

ASX / Media Release

26 April 2018

ASX code: **K2F**

Quarterly Activities Update – Period ended 31 March 2018

Highlights:

- Revenue continues to grow with the outlook for the financial year positive
 - Current quarter revenue approximately 90% higher than the comparable quarter in 2017
 - Revenue growth balanced with prudent cost and cash management
 - Successful, over-subscribed capital raising took place in January and funds raised are being utilised for the expansion of Infoscope onto SAP S4 HANA and other opportunities
 - Infoscope continues to gain significant traction with the global giant SAP company:
 - Land and Tenement Management product has been ported to SAP Cloud Platform and its S4 HANA environment. The conversion work is now complete
 - K2F given Silver Partner status with SAP – rarely given to companies the size of K2F
 - K2F to showcase Infoscope with SAP at several national and international conferences and exhibitions in 2018
 - Mobility division continues to perform well:
 - Fieldreach solution enabled the launch of Mobile Inspection and Works Management within ARC Infrastructure
 - Kony – the Mobile Application and Development Platform with several sizable bids currently live with Utility, Rail and Oil and Gas prospective clients
 - K2F currently investing in capability for Internet of Things (IoT)
 - Continued wins in consulting and advisory contracts, including Tier 1 clients
 - K2F has recently exhibited at a number of industry specific conferences and exhibitions which will lead to further significant opportunities for the Company
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K2Fly Limited (**ASX: K2F**) (**K2fly** or **the Company**) continues to develop in line with our strategic expectations, and management is extremely pleased to report that significant progress is being made on a number of fronts.

REVENUES AND CASH RECEIPTS

Customer invoices raised for the March quarter were approximately \$607k which was marginally ahead of the prior guidance given on 13 March 2018. This represents an increase of more than 90% from the previous corresponding period FY2017 Q3 in which customer invoices were approximately \$317k.

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The total invoices for the December 2018 quarter were \$670k. The reduction in the March quarter was due to the fact that January is traditionally a quiet month for consultancy revenues, as both clients and staff tend to take annual leave at this time of year. Additionally, no software licence sales were made in the first 3 months of 2018. Notwithstanding this, the Board remains very positive about K2F and its prospects.

A number of K2F's recurring annual license agreements for the Infoscope product occur in Q4 of each year. K2F currently recognises this revenue when invoiced, so this will be recognised in the June quarter. FY2018 Q3 gross margin was lower than expected, due to the revenue mix. Consulting and services have a lower gross margin than software licenses. Operating costs in FY2018 Q3 remained at a comparable level to FY 2018 Q2 and management continues to keep a tight control on expenditure.

K2F received cash from customers of approximately \$525k in the March quarter which was \$72k (16%) higher than collections from the December quarter of \$453k. The comparable quarter in 2017 saw cash receipts of \$156k. This represents an increase of approximately 236%. K2F's cash balance at the end of the March quarter was \$767k. As at 26 April, the cash balance was approximately \$786k.

Our investment in business development resources has resulted in a sales pipeline larger than it has ever been, and K2F is confident of achieving further sales growth across a number of clients and different product offerings. As of 27 April 2018, K2F has 8 proposals and tenders submitted and under evaluation in the marketplace, some of which are for multi-year provision of software and services. K2F is currently the preferred bidder in two of these situations, and while we are confident in our proposed solution, there is no guarantee that these will turn in to full-blown assignments. In all other bids, K2F is on a short-list of tenderers.

OWNED SOFTWARE

As previously announced the acquisition of Infoscope in July 2017 has led to some significant traction with the global giant SAP company and its mining clients. SAP is a ~ A\$33 billion company.

The Infoscope product for Land and Tenement Management has been ported to the SAP Cloud Platform and its S4 HANA environment, and K2F has a number of opportunities which will be pursued in 2018 and beyond. The first phase of this migration went live successfully on 29 January, which was ahead of schedule. The final elements of the technology conversion took place in early April. As a result of this development with SAP, K2F has been and will be presenting at several national and international industry-specific conferences and exhibitions this year, including the SAP Global International Mining conference in Prague. As more K2F staff have been trained in the SAP S4 Cloud and HANA environments, we achieved the so-called Silver Partner status, which is rarely given to companies of K2F's size.

K2F is actively engaged with a number of SAP sales executives and account managers who work with some of the world's largest mining companies. K2F is collaborating with these colleagues to ensure that every sales opportunity is fully explored in 2018 and beyond.

The existing version of Infoscope continues to deliver revenues from Fortescue Metals Group (FMG) as well as The Keeping Place project which is jointly sponsored by BHP, Rio Tinto and FMG. In addition, clients such as API and Westgold Resources continue to use our software to develop their growing businesses and efficiently manage their tenements. K2F is also pleased to report that we have received enquiries regarding the Infoscope product from a number of rail and utility companies who have significant land holdings. Although this is not the typical profile of an Infoscope client, this could represent a new sector for the solution and K2F is currently developing a new sales campaign in this arena.

K2F has also started the roll out of The Keeping Place project. The Keeping Place solution focuses on providing a safe and meaningful way to repatriate digital cultural heritage information to the rightful

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custodians, via the deployment of Infoscope software. It has been deployed to the two participating groups: the Yinhawangka Aboriginal Corporation and the Karlka Niyaparli Aboriginal Corporation.

End user training has been completed, and the solution has been very well received.

The repatriated data from FMG, Rio Tinto and BHP has been reviewed by both the resource companies and the Aboriginal corporations, and full Go Live took place in April. It is hoped that other Aboriginal corporations will be onboarded to this program throughout 2018. It is likely that some of these may join before 30 June 2018. Each community onboarded will pay the project a fee to be part of the Keeping Place initiative, who in turn will engage K2F to enable the onboarding and data migration.

3rd PARTY SOFTWARE

The Mobility division also continues to perform well. K2F launched the Mobile Inspection and Works Management project within Arc Infrastructure in December, based upon the Fieldreach solution which K2F re-sells on behalf of Capita (UK). This project will see K2F delivering a turn-key solution including software licensing, software support & maintenance, integration services, consultancy, training and project management. This project has been running since December 2017 and the Go Live for Phase I is likely to take place in July or August 2018.

K2F is also bidding Fieldreach in to a number of significant sales situations in the mining, mining services, utilities and rail sectors.

Kony (USA) is the world leading Mobile Application Development Platform which is rated highly by industry analysts. K2F is a reseller of the Kony product in the Australian marketplace and currently has live bids in with Electricity, Water, Rail and Oil & Gas prospective clients. In relation to those bids, K2F is on number of short-lists and while K2F is confident, there is no guarantee that K2F will be successful in any of the bids.

K2F has a live Kony-based sales situation in one of its existing Infoscope clients and this is a good example of where K2F can cross-sell its different technology solutions to existing, satisfied clients.

K2F continues to invest in the growing area of the Internet of Things (IoT) and has built good capability with our specialist consultants. K2F has an Augmented Reality opportunity with an existing client which could lead to a software and services contract in mid-2018. This opportunity is based around the Pointerra (ASX:3DP) technology and if successful, would be a major referenceable site showcasing our capabilities in the IoT space. Augmented Reality specifically, and IoT in general, are two of the key cornerstones in what is being described as digital disruption in our target industries, and K2F is well placed to exploit this technology as it becomes more widely accepted within industrial settings.

CONSULTING

As previously announced K2F continues to win consulting/advisory contracts, and contract extensions with Tier 1 clients such as Western Power. Some of which are both strategically and financially significant to the Company. For example, revenues from one contract win with Western Power are expected to be in the range of \$250,000 to \$300,000.

In the March 2018 quarter we delivered consultancy or advisory services to the following clients: Western Power, Programmed Facility Management, Public Transport Authority, Snowy Hydro, Fortescue Metals Group, Mineral Resources, Indigenous Land Corporation, APIM, Westgold Resources and Arc Infrastructure.

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Our staff are subject matter experts who bring leading edge advice to our clients. This expertise is recognised by our clients and we are extremely pleased to have been awarded contract extensions with more than one client which will run throughout 2018.

As our pipeline of consultancy work continues to build we have recruited a number of key staff. Although this clearly increases our costs, it provides us with a greater opportunity to increase revenues. We believe we have an optimal blend of staff and high-calibre contract employees that ensure K2F can deploy the skills our clients demand without placing undue cost pressure on the company.

MARKETING AND INDUSTRY UPDATE

K2F hosted an industry breakfast briefing in Perth in February where more than 60 delegates attended to hear how existing clients such as Fortescue Metals Group, Westgold Resources and APIM utilise the Infoscope solution. The K2F/SAP developments were presented at this event, and this generated a lot of interest from existing SAP clients in the resources sector. We will be hosting a comparable event in Brisbane in May.

We also promoted our Mobility offerings at the Australian Oil & Gas Conference in Perth in March.

We promoted K2F's business and bright future when we attended Curtin University's Careers Fair in Perth to attract potential business, engineering and IT graduates to our Company. The emphasis was on planning for digital disruption and the future impact of IoT.

Earlier this month we attended the global SAP Oil and Gas conference in Portugal, and will be part of their exhibition stand at another global Mining event in Sydney in May.

At the end of March, K2F CEO Brian Miller spoke at the Austmine Gold Fields Industry event in Perth.

These investments in marketing are proving effective. In the last 6 months we received Requests for Information (RFI), enquiries or full Invitations to Tender (ITT) from several Utility or Rail companies who are interested in digital transformations and IoT. These industry initiatives and trends have been talked about for some time, but it appears that these aspirations are now becoming a reality. K2F continues to build its capabilities in this sphere as it prepares for more activity in these important vertical markets. K2F is currently negotiating a paid Proof of Concept (POC) project in the rail sector.

K2F is pleased that the market sentiment continues to improve and anticipates that 2018 and 2019 will see significant growth in the IT and services sector in general.

CORPORATE

Placement

On 2 February 2018, the Company completed a placement of 4,897,209 fully paid ordinary shares at \$0.25 per shares and raised cash funds of \$1,224,302 (before costs). A placement fee of 6% was paid on the funds raised. The issue price represented a discount of approximately 10% to K2fly's last closing price prior to the placement of \$0.28 and a discount of 16.5% to the 5-day volume weighted average price (VWAP). On the same date, the Company issued 1,632,403 listed 20 cent options (ASX Code: K2FOA) to shareholders who participated in the placement.

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Funds raised from the placement have been used, and will continue to 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 (ERP) system, and for other working capital purposes relating to the training and development of staff in advance of implementation projects.

The placement shares and options were issued under K2F's existing 15% placement capacity under ASX listing rule 7.1 and therefore shareholder approval was not required.

Shareholder Meetings

During the quarter, the Company held a general meeting and special general meeting on 15 January 2018 to approve the selection reduction of capital, approve the cancellation of Director shares and approve the issue of shares to Mr Noel Bonnick (or nominee). All resolutions put to shareholders were passed.

For more information, refer to the Notices of Meetings and Results which are available via the Company's website at www.k2fly.com.

Securities

During the quarter, the Company cancelled and issued the following securities:

- 200,000 shares cancelled on 30 January 2018
- 200,000 shares issued on 1 February 2018
- 4,897,209 shares issued on 2 February 2018
- 1,632,403 listed options issued on 2 February 2018

ENDS

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About K2fly

K2fly Ltd is an ASX listed Technology company which targets asset intensive industries. It supplies people and products, and has strategic alliances focussed on solving problems for clients.

K2fly owns the following technologies for use in Tier 1 companies:

Infoscope: A Data Collaboration solution

ADAM: Asset Data Analysis Management

NovIn: Real Time Asset Inspection Management App

K2fly also re-sells market leading software which has been developed by industry leaders in the USA, Australia, Europe and the UK. These solutions come from OBI Partners (USA), Kony (USA), Pointerra Limited (Aus), ABB (Switzerland) and Capita plc (UK), where they have an outstanding track record of delivering benefits to clients. K2fly has strategic alliances with global technology companies such as: GE(USA) and SAP (Germany).

In addition, K2fly provides cutting edge advice, consultancy and services when it deploys its subject matter experts who have extensive domain knowledge in such areas as Rail, Electricity, Gas, Water, Mining, Oil & Gas, Facilities Management, Aviation and Defence.

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