560
Option reserve (b)	284,826	145,206
Available-for-sale reserve	120	120
	<u>657,846</u>	<u>224,886</u>

(a) *Movements in performance rights reserve:*

Carrying amount at the beginning of the period	79,560	-
Issue of performance rights - Share based payment expense recorded through profit or loss	293,340	79,560
Carrying amount at the end of the period	<u>372,900</u>	<u>79,560</u>

(b) *Movements in option reserve:*

Carrying amount at the beginning of the period	145,206	-
Issue of listed options	-	101,355
Issue of unlisted options – Infoscope Acquisition	10,650	-
Issue of unlisted options - Share-based payments expense recorded through profit or loss	128,970	43,871
Carrying amount at the end of the period	<u>284,826</u>	<u>145,206</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

**10. SHARE-BASED PAYMENTS**

Total costs arising from share-based payment transactions recognised as an expense during the period were as follows:

	Consolidated 31 December 2017 \$	Consolidated 31 December 2016 \$
Shares issued to advisor (a)	30,000	-
Unlisted options issued to advisor (b)	128,970	-
Performance rights issued to directors (c)	293,340	64,000
	452,310	64,000

**(a) Shares**

During the half-year ended 31 December 2017, the Company issued the following shares to an advisor in respect of consultancy services provided:

- 120,000 shares issued 1 November 2017 at \$0.125 per share; and
- 79,365 shares issued 28 December 2017 at \$0.189 per share.

**(b) Unlisted options**

During the half-year ended 31 December 2017, the Company issued the following unlisted options to an advisor in respect of marketing services provided:

- 350,000 unlisted options at an exercise price of \$0.20 expiring 1 November 2019 (issued 1 November 2017) (**Options A**);
- 400,000 unlisted options at an exercise price of \$0.225 expiring 28 December 2019 (issued 28 December 2017) (**Options B**); and
- 450,000 unlisted options at an exercise price of \$0.25 expiring 28 December 2019 (issued 28 December 2017) (**Options C**).

The fair value of these options was determined using a Black-Scholes option pricing model. The following table lists the input to the model for the advisor options:

	Options A	Options B	Options C
Dividend yield (%)	Nil	Nil	Nil
Expected volatility (%)	100%	100%	100%
Risk free interest rate (%)	1.79%	1.90%	1.90%
Exercise price (\$)	\$0.20	\$0.225	\$0.25
Marketability discount (%)	Nil	Nil	Nil
Expected life of options (years)	2.0	2.0	2.0
Share price at grant date (\$)	\$0.09	\$0.255	\$0.255
Value per option (\$)	\$0.0305	\$0.1426	\$0.1361

No options were exercised during the period.

**(c) Performance rights**

During the half-year ended 31 December 2017, \$293,340 was recognised as a share-based payment in respect of performance rights issued to Directors of the Company. Shareholder approval for the issue of these Performance Rights was obtained at the Company's annual general meeting (**AGM**) held on 21 November 2017. As disclosed in the Company's recent Annual Report, an amount of \$79,560 was previously recognised in the year ended 30 June 2017 in respect of performance rights, which were subject to shareholder approval at that time.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

The fair value of the performance rights was calculated by using a probability-based valuation methodology with reference to the share price at grant date to issue the Performance Rights.

	Number	Value per Performance right	Probability	Condition	Vested / Not Vested	Total Value \$
Class 1	320,000	\$0.11	100%	Non-Market	Vested	35,200
Class 2	310,000	\$0.11	100%	Market	Not vested	34,100
Class 3	310,000	\$0.11	100%	Market	Not vested	34,100
Class 4	350,000	\$0.11	0%	Non-Market	Not vested	-
Class 5	350,000	\$0.11	100%	Non-Market	Vested	38,500
Class 6	350,000	\$0.11	100%	Non-Market	Vested	38,500
Class 7	410,000	\$0.11	100%	Non-Market	Not vested	45,100
Class 8	550,000	\$0.11	100%	Non-Market	Not vested	60,500
Class 9	550,000	\$0.11	100%	Non-Market	Not vested	60,500
Class 10	240,000	\$0.11	100%	Non-market	Vested	26,400
	<u>3,740,000</u>					<u>372,900</u>

These performance rights, upon milestone achievements being met (vesting), will convert into shares at the election of the holder (on a one for one basis). Milestones attached to the Performance Rights are as follows:

Class 1	Successfully completing its proposed capital raising of not less than \$4 million and being admitted to the Official List of the ASX following an intellectual property acquisition
Class 2	Weighted average price (VWAP) of the shares as traded on ASX over 20 days being equal to or exceeding 200% of the initial listing price of the Shares pursuant to the re-listing
Class 3	Weighted average price (VWAP) of the shares as traded on ASX over 20 days being equal to or exceeding 400% of the initial listing price of the Shares pursuant to the re-listing
Class 4	Company converting not less than three (3) of the existing users of ADAM software across to an acceptable market-rate subscription of the Company
Class 5	Company successfully executed a Distribution Partnership Agreement/Re-seller Agreement with an acceptable agent based in the European region
Class 6	Company successfully executed a Distribution Partnership Agreement/Re-seller Agreement with an acceptable agent based in the Asian region
Class 7	Company achieving total sales revenue over a full financial year of not less than \$1.5million with a minimum 10% net profit margin (before tax)
Class 8	Company achieving total sales revenue over a full financial year of not less than \$3million with a minimum 15% net profit margin (before tax)
Class 9	Company achieving total sales revenue over a full financial year of not less than \$5million with a minimum 20% net profit margin (before tax)
Class 10	Company successfully executing a Distribution Partnership Agreement/Re-seller Agreement with an acceptable agent based in the United States of America

No shares were issued during the period as the result of performance rights vesting.

## 11. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There has been no change in contingent liabilities or contingent assets since the last annual reporting period.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

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**12. RELATED PARTY DISCLOSURES**

*Key Management Personnel (KMP)*

With respect to new key management personnel (**KMP**) appointments during the half-year ended 31 December 2017, the Company has entered into arrangements regarding remuneration for services provided, the key terms of which are summarised below.

Ms Jenny Cutri was appointed as a Non-Executive Director on 15 September 2017. Ms Cutri is entitled to receive \$36,000 per annum for the provision of non-executive director services.

Ms Melissa Chapman and Ms Catherine Grant-Edwards were appointed as Joint Company Secretary on 22 November 2017. Ms Chapman and Ms Grant-Edwards are directors of Bellatrix Corporate Pty Ltd (**Bellatrix**), a company that provides company secretarial and accounting services to a number of ASX listed companies. Pursuant to an agreement, Bellatrix is entitled to receive \$36,000 per annum for the provision of company secretarial services to the Company.

**13. INVESTMENT IN CONTROLLED ENTITIES**

**Transactions with subsidiaries**

The consolidated financial statements include the financial statements of K2fly Limited and the subsidiaries listed in the following table.

	<b>2017</b> <b>Percentage</b> <b>owned</b>	<b>2016</b> <b>Percentage</b> <b>owned</b>
<b>Controlled entities</b>		
Power Minerals Pty Ltd	100%	100%
Infoscope Pty Ltd	100%	-

K2fly Limited is the ultimate Australian parent entity and ultimate parent of the Group.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation.

**Acquisitions of controlled entities**

Refer to note 14 for details regarding the acquisition of Infoscope Pty Ltd.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

**14. BUSINESS COMBINATION**

On 7 July 2017, the Company completed the acquisition of 100% of the issued share capital and voting rights of Infoscope Pty Ltd (**Infoscope**) (**Infoscope Acquisition**). Infoscope is a specialist data collaboration company. Infoscope specialises in the connection of disparate data sources eliminating information silos and assembling different information layers to present a single source of data in a clear format around "Matter". The Infoscope solution is directly applicable to the mining and materials, energy, utilities, infrastructure, cultural and environmental sectors - asset intensive industries in which the Company already operates. The objective of the acquisition includes exposure to future potential cash flows from an established and profitable business.

Details of the business combination are as follows:

	Note	\$
<b>Consideration</b>		
Cash		475,000
Loan Repayment (iScape)		150,247
Shares issued	8	275,000
Unlisted options issued	9(b)	10,650
		<u>910,897</u>
<b>Assets Acquired</b>		
Cash acquired		69,013
Trade and other receivables		328,268
Intangible asset		12,185
Deferred tax asset		-
		<u>409,465</u>
Less: Trade and other payables (excluding iScape Loan assumed by K2fly)		(169,875)
Less: Provisions		(60,236)
		<u>179,354</u>
<b>Goodwill</b>	4	<u>731,543</u>
<b>Net cash outflow arising on acquisition</b>		
Cash paid		475,000
Less net cash acquired with the subsidiary		(69,013)
Net cash outflow		<u>405,987</u>

*Identifiable net assets*

The fair values of the identifiable intangible assets have been determined at 7 July 2017. The fair value of the trade and other receivables acquired as part of the business combination amounted to \$328,268. The value of intangible assets amounted to \$12,185 as outlined in the intangible assets note (refer note 3).

*Goodwill*

The goodwill that arose on the combination can be attributed to the synergies expected to be derived from the combination and the value of the workforce of K2fly and Infoscope which cannot be recognised as an intangible asset. At the reporting date, the Board have conducted an impairment assessment in relation to the recoverable amount of its intangible assets and determined that no impairment is required.



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

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*Infoscope's contribution to the Group's results*

The acquired entity contributed \$395,273 to the Group's revenues from the date that K2fly assumed control being 7 July 2017 to 31 December 2017. The acquired entity contributed \$389,677 to the Group's net loss after tax for the same period however excluding non-cash items net profit after tax for the period amounted to \$389,408.

Had the acquisition occurred on 1 July 2017, the Group's revenue for the period to 31 December 2017 would have been \$937,568 and the Group's result for the period would have been a loss of \$2,816,227.

*Financial Instruments*

The Directors consider that the carrying value of the financial assets and liabilities as recognised in the financial statement approximate their fair values.

**15. SIGNIFICANT EVENTS AFTER BALANCE DATE**

*Placement*

On 24 January 2018, the Company announced it had received firm commitments to raise approximately \$1.2m via an over-subscribed share placement at a price of \$0.25 per share (**Placement**). The issue price represents a discount of approximately 10% to K2fly's last closing price of \$0.28 and a discount of 16.5% to the 5 day volume weighted average price (VWAP). For every three shares subscribed under the Placement, investors were entitled to receive one listed \$0.20 option (ASX Code: K2FOA).

Funds raised from the Placement will be used to grow the business, including employing additional business development staff to support the sales roll out of the Infoscope land management software within the SAP S/4 HANA Enterprise Resource Planning system, and for other working capital purposes relating to the training and developing of staff in advance of implementation projects.

On 2 February 2018, the Company issued 4,897,209 shares at \$0.25 each to raise \$1,224,302 (before costs) and issued 1,632,403 listed options exercisable at \$0.20 expiring 18 May 2020 upon completion of the Placement. The Placement shares and options were issued using K2fly's existing 15% placement capacity under ASX listing rule 7.1.

*Share Cancellation and Replacement Share Issue*

As approved by shareholders at the special general meeting held on 15 January 2018, the Company completed the cancellation of 200,000 shares. As approved by shareholders at the general meeting held on 15 January 2018, the Company has issued 200,000 shares. These shares refer to those issued to K2fly former director, Mr Noel Bonnicks, in lieu of director's fees of \$18,000.

Other than noted above, there has been no additional matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial periods.

## DIRECTORS' DECLARATION

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The Directors declare that:

- (a) The financial statements and notes are in accordance with the Corporations Act 2001 including:
  - i. complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements;
  - ii. giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the year then ended.
- (b) there are reasonable grounds to believe that K2fly Limited will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors made pursuant to s303(5) of the the Corporations Act 2001.

On behalf of the Directors



Brian Miller  
Executive Chairman  
Perth, 20 February 2018

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of K2fly Limited

### Report on the Condensed Half-year Financial Report

#### *Conclusion*

We have reviewed the accompanying half-year financial report of K2fly Limited ("the company") which comprises the condensed statement of financial position as at 31 December 2017, the condensed statement of comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors' declaration, for the Group comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of K2fly Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

#### *Directors' responsibility for the half-year financial report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

#### **HLB Mann Judd (WA Partnership) ABN 22 193 232 714**

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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

A handwritten signature in blue ink that reads 'HLB Mann Judd'.

**HLB Mann Judd**  
**Chartered Accountants**

A handwritten signature in blue ink that reads 'D I Buckley'.

**D I Buckley**  
**Partner**

**Perth, Western Australia**  
**20 February 2018**