



K2fly Limited

ABN 69 125 345 502

Half-Year Financial Report
For the Half-Year Ended
31 December 2019

CONTENTS

CORPORATE DIRECTORY	1
DIRECTORS' REPORT	2
AUDITOR'S INDEPENDENCE DECLARATION	6
CONDENSED STATEMENT OF COMPREHENSIVE INCOME	7
CONDENSED STATEMENT OF FINANCIAL POSITION	8
CONDENSED STATEMENT OF CHANGES IN EQUITY	9
CONDENSED STATEMENT OF CASH FLOWS	10
NOTES TO THE FINANCIAL STATEMENTS	11
DIRECTORS' DECLARATION	21
INDEPENDENT AUDITOR'S REVIEW REPORT	22

CORPORATE DIRECTORY

DIRECTORS

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

JOINT COMPANY SECRETARIES

Melissa Chapman
Catherine Grant-Edwards

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

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Subiaco WA 6008
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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's Shares (K2F) and options (K2FOA) are listed on the Australian Securities Exchange

DIRECTORS' REPORT

Your Directors present their half-year report on K2fly Limited (**K2fly**) (the **Company**) and its controlled entities (**Group**) for the half-year ended (**HY**) 31 December 2019 (**HY20**).

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 Director / CEO
Jenny Cutri	Non-Executive Chair
Neil Canby	Non-Executive Director
James Deacon	Non-Executive Director

RESULTS

Operating Results

The Group incurred a net loss after income tax during the half year of \$1,919,985 (31 December 2018: net loss of \$784,364).

K2fly invoiced a total of \$3,083k during the HY ended 31 December 2019 representing a 69% increase from the prior corresponding period to 31 December 2018 (**HY19**) (HY19 \$1,820k). K2fly's revenue reported for HY20 of \$2,653k represents at 45% increase from prior period (HY19: \$1,829k). The increase in revenue from ordinary activities is due to the continued growth of the Company, new contract wins and sales to Tier 1 clients. Revenue in this Half-Year Financial Report is recognised and presented in accordance with International Financial Reporting Standards (IFRS) including AASB 15 Revenue from Contracts with Customers. At 31 December 2019, an amount of \$799k (30 June 2019: \$437k) in contract liabilities is included in the statement of financial position, representing amounts billed for sales where performance obligations from those contracts have not been fully satisfied; these amounts will be reflected in the full year's reported revenue.

Included in the period HY20 net loss are:

- non-cash share-based payment expenses for options issued to employees under the Company's Employee Incentive Option Plan and to directors, as approved by shareholders at K2fly's Annual General Meeting, and securities issued to investor corporate advisors of \$308,870 (31 December 2018: benefit of \$143,088) (refer to notes 8(b) and 10); and
- milestone incentive payment expense of \$600,000 (31 December 2018: \$nil) for deferred consideration to be paid to the vendors for the RCubed acquisition, but which are payable in May and November 2020 (refer note 11).

Financial Position

At 31 December 2019, the Group had cash reserves of \$1,144,719 (30 June 2019: \$1,059,247).

ACTIVITIES REPORT

Highlights

- Revenue continues to grow and outlook for the financial year 2020 (FY20) remains positive
- Total revenue for HY20 is \$2,653k, a growth of 45% on the HY19 revenue of \$1,829k
- K2fly's operations are classified into 3 operational areas: owned software; 3rd Party software; and consulting services
- K2fly announced an acquisition in May 2019 which saw it acquire the RCubed Resources and Reserves Software solution (**RCubed**) and assets from entities in South Africa. Consequently, K2F engaged 11 new staff members and established an office in Centurion, South Africa. The RCubed solution is sold as Software as a Service (SaaS) and complements K2fly's other owned software offering, Infoscope
- RCubed solution had major clients Teck Resources Ltd and Anglo Gold Ashanti Ltd who were utilising the solution for their Mineral Resource and Reserve Reporting

- Agreements for the RCubed solution were entered into with significant resource companies including: Imerys SA, Newcrest Mining Ltd, Glencore Canada Corporation, Nexa Resources SA and Rio Tinto Ltd
- New and existing clients entered into multi-year contracts for either the Infoscope or RCubed software solutions. These include Newcrest (3 years), Rio Tinto (5), Teck Resources (3) and Westgold Resources Ltd (5)
- K2fly's SaaS subscriptions business:
 - Annual Recurring Revenue has grown to over \$1.4M or 175% Compound Annual Growth Rate to the end of 31 December 2019
 - Total Contract Value has grown to >\$3.5M by 31 December 2019
- In HY20 K2fly has had continued wins in consultancy and advisory contracts, including with Tier 1 clients
- As at 31 December 2019, there was cash at hand of \$1.14M and \$1.12M in aged receivables largely from Tier 1 clients

OWNED SOFTWARE

RCubed solution

K2fly had significant successes in HY20 with the introduction of the new solution known as RCubed. The solution focuses on mineral resource and reserves reporting and works successfully across a number of industry standards including: JORC, SAMREC, NI43101. The RCubed solution works for a number of international bourses including NYSE, LSE, ASX and TSX.

When K2fly acquired the RCubed solution major clients using the software solution for their Mineral Resource and Reserve Reporting included Teck Resources Ltd and Anglo Gold Ashanti Ltd.

Between June and December 2019, K2F won significant contracts for the RCubed software solution in Imerys SA, Newcrest Mining, Glencore Canada, Nexa Resources and Rio Tinto. In addition, in January this list was increased when Gold Fields Australia (a subsidiary of Gold Fields Limited) also joined the growing numbers of clients using this solution for their Mineral Resource and Reserve Reporting.

Infoscope Solution

In December 2019 a newly formed entity, "The Place of Keeping" agreed to take over the rollout of the Infoscope software and services to Aboriginal groups across Australia. This new entity is expected to give momentum to the rollout of the Keeping Place solution, which is based upon Infoscope functionality, to many communities in 2020 who will potentially want to deploy the solution. 'The Keeping Place' is built on K2fly's Infoscope solution and is, a secure, customisable online platform that enables Traditional Owners to regain data sovereignty, apply cultural protocols, manage native title, improve governance and unlock social and economic opportunities for current and future generations.

In December 2019 existing Infoscope client, Westgold Resources extended the length and breadth of its contract with K2fly when it signed for a further 5 years.

K2F has a number of significant opportunities in the sales pipeline which could come to fruition in FY20. As at the end of January 2020, K2fly's Software as a Service offerings (RCubed and Infoscope) have been deployed or are being deployed in 45 countries and across more than 250 sites. The Company is in negotiations for its SaaS solutions with several other major mining companies, and while there are no guarantees of success, K2fly is well placed to win these contracts.

THIRD PARTY SOFTWARE

Kony

In HY20, K2F has continued to work in Fortescue Metals Group with the Kony Mobile Application Development Platform. FMG is a major user of Infoscope but is also utilising K2fly resources to help deploy this mobility solution.

K2fly was also engaged in a Kony implementation in South Australian Water in HY20.

DIRECTORS' REPORT

Fieldreach

K2fly resells the Fieldreach mobility solution which was developed by Capita (UK). This market leading solution is used by 50,000+ field workers in the utilities and rail sectors in the UK, Australia, USA and South Africa. K2F sold the Fieldreach solution to Arc Infrastructure in November 2017 and various Go Live stages took place in 2018 and 2019. The final rollout of the Fieldreach solution successfully took place in November 2019, which also saw additional users added to the system.

Totalmobile

K2fly resells the Totalmobile solution in Australia. As part of its onboarding process, K2fly worked on a Totalmobile assignment in 2019 which saw the solution deployed in the UK on an EDF Energy nuclear power station implementation.

CONSULTANCY SERVICES

Our consulting staff are subject matter experts who bring leading edge advice to our clients. Consequently, K2fly continues to win consulting/advisory contracts, and contract extensions with Tier 1 clients such as Teck Resources, Anglo Gold Ashanti, Imerys, Newcrest Mining, Glencore, Nexa Resources, Fortescue Metals Group, Westgold Resources, Rio Tinto, Gold Fields, South32, Adani, Programmed, Western Power, ABB, SA Water, Arc Infrastructure, Horizon Power, The Place of Keeping, New Hope Resources and Stanwell Energy.

CORPORATE

Placement

On 26 September 2019, the Company completed a placement of 6,250,000 fully paid ordinary shares at \$0.16 per shares to raise cash funds of \$1,000,000 (before costs) (**Placement**). Funds raised from the Placement will be used to implement the recently announced RCubed contracts, anticipated new contract wins and to deliver further sales growth for the Company.

Annual General Meeting

The Company's Annual General Meeting (**AGM**) was held 25 November 2019, 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.

Shares

During the period, the Company issued the following shares:

- 6,250,000 shares issued on 26 September 2019 pursuant to the Placement;
- 81,522 shares issued on 11 October 2019 to advisor Canary Capital Pty Ltd pursuant to an investor marketing mandate;
- 323,419 shares issued on 11 December 2019 upon the exercise of 323,419 unlisted options exercisable at \$0 each which expire on 26 November 2020;
- 380,000 shares issued on 27 December 2019 upon the exercise of \$0.225 options which expired on 28 December 2019; and
- 200,000 shares issued on 27 December 2019 upon the exercise of \$0.25 options which expired on 28 December 2019.

Unlisted Options

On 11 October 2019, the Company issued 750,000 unlisted options which are exercisable at \$0.35 each on or before 11 October 2022 to Canary Capital Pty Ltd pursuant to an investor marketing mandate.

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

- 1,751,200 unlisted options issued on 20 December 2019 to directors and consultants, as approved by shareholders at the Company's AGM, including:

DIRECTORS' REPORT

- 1,067,920 unlisted options exercisable at \$0 each on or before 25 November 2021 (subject to vesting conditions) (**ZEP Options**); and
- 683,280 unlisted options exercisable at \$0.291 each on or before 25 November 2023 (subject to vesting conditions) (**PEP Options**); and
- 2,150,580 unlisted options issued on 20 December 2019 to employees under its shareholder approved Employee Incentive Option Plan (**EIOP**), including:
 - 748,980 ZEP Options; and
 - 1,401,600 PEP Options.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 9 January 2020 K2fly confirmed it had concluded an agreement with The National Trust of Australia to novate the license of The Keeping Place (an Infoscope solution) to the new entity called The Place of Keeping Ltd.

On 24 January 2020 K2fly announced that Gold Fields Australia (a subsidiary of Gold Fields Limited) signed a new 5-year contract for RCubed software solution, for its global operations and major projects, and which will commence immediately.

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.

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 2019.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s306(3) of the *Corporations Act 2001*.



Brian Miller
Executive Director / CEO
Perth, 24 February 2020



Jenny Cutri
Non-Executive Chair
Perth, 24 February 2020

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 2019, 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
24 February 2020



D I Buckley
Partner

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Liability limited by a scheme approved under Professional Standards Legislation.

HLB Mann Judd (WA Partnership) is a member of HLB International, the global advisory and accounting network.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Notes	Consolidated 31 December 2019	Consolidated 31 December 2018
		\$	\$
Revenue	3	2,652,648	1,828,662
Cost of sales		(1,629,804)	(1,290,842)
Gross profit		1,022,844	537,820
Other income	4	905	65,884
Administration expense		(158,230)	(124,980)
Compliance & regulatory expense		(68,566)	(97,184)
Consultancy expense		(169,303)	(179,572)
Depreciation & amortisation		(92,244)	(7,178)
Directors' fees		(60,000)	(60,000)
Employee benefits expense	5	(1,082,967)	(712,621)
Impairment of receivables		-	(16,400)
Occupancy expense		(19,407)	(43,678)
Public relation & marketing expense		(230,074)	(118,976)
Research costs		(48,655)	(83,403)
Share-based payments revenue/(expense)	10	(308,871)	143,088
Travel expense		(99,234)	(87,164)
Finance expense		(6,183)	-
Milestone incentive payments	11	(600,000)	-
Loss before income tax expense		(1,919,985)	(784,364)
Income tax expense		-	-
Loss for the period		(1,919,985)	(784,364)
Other comprehensive income, net of income tax			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign subsidiaries		8,877	-
Other comprehensive income for the period, net of tax		8,877	-
Total comprehensive loss for the period		(1,911,108)	(784,364)
Basic and diluted loss per share (cents)		(2.44)	(1.25)

The accompanying notes form part of the financial statements

CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	Consolidated 31 December 2019	Consolidated 30 June 2019
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents		1,144,719	1,059,247
Trade and other receivables		1,177,710	874,846
Contract assets		-	68,750
Work in progress		39,013	-
Total Current Assets		2,361,442	2,002,843
Non-Current Assets			
Restricted cash		15,000	15,000
Plant and equipment		46,610	41,080
Right of use assets		138,500	178,749
Intangible assets		380,893	424,013
Goodwill		731,543	731,543
Other financial assets		844	844
Total Non-Current Assets		1,313,390	1,391,229
Total Assets		3,674,832	3,394,072
LIABILITIES			
Current Liabilities			
Trade and other payables	6	771,393	912,046
Provisions	11	766,478	145,781
Interest bearing lease liabilities		68,891	65,935
Contract liability	7	798,830	436,876
Total Current Liabilities		2,405,592	1,560,638
Non-Current Liabilities			
Provisions		36,064	34,750
Interest bearing lease liabilities		74,618	113,389
Total Non-Current Liabilities		110,682	148,139
Total Liabilities		2,516,274	1,708,777
Net Assets		1,158,558	1,685,295
EQUITY			
Issued capital	8	16,751,541	15,661,041
Reserves	9	886,445	583,697
Accumulated losses		(16,479,428)	(14,559,443)
Total Equity		1,158,558	1,685,295

The accompanying notes form part of the financial statements

CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Consolidated	Issued capital	Performance rights reserve	Option reserve	FCTR reserve	Asset revaluation reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$	\$	\$
Balance as at 1 July 2019	15,661,041	199,100	385,507	(1,030)	120	(14,559,443)	1,685,295
Loss for the period	-	-	-	-	-	(1,919,985)	(1,919,985)
Exchange differences on translation of foreign subsidiaries	-	-	-	8,877	-	-	8,877
Total comprehensive loss for the period	-	-	-	8,877	-	(1,919,985)	(1,911,108)
Issue of shares - Placement	1,000,000	-	-	-	-	-	1,000,000
Issue of shares – Exercise of options	135,500	-	-	-	-	-	135,500
Share issue costs	(60,000)	-	-	-	-	-	(60,000)
Share-based payments – shares	15,000	-	-	-	-	-	15,000
Share-based payments – options	-	-	293,871	-	-	-	293,871
Balance as at 31 December 2019	16,751,541	199,100	679,378	7,847	120	(16,479,428)	1,158,558
Balance as at 1 July 2018	13,136,705	372,900	284,826	-	120	(12,536,035)	1,258,516
Adjustment on initial application of AASB 15	-	-	-	-	-	(84,880)	(84,880)
Balance as at 1 July 2018 (restated)	13,136,705	372,900	284,826	-	120	(12,620,915)	1,173,636
Loss for the period	-	-	-	-	-	(784,364)	(784,364)
Total comprehensive loss for the period	-	-	-	-	-	(784,364)	(784,364)
Issue of shares – rights issue	1,812,293	-	-	-	-	-	1,812,293
Issue of shares – exercise of options	2,400	-	-	-	-	-	2,400
Share issue costs	(108,738)	-	-	-	-	-	(108,738)
Share-based payments - shares	20,000	-	-	-	-	-	20,000
Share-based payments – performance rights forfeited	-	(173,800)	-	-	-	-	(173,800)
Share-based payments - options	-	-	15,712	-	-	-	15,712
Balance as at 31 December 2018	14,862,660	199,100	300,538	-	120	(13,405,279)	1,957,139

The accompanying notes form part of the financial statements

CONDENSED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Note	Consolidated 31 December 2019	Consolidated 31 December 2018
		\$	\$
Cash flows from operating activities			
Receipts from customers		2,783,818	1,934,196
Payments to suppliers and employees		(3,639,216)	(3,495,425)
Interest received		174	124
Government grants received		-	60,761
Net cash (used in) operating activities		(855,224)	(1,500,344)
Cash flows from investing activities			
Payments for plant and equipment		(17,069)	(6,940)
Refunds for exploration and evaluation expenditure		-	27,457
Payment of subsidiaries acquisition costs		(55,439)	-
Net cash provided by/(used in) investing activities		(72,508)	20,517
Cash flows from financing activities			
Proceeds from the issue of shares	8	1,000,000	1,812,293
Payments for share issue costs	8	(60,000)	(108,738)
Proceeds from exercise of options	8	135,500	2,400
Repayment of lease liabilities		(38,765)	-
Net cash provided by financing activities		1,036,735	1,705,955
Net increase in cash held		109,003	226,128
Cash at beginning of the period		1,059,247	774,158
Effects of exchange rate fluctuations on cash held		(23,531)	(5,223)
Cash and cash equivalents at the end of the period		1,144,719	995,063

The accompanying notes form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements comprise the consolidated condensed interim financial statements for the Group. For the purposes of preparing the consolidated financial statements, the Group is a for-profit entity.

The 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 2019 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.

The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding half year, except for the impact of the new Standards and Interpretations described in Note 1(d) below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

(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) Going concern

The interim financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

Notwithstanding the fact that the Company incurred an operating loss for the period ended 31 December 2019 of \$1,919,985 (31 December 2018: \$784,364 loss), had cash and cash equivalents of \$1,144,719 at 31 December 2019 (30 June 2019: \$1,059,247), had a net working capital deficit of \$44,150 (30 June 2019: \$442,205) and a net cash outflow from operating activities amounting to \$893,990 (31 December 2018: \$1,500,344), the Directors are of the opinion that the Company is a going concern for the reasons outlined below.

The Group's ability to continue as a going concern and to continue to fund its planned activities and operations is dependent on generating additional revenues from its operations and/or reducing operational costs, and if necessary, raising further capital. 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 its current operations.

The Directors believe the Group will continue as a going concern, after consideration of the following factors:

- regular review of management accounts and cash flow forecast, incorporating expected cash inflows from sales invoice and collection of trade receivables;
- close management of both its operating costs and corporate overheads;
- sales pipeline continues to grow and K2fly is confident of achieving further sales growth across a number of clients and different product offerings;

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

- existing contracts are expected to deliver materially significant revenue in the upcoming financial year from both consulting activities and in software sales;
- the Company has signed a debt factoring facility in the case need ever arises;
- the Company has a number of options on issue (listed and unlisted). The listed options are due to expire in May 2020 and have an exercise price of 20 cents. If the options are exercised this will result in a significant capital injection into the Company; and
- the Company has the ability to raise funds through equity issues.

(d) Adoption of new and revised standards

Standards and Interpretations applicable to 31 December 2019

In the half-year ended 31 December 2019, 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 2019.

As a result of this review, the Directors have applied all new and amended Standards and Interpretations that were effective as at 1 July 2019 including:

Interpretation 23 Uncertainty over Income Tax Treatments

The Group has adopted interpretation 23 with the date of initial application being 1 July 2019.

The Interpretation clarifies the application of the recognition and measurement criteria in AASB 12 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

At 1 July 2019 it was determined that the adoption of Interpretation 23 had no impact on the Group.

AASB 2018-1 Australian Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle

The Group has adopted AASB 2018-1 with the date of initial application being 1 January 2019.

The amendments clarify certain requirements in:

- AASB 3 Business Combinations and AASB 11 Joint Arrangements - previously held interest in a joint operation
- AASB 112 Income Taxes - income tax consequences of payments on financial instruments classified as equity
- AASB 123 Borrowing Costs - borrowing costs eligible for capitalisation.

At 1 July 2019 it was determined that the adoption of AASB 2018-1 had no impact on the Group.

AASB 16 Leases

AASB 16 was early adopted by the Group as at 1 July 2018.

(e) 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

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 2019.

In the half-year ended 31 December 2019, management's significant judgements were:

- Assessing whether indicators of impairment existed in relation to intangible assets; and
- Unlisted options (Note 10(b)).

2. SEGMENT NOTE

The Group has adopted AASB 8 *Operating Segments* which requires operating segments to be identified on the basis of internal reports about components of the Group that are reviewed by the Chief Operating Decision Maker in order to allocate resources to the segment and assess its performance. The Board of K2fly reviews internal reports prepared as consolidated financial statements and strategic decisions of the Group are determined upon analysis of these internal reports.

During the half year, the Group business being in the technology sector operated predominantly in Australia, although some of its operations were conducted from its office in Centurion, South Africa, but identifies their revenue streams from consulting, sale of own software and sale of third party software as its operating segment.

3. REVENUE

The Group derives its revenue from the sale of goods and the provision of services at a point in time and over time in the categories detailed below. The Group operates predominately in one business and geographical segment being the technology sector in Australia. The revenue information disclosed below is consistent with reporting by segment under AASB 8 (see note 2).

	31 December 2019	31 December 2018
	\$	\$
At a point in time		
Consulting and implementation services revenue	281,751	47,700
Sales of third-party software (provided via a perpetual license)	29,000	13,500
	310,751	61,200
Over time		
Consulting and implementation services revenue (provided on a time and material basis)	1,927,828	1,597,909
Hosting services revenue	59,424	11,750
Sales of own software (provided as a service)	354,645	157,803
	2,341,897	1,767,462
	2,652,648	1,828,662

4. OTHER INCOME

	31 December 2019	31 December 2018
	\$	\$
Interest income	174	124
R&D refund	-	38,760
Grant	-	22,000
Other	731	5,000
	905	65,884

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

5. EMPLOYEE BENEFITS EXPENSE

	31 December 2019 \$	31 December 2018 \$
Wages & salaries	869,800	446,100
Superannuation	72,957	48,714
Redundancies	31,980	118,880
Payroll tax	65,027	57,370
Fringe benefits tax	(4,014)	3,204
Training	21	8,061
Provision	22,676	18,539
Recruitment and relocation costs	24,520	11,753
	<u>1,082,967</u>	<u>712,621</u>

6. TRADE AND OTHER PAYABLES

	31 December 2019 \$	30 June 2019 \$
Current		
Accounts payable	332,253	437,549
Accrued expenses	54,839	157,555
Other payables	101,145	104,881
Employee liabilities	283,156	212,061
	<u>771,393</u>	<u>912,046</u>

7. CONTRACT LIABILITIES

	31 December 2019 \$	30 June 2019 \$
Deferred revenue (a)	<u>798,830</u>	<u>436,876</u>
<i>Movements:</i>		
Opening balance	436,876	18,379
Deferred during the year	911,575	436,876
Released to the statement of profit or loss	(549,621)	(18,379)
Closing balance	<u>798,830</u>	<u>436,876</u>

- (a) Represents aggregate amounts of transaction prices relate to the performance obligations from existing contracts that have been billed and received but are unsatisfied or partially satisfied. A break-down of the revenue line items (as reported at note 2) to which these contracts liabilities will be recognised in the next financial year is as follows:

	31 December 2019 \$	30 June 2019 \$
Consulting revenue (at a point in time)	24,000	24,000
Consulting revenue (over time)	-	9,000
Hosting services revenue	16,272	7,000
Sales of own software (software as a service)	871,304	396,876
	<u>911,575</u>	<u>436,876</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

8. ISSUED CAPITAL

	31 December 2019 \$	30 June 2019 \$
Issued and paid up capital	19,304,473	18,153,972
Share issue costs	(2,552,932)	(2,492,932)
	<u>16,751,541</u>	<u>15,661,041</u>

Reconciliation	6 months to 31 December 2019		Year to 30 June 2019	
	Number	\$	Number	\$
Opening balance	75,354,141	15,661,041	60,409,751	13,136,705
Shares issued – Rights Issue	-	-	6,040,976	1,812,293
Shares issued – Exercise of options	-	-	12,000	2,400
Shares issued – Vesting of performance rights	-	-	202,500	-
Shares issued to advisors	-	-	62,454	20,000
Shares issued – Placement	-	-	8,000,000	800,000
Shares issued to advisors	-	-	510,000	51,000
Shares issued to advisors	-	-	116,460	15,000
Shares issued – Placement (a)	6,250,000	1,000,000	-	-
Shares issued to advisors (b)	81,522	15,000	-	-
Shares issued – Exercise of options (c)	323,419	-	-	-
Shares issued – Exercise of options (d)	580,000	135,500	-	-
Share issue costs	-	(60,000)	-	(176,357)
Closing balance	<u>82,589,082</u>	<u>16,751,541</u>	<u>75,354,141</u>	<u>15,661,041</u>

- (a) On 26 September 2019, the Company raised \$1,000,000 from sophisticated and professional investors via a placement of 6,250,000 fully paid ordinary shares at \$0.16 each to fund the implementation and anticipated implementation of RCubed contracts and to grow the business.
- (b) On 11 October 2019, the Company announced it had executed a new mandate with Canary Capital Pty Ltd (**Canary Capital**), a boutique Sydney headquartered investment management and corporate advisory firm, to continue to provide investor marketing services to the Company (**Investor Marketing Mandate**). On the same day, a total of 81,522 shares were issued to Canary Capital pursuant to Investor Marketing Mandate as equity-settled fees for the six-month period from September 2019 to February 2020, valued at \$15,000 which has been recognised as a share-based payment expense during the period (refer note 10(a)).
- (c) On 11 December 2019, a total of 323,419 shares were issued upon the exercise of 267,657 unlisted options exercisable at \$0 each expiring 26 November 2020 by Non-Executive Directors of the Company and 55,762 unlisted options exercisable at \$0 each expiring 26 November 2020 by consultants of the Company.
- (d) On 30 December 2019, a total of 580,000 shares were issued upon the exercise of 380,000 unlisted options exercisable at \$0.225 each on or before 28 December 2019 and 200,000 unlisted options exercisable at \$0.25 each on or before 28 December 2019.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

9. RESERVES

	31 December 2019 \$	30 June 2019 \$
Performance rights reserve (a)	199,100	199,100
Option reserve (b)	679,378	385,507
FCTR reserve	7,847	(1,030)
Asset revaluation reserve	120	120
	<u>886,445</u>	<u>583,697</u>
 (a) <i>Movements in performance rights reserve:</i>		
Carrying amount at the beginning of the period	199,100	372,900
Cancellation of unvested performance rights	-	(173,800)
Carrying amount at the end of the period	<u>199,100</u>	<u>199,100</u>
 (b) <i>Movements in option reserve:</i>		
Carrying amount at the beginning of the period	385,507	284,826
Share based payments options	293,871	100,681
Carrying amount at the end of the period	<u>679,378</u>	<u>385,507</u>

10. SHARE-BASED PAYMENTS EXPENSE

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

	31 December 2019 \$	31 December 2018 \$
Shares issued to advisor (a)	15,000	15,000
Unlisted options issued to advisor (b)	50,782	-
Unlisted options issued to directors, employees and consultants (c)	243,089	15,712
Performance rights issued to directors/(reversal)	-	(173,800)
	<u>308,871</u>	<u>(143,088)</u>

(a) Shares

On 11 October 2019, a total of 81,522 shares were issued to Canary Capital pursuant to Investor Marketing Mandate. Refer note 8(b) for further details.

(b) Unlisted options to advisor

During the period, the Company issued to Canary Capital 750,000 unlisted options at an exercise price of \$0.35 expiring 11 October 2022 pursuant to the Investor Marketing Mandate in respect of marketing services provided and to be provided.

The fair value of these options were determined using a Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model for the options:

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	<u>Canary Options</u>
Dividend yield (%)	Nil
Expected volatility (%)	91.05%
Risk free interest rate (%)	0.78%
Exercise price (\$)	\$0.35
Marketability discount (%)	Nil
Expected life of options (years)	3.0
Share price at grant date (\$)	\$0.165
Value per option (\$)	\$0.0677

(c) Unlisted options to directors, employees and consultants

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

- 1,751,200 unlisted options issued on 20 December 2019 to directors and consultants, as approved by shareholders at the Company's Annual General Meeting (**AGM**), including:
 - 1,067,920 unlisted options exercisable at \$0 each on or before 25 November 2021 (subject to vesting conditions) (**ZEP Options**); and
 - 683,280 unlisted options exercisable at \$0.291 each on or before 25 November 2023 (subject to vesting conditions) (**PEP Options**); and
- 2,150,580 unlisted options issued on 20 December 2019 to employees under its shareholder approved Employee Incentive Option Plan (**EIOP**), including:
 - 748,980 ZEP Options; and
 - 1,401,600 PEP Options.

Fair Value of ZEP Options

The fair value of ZEP Options was calculated using a probability-based valuation methodology with reference to the share price at grant date to issue the ZEP Options.

Class	Recipient	Number Issued	Value per ZEP Option	Expected % to vest	Condition	Vested / Not Vested	Total Value \$
Class A	Executive Director / CEO	367,920	\$0.215	25%	Non-Market	Not Vested	\$1,302
Class B	Non-Executive Directors	600,000	\$0.215	100%	Non-Market	Vested	\$129,000
Class C	Consultants	100,000	\$0.215	100%	Non-Market	Vested	\$21,500
Class D	Employees (EIOP participants)	748,980	\$0.215	34%	Non-Market	Not Vested	\$3,607
		<u>1,816,900</u>					<u>\$155,409</u>

Fair Value of PEP Options

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	<u>PEP Options</u>
Dividend yield (%)	Nil
Expected volatility (%)	91.73%
Risk free interest rate (%)	0.82%
Exercise price (\$)	\$0.291
Marketability discount (%)	Nil
Expected life of options (years)	4.0
Share price at grant date (\$)	\$0.215
Value per option (\$)	\$0.1272

Exercise of options

On 11 December 2019, a total of 323,419 shares were issued upon the exercise of 267,657 unlisted options exercisable at \$0 each expiring 26 November 2020 by Non-Executive Directors of the Company and 55,762 unlisted options exercisable at \$0 each expiring 26 November 2020 by consultants of the Company.

On 30 December 2019, a total of 580,000 shares were issued upon the exercise of 380,000 unlisted options exercisable at \$0.225 each on or before 28 December 2019 and 200,000 unlisted options exercisable at \$0.25 each on or before 28 December 2019.

11. MILESTONE INCENTIVE PAYMENTS

	31 December 2019	31 December 2018
	\$	\$
Milestone incentive payments (a)	600,000	-
	<u>600,000</u>	<u>-</u>

- (a) On 31 May 2019 pursuant to an asset sale agreement K2fly RCubed Pty Ltd, a wholly owned subsidiary of the Company, acquired 100% of the assets of Prodmark Pty Ltd (a South African Company) and associated entities relating to the RCubed Mineral Resources and Reserve Reporting software solution (**K2F RCubed**) (**Agreement**).

In accordance with the terms of the Agreement, and subject to the retainment and performance of key operational employees (Key Executives) remaining employed by the Company, the following incentive payments are payable:

- Milestone Payment A (being \$600,000) - K2F RCubed has generated not less than AUD\$500k of new net recurring annual licence revenue from the RCubed business product from existing and new customers (New Net Revenue) over the 12 month period commencing from the date of completion (31 May 2019);
- Milestone Payment B (being \$400,000) - K2F RCubed has generated not less than AUD\$500k of New Net Revenue in the 12 month period from the end of the Milestone A payment period; and
- Milestone Payment C (being \$200,000) - K2F RCubed has achieved up to AUD\$500k of New Net Revenue in the 12 month period from the end of the Milestone B payment period.

The incentive milestone payments are payable in two instalments. The first 50% is payable upon fulfillment of the performance milestone set out above, and the second 50% payable 6 months after the date of fulfillment of the relevant performance milestones.

At 31 December 2019, the milestones in association with Milestone Payment A have been achieved, other than the retainment of Key Executive Chris Jones who tragically and unexpectedly passed away and the Company has determined to waive this condition, and as such the Company recognised the full amount payable in the Statement of Comprehensive Income and within provisions on the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

12. RELATED PARTY DISCLOSURES

Key Management Personnel (KMP)

There has been no change in key management personnel (**KMP**) nor arrangements regarding remuneration for services provided since the last annual reporting period.

Unlisted Options issued to directors or director related entities

Following receipt of shareholder approval at the AGM, the following unissued options were issued to directors or director related entities:

- 367,920 ZEP Options and 683,280 PEP Options were issued to Dr Roslyn Jane Carbon, spouse of Mr Brian Miller;
- 200,000 ZEP Options were issued to M Cavanagh and T Cavanagh <ECMC Family Trust>, a family trust associated with Ms Jenny Cutri;
- 200,000 ZEP Options were issued to Mr James Deacon; and
- 200,000 ZEP Options were issued to Mr Neil William Canby <Neil Canby Family A/C>.

13. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

14. FINANCIAL INSTRUMENTS

Set out below is an overview of financial instrument, other than cash and short-term deposits, held by the Group as at 31 December 2019:

	At amortised cost \$	Fair value through profit or loss \$	Fair value through other comprehensive income \$
Financial Assets			
Trade and other receivables	1,177,710	-	-
Other Financial assets	-	-	844
Total Assets	1,177,710	-	844
Financial Liabilities			
Trade and other payables	771,393	-	-
Interest bearing liabilities	143,509	-	-
	914,902	-	-

Set out below is a comparison on the carrying amount and fair values of financial instruments as at 31 December 2019:

	Carrying Value \$	Fair Value \$
Financial Assets		
Trade and other receivables	1,177,710	1,177,710
Other Financial assets	844	844
Total Assets	1,178,554	1,178,554
Financial Liabilities		
Trade and other payables	771,393	771,393
Interest bearing liabilities	143,509	143,509
Total Liabilities	914,902	914,902

15. SIGNIFICANT EVENTS AFTER BALANCE DATE

On 9 January 2020 K2fly confirmed it had concluded an agreement with The National Trust of Australia to novate the license of The Keeping Place (an Infoscope solution) to the new entity called The Place of Keeping Ltd.

On 24 January 2020 K2fly announced that Gold Fields Australia (a subsidiary of Gold Fields Limited) signed a new 5-year contract for RCubed software solution, for its global operations and major projects, and which will commence immediately.

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

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 2019 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 *Corporations Act 2001*.

On behalf of the Directors



Brian Miller
Executive Director / CEO
Perth, 24 February 2020



Jenny Cutri
Non-Executive Chair
Perth, 24 February 2020

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 2019, 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 2019 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 2019 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.

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.

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Independence

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



HLB Mann Judd
Chartered Accountants

Perth, Western Australia
24 February 2020



D I Buckley
Partner