

ASX / Media Release

7 May 2019

ASX code: **K2F**

K2fly Acquires RCubed Resource Governance Software Solution

Highlights

- K2fly to acquire RCubed, a resource and reserves reporting software solution
- All cash transaction of AUD \$450,000 plus executive performance incentives over three years based on significant revenue targets
- Acquisition of RCubed strengthens K2fly's existing SaaS offerings targeting the Resources sector:
 - Infoscope software solution for critical Land Management Governance
 - RCubed offers Mineral Resources and Reserves Governance
- Infoscope and RCubed software are complementary software solutions, enabling Resource companies to report on Environmental, Social and Governance (ESG), supporting their social licence to operate
- RCubed has major clients - Teck Resources and Anglo Gold Ashanti
- K2fly's Infoscope and RCubed SaaS solutions have a combined presence in 22 countries across 65+ sites covering 33 commodities
- Commitments for a placement of 8,000,000 ordinary shares at 10 cents have been secured to fund the acquisition

K2fly Limited (ASX: K2F) (**K2fly** or **the Company**) is pleased to announce that it has executed a binding Heads Of Agreement (**HOA**) for its subsidiary, K2fly RCubed Pty Ltd, to acquire the assets of Prodmark Pty Ltd (**Prodmark**) (a South African company) and associated entities, relating to the RCubed Resources and Reserve Reporting software. The acquisition is highly complementary to K2fly and strengthens its owned Software as a Service (SaaS) solution targeting the Resources sector.

The acquisition is subject to Conditions Precedent (detailed below).

Consideration for Acquisition

An upfront payment of AUD \$450,000 to be paid to purchase the assets of Prodmark Ltd and associated entities which includes all the Intellectual Property of the RCubed software.

To ensure the retainment and performance of key operational employees over the next three years, performance incentives have been incorporated into the deal.

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Year 1: Total revenue* – AUD \$715k – Maximum incentive payment AUD \$600k payable in two instalments.

Year 2: Total revenue* – AUD \$1,215k – Maximum incentive payment AUD \$400k over two instalments.

Year 3: Total revenue* – AUD \$1,715k – Maximum incentive payment AUD \$200k over two instalments.

The Performance Incentives are payable in two instalments. For instance, in Year 1 the first payment is payable 12 months from the date of settlement and second payment 6 months following.

*Annual recurring licence revenue

What is RCubed?

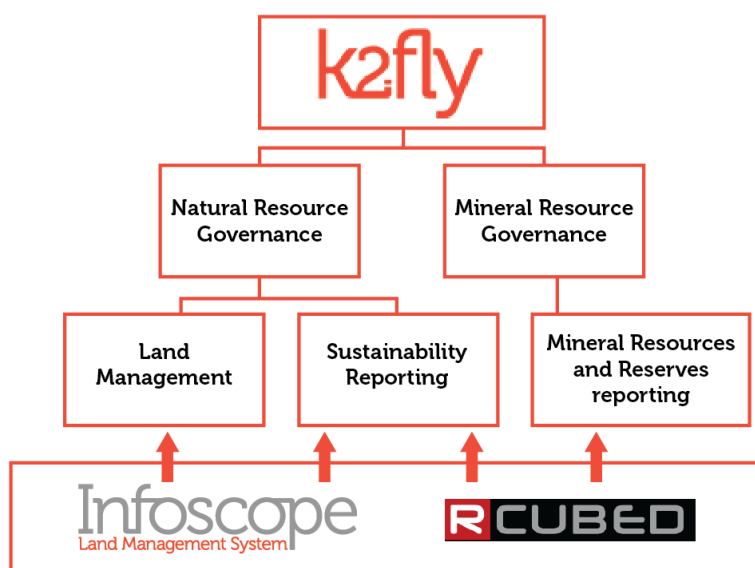
RCubed software generates resource and reserve reports that support reporting codes such as JORC, NI43101 and SAMREC across the major stock exchanges – including NYSE, LSE, TSX, ASX and JSE. RCubed complements the Infoscope enterprise land management software as it assists Mining and Resource companies in complying with their regulatory reporting obligations.

The acquisition brings major customers, Teck Resource and Anglo Gold Ashanti, and also Impala Platinum into the K2fly business. The acquisition will be a key enabler for K2fly to deliver on its objective of generating increased revenues from high margin SaaS sales. K2fly will now be uniquely placed to enhance its SaaS solution: geographical spread (22 countries across 4 continents), resource type (33 commodities) and 65+ site locations.

Infoscope and RCubed Combined

The combination of Infoscope and RCubed will assist K2fly in its long-term strategy to provide an increasingly comprehensive solution for Resource companies to manage their environmental, social and governance (ESG) responsibilities by delivering sustainability reports which reinforce their social license to operate. A sustainability report is the key platform for communicating sustainability performance and impacts to employees, governments and the community – whether positive or negative. Nic Pollock, K2F's Chief Commercial Officer said, "The rapid growth in all things ESG in resource companies needs to be adequately supported by standards driven, auditable software solutions that can address current and future regulatory reporting and social license narrative. Increasingly it will contribute towards any Resource company's valuation, and its cost of capital."

The Future for Infoscope and RCubed Combined: Reinforcing Companies' Social License to Operate



Placement of 8,000,000 Shares at 10 cents to Fund Acquisition

The Company has received firm commitments from sophisticated and professional investors to place a total of 8,000,000 fully paid ordinary shares at 10 cents per share (**Placement Share**) to fund the acquisition. The Placement Share issue price of 10 cents is a 16% discount on the VWAP over the 15 trading days prior to the date of the Company's trading halt.

Use of Placement Funds

Purchase of assets of Prodmark including RCubed Software	\$450,000
RCubed Working Capital for Six Months	\$200,000
Due Diligence Costs	\$100,000
Legal Costs	\$50,000
Total Funds Raised Under Placement	<u>\$800,000</u>

The allotment of the Placement Shares is not subject to shareholder approval and will fall within the Company's placement capacity under ASX Listing Rules (LR) 7.1 and 7.1A.

In relation to the shares issued under LR 7.1A, the following information is provided:

- a total of 8,000,000 fully paid ordinary shares will be issued pursuant to the Placement: 6,666,523 fully paid ordinary shares under LR 7.1A (10% of ordinary shares currently on issue) and 1,333,477 fully paid ordinary shares under LR 7.1 (2% of the ordinary shares currently on issue);
- the Placement Shares are to be issued to current and new sophisticated and professional investors of the Company. Additional details, required by ASX LR 3.10.5A, will be provided when the Placement Shares are issued;

- (c) a placement was determined to be in the best interests of the Company due to the speed at which it could be completed. The Directors also note that a rights issue had been undertaken by the Company less than 12 months ago; and
- (d) there was no underwriting arrangement entered into.

A fee of 6.3% is payable to Canary Capital Pty Ltd (**Canary Capital**) on the funds raised. Canary Capital has elected to take its capital raising fees in shares instead of cash. The fully paid ordinary shares are to be issued at a deemed value of 10 cents per share, which is the same as the Placement Share price. Canary Capital will be issued a total of 510,000 fully paid ordinary shares, out of K2F's 15% placement capacity under LR 7.1, in lieu of fees.

Conditions Precedent

The acquisition is subject to the satisfaction (or waiver) of a number of condition precedents and those still outstanding are:

- (a) the parties entering into a final sale agreement and agreements with the current customers using RCubed;
- (b) the Company obtaining the exchange control approval from either the Financial Surveillance Department of the South African Reserve Bank or an Authorised Dealer for the Acquisition (obtaining regulatory approval is currently underway);
- (c) the Company obtaining all necessary shareholder (if required) and regulatory approvals for the transaction;
- (d) the Company completing a capital raising sufficient to complete the acquisition; and
- (e) Jan de Kock (CEO) and Chris Jones (CTO) (Key Executives) entering into employment contracts with the Company or its nominee for the continuing provisions of their services for a period of three (3) years from the Settlement Date.

All condition precedents to the HOA need to be met for the acquisition to proceed. If one or more condition precedents are not met (or waived by K2fly), then the acquisition may not proceed.

Indicative Timetable

Satisfaction of the condition precedents and completion of the acquisition is expected by the end of May 2019. This timetable is an indication only and is subject to change. Further details will be announced to the market in due course.

K2F CEO Brian Miller commented, "We have been looking for complementary software solutions to be used in the resources sector for some time. We are delighted that we've been able to secure the RCubed SaaS offering, at a time when more and more organisations are keen to maintain, extend and verify their social license to operate. This is the right solution for the right time."

K2fly are currently setting up a South African entity which will take on the twelve existing staff and the existing office facilities in Centurion, outside Johannesburg.

ENDS

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About K2fly

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

K2fly owns **Infoscope**, a Land Management and Stakeholder Relations solution for the Energy and Resources market.

K2fly has strategic alliances with global technology companies such as: GE(USA), Esri (USA) and SAP (Germany).

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), Totalmobile (UK) and Capita plc (UK), where they have an outstanding track record of delivering benefits to clients.

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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