

Appendix 4D

K2FLY LIMITED

ABN 69 125 345 502

Half-Year Report – 31 December 2020

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 31/12/20 \$A	Half - Year Ended 31/12/19 \$A	Amount change \$A	Percentage change %
Revenue from ordinary activities	3,412,994	2,652,648	760,346	29%
(Loss) from ordinary activities after tax attributable to members	(1,067,666)	(1,919,985)	852,319	(44%)
Net (loss) for the half year attributable to members	(1,067,666)	(1,919,985)	852,319	(44%)

Comment

K2fly invoiced a total of \$3,201k during the HY ended 31 December 2020 representing a 3% increase from the prior corresponding period to 31 December 2019 (**HY20**) (HY20 \$3,114k). K2fly's revenue reported for HY21 of \$3,413k represents at 29% increase from prior period (HY20: \$2,653k). 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 2020, an amount of \$1,133k (30 June 2020: \$1,344k) 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 HY21 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 \$369,147 (31 December 2019: \$308,871); and
- costs associated with the acquisition of Sateva totalling \$85,520.

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 2020.

Net tangible asset per ordinary security	31 December 2020	31 December 2019
Net tangible assets	(2,637,152)	(92,378)
Number of shares on issue at reporting date	100,787,377	82,589,082
Net tangible asset per ordinary security	(2.62 cents)	0.11 cents

Control Gained or Lost over Entities

On 5 November 2020, the Company completed the acquisition of 100% of the issued share capital and voting rights of Sateva Pty Ltd and Sateva Development Pty Ltd (**Sateva**).

Associates and joint ventures

Not Applicable

Audit / Review Status

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.

	Current period	Previous corresponding period
Basic (loss) per share in cents	(1.12) cents	(2.44) cents

Independent Auditor's Review Report

The Independent Auditor's Review Report can be found on page 8 of the attached financial report for the Half Year ended 31 December 2020.



Brian Miller
CEO / Executive Director
26 February 2021



Jenny Cutri
Non-Executive Chairman
26 February 2021

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 2020

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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

Level 1, Grand Central
26 Railway Road
Subiaco WA 6008
Telephone: (08) 6333 1833
Website: 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's Shares (K2F) 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 2020 (**HY21**).

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 \$1,067,666 (31 December 2019: net loss of \$1,919,985).

K2fly invoiced a total of \$3,201k during the HY ended 31 December 2020 representing a 3% increase from the prior corresponding period to 31 December 2019 (**HY20**) (HY20 \$3,114k). K2fly's revenue reported for HY21 of \$3,413k represents a 29% increase from the prior period (HY20: \$2,653k). 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 2020, an amount of \$1,133k (30 June 2020: \$1,344k) 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 HY21 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 \$369,146 (31 December 2019: \$308,871) (refer to note 13); and
- costs associated with the acquisition of Sateva totalling \$85,520 (refer note 14).

Financial Position

At 31 December 2020, the Group had cash reserves of \$2,560,665 (30 June 2020: \$2,919,788).

ACTIVITIES REPORT

Highlights

- Revenue continues to grow and outlook for the financial year 2021 (FY21) remains positive
- Total revenue for HY21 is \$3,413k, a growth of 29% on the HY20 revenue of \$2,652k
- K2fly's operations are classified into 2 operational areas: owned software (e.g. SaaS) and consulting services
- K2fly announced an acquisition in October 2020 which saw it acquire SATEVA. Consequently, K2F engaged 9 new staff members including Mark Forster, SATEVA CEO.
- SATEVA's major clients are Rio Tinto Iron Ore (**Rio Tinto**), Fortescue Metals Group Limited (**FMG**), Roy Hill Holdings and RAC.
- In July 2020, K2fly signed a memorandum of understanding with Decipher, a technology unit wholly owned by a Wesfarmers' subsidiary
- In July 2020, Orano S.A from France signed a contract for the RCubed software solution
- In November 2020 K2fly won SAP Endorsed Apps certification
- K2fly's SaaS subscriptions business:
 - Annual Recurring Revenue has grown to over \$2.4M or 175% Compound Annual Growth Rate to the

end of 31 December 2020

- Total Contract Value has grown to >\$6.8M by 31 December 2020
- In HY21 K2fly has had continued wins in consultancy and advisory contracts, including with Tier 1 clients
- In October, the Company raised funds of \$648,000 from the exercise of options
- As at 31 December 2020, there was cash at hand of \$2.56M and \$0.92M in aged receivables largely from Tier 1 clients

OWNED SOFTWARE

During FY20 K2fly had extraordinary sales success with new global tier 1 and tier 2 miners. Growth has slowed somewhat in the first half of FY21 due to a COVID 19 lag particularly in the Americas. However we are already seeing a very strong rebound in Q3 FY21.

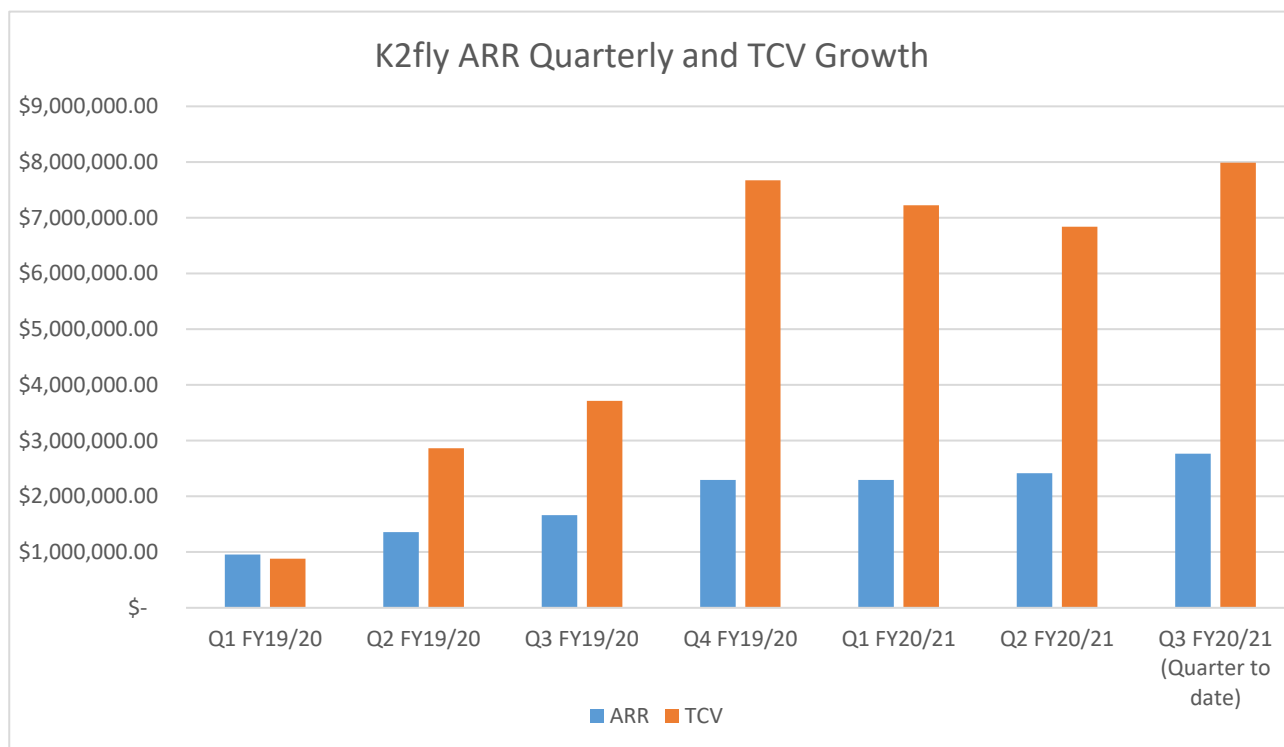


Fig: 1 Quarterly Annual Recurring Revenue (ARR) and Total Contract Value (TCV) Growth.

At the commencement of calendar year 2020 K2fly began a shift away from product marketing to solutions marketing which further leveraged our increasing portfolio of Intellectual Property to be able to offer our customers and prospects more solutions as part of our "land and expand" strategy. This strategy continued to gain pace in H1 FY21.

Our Software Solution Suite

Current technical assurance solution suite



K2fly Investor Presentation – February 2021

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k2fly

Fig: 1 K2fly Solution Suite – Resource Inventory Solution - RCubed

Much of the sales success in FY20 can be attributed to the introduction of the new solution known as RCubed but now referred to as Resource Inventory. The solution focuses on mineral resource and reserves reporting and works successfully across a number of industry reporting standards including: SK-1300, JORC, SAMREC, NI43101. The RCubed solution works for a number of international bourses including NYSE, LSE, ASX, JSE 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.

In the 12 months leading up to end of FY20, K2F won significant contracts for the RCubed software solution. Newcrest Mining, Glencore Canada, Nexa Resources, Rio Tinto, Gold Fields Australia (a subsidiary of Gold Fields Limited), Newmont Mining, Kinross Mining and Sibelco joined the growing numbers of clients using this solution for their Mineral Resource and Reserve Reporting.

In H1 FY21 K2fly also contracted with Orano (Paris) a French owned international uranium producer.

During H1 FY21, the Company was very focussed on delivering the initial projects for the nine new customers.

K2fly's Mining Solutions team was also busy in H1 FY21 working with clients in the delivery of a new Reconciliation module that will form part of the Resource Inventory Suite.

Infoscope Solution

The Infoscope platform underpins our Ground Disturbance, Rehabilitation, Community and Heritage and Land Access solutions, as well as having a role in underpinning our new Tailings solution.

We continue to work with cornerstone customers like FMG, Westgold and The Keeping Place, as well as new client Mineral Resources Ltd.

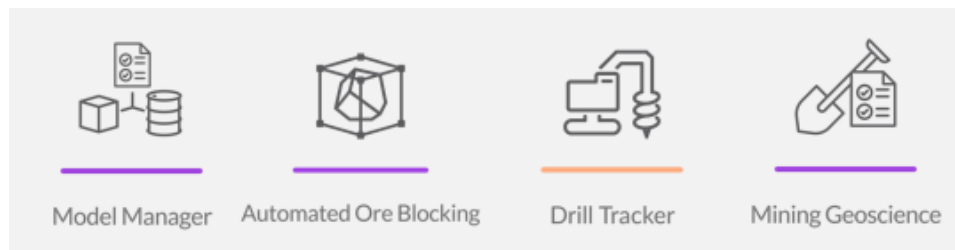
In January 2021 K2fly announced a new multi-year contract with Rio Tinto Iron Ore to rollout the Heritage Solution to their operations in the Pilbara.

DIRECTORS' REPORT

SATEVA Suite and Acquisition

In H1 FY21 K2fly acquired the assets of SATEVA which enhanced our solution suite in the geological operations and technical assurance space. The original intent was to acquire the rights to Model Manager. This solution was launched late in H1 in December. Model Manager integrates directly to our Resource Inventory solution but can also be sold as a standalone solution.

There are also other significant pieces of IP from SATEVA which K2fly is now marketing



The Automated Ore Blocker completed a successful trial at one of the world's biggest Iron Ore Mines in H1 and is due to contract in Q3 FY21.

The pipeline for Model Manager is growing rapidly, as are the opportunities for Drill Tracker in other Tier 1 bulk Iron Ore miners.

Dams Tailings Solution

During the course of calendar 20 K2fly continued to invest in our new Dams Tailings solution with our key partners SAP and Decipher. Multiple high level interviews and demonstrations have taken place in order to progress our collaboration with our customers and prospects on this important industry development.

Our close relationships with both Decipher and SAP have developed further such that:

- K2fly was awarded SAP Premium Certified Endorsed app status; and
- K2fly and Decipher have signed a Business Sale Agreement whereby K2fly will acquire (subject to shareholder approval) the business assets including the IP of Decipher for mining and its Tailings solution.

CONSULTANCY SERVICES

Our consulting staff are subject matter experts who bring leading edge advice to our clients. Our Mining Solutions Team work on complex industry challenges with our clients and stakeholders in order to collaborate for co development of industry solutions. Our Mining Solutions Team is growing to include additional experienced geosciences and engineering experts with senior level engagements with Tier 1 clients such as Teck Resources Limited, Glencore Canada, Anglo-American Plc, Anglo Gold Ashanti, Imerys SA, Rio Tinto, Hitachi-ABB, Public Transport Authority, Arc Infrastructure, Horizon Power, The Place of Keeping and WS Atkins (UK).

CORPORATE

Annual General Meeting

The Company's Annual General Meeting (**AGM**) was held on 27 November 2020, 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:

- 10 July 2020 – Issue of 741,105 shares upon the exercise of unlisted options
- 20 July 2020 – Issue of 42,351 shares upon the exercise of unlisted options
- 21 July 2020 – Issue of 64,967 shares upon the exercise of unlisted options
- 17 September 2020 – Issue of 122,510 shares upon the exercise of unlisted options
- 2 October 2020 – Issue of 7,500 shares upon the exercise of unlisted options
- 16 October 2020 – Issue of 489,330 shares upon the exercise of unlisted options
- 26 October 2020 – Issue of 43,860 shares pursuant to an investor marketing mandate between the Company and Canary Capital Pty Ltd
- 27 October 2020 – Issue of 278,000 shares upon the exercise of unlisted options
- 3 November 2020 – Issue of 5,633,803 shares pursuant to the acquisition of Sateva
- 5 November 2020 – Issue of 252,500 shares upon the exercise of unlisted options
- 18 November 2020 – Issue of 1,564,670 shares upon the exercise of unlisted options

Unlisted Options

During the period, the following movement occurred in respect to unlisted options:

- 7 July 2020 – Expiry of 350,000 unlisted options with an exercise price of \$0.25
- 17 September 2020 – Issue of 83,333 unlisted options with an exercise price of \$nil expiring 16 September 2022 and the lapsing of 707,263 unlisted options expiring 25 November 2021 which did not vest
- 26 October 2020 – Issue of 200,000 unlisted options pursuant to an investor marketing mandate between the Company and Canary Capital Pty Ltd
- 3 November 2020 – Issue of 140,845 unlisted options exercisable at \$0 each on or before 3 May 2022 to a key executive which will vest on various conditions including performance metrics
- 18 November 2020 – Expiry of 128,000 unlisted options with an exercise price of \$0.25
- 15 December 2020 – Issue of 1,115,879 unlisted options to Directors as approved by shareholders at the Company's AGM including:
 - 856,926 unlisted options exercisable at \$0 each on or before 27 November 2022 (subject to vesting conditions) (**ZEP Options**); and
 - 258,953 unlisted options exercisable at \$0.497 each on or before 27 November 2024 (subject to vesting conditions) (**PEP Options**).
- 15 December 2020 – Issue of 1,342,114 unlisted options to employees under its shareholder approved Employee Incentive Options Plan (**EIOP**), including:
 - 946,878 ZEP Options; and
 - 395,236 PEP Options.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 25 January 2021 K2fly announced that Alcoa USA Corp signed a new 5-year contract for RCubed software solution, for its global operations and major projects, and which will commence immediately.

On 1 February 2021 K2fly announced it had executed a Business Sale Agreement (**BSA**) to acquire assets held by CSBP Limited (**CSBP**) and Wesfarmers Chemicals, Energy & Fertilisers Limited (**WesCEF**) used in the operation of the 'Decipher for Mining' business (**Decipher**). Decipher has been developed and operated by CSBP and WesCEF, subsidiaries of Wesfarmers Limited (**Wesfarmers**). Decipher offers cloud-based software-as-a-service monitoring and compliance solutions in tailings management and rehabilitation for mining industry customers.

On 4 February 2021 K2fly announced that Rio Tinto signed a 3-year contract for the Infoscope platform to replace its Heritage Management system for the Rio Tinto iron ore division.

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 Group, the results of those operations, or the state of affairs of the Group in future financial periods.

DIRECTORS' REPORT

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 8 and forms part of this Directors' report for the half-year ended 31 December 2020.

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, 26 February 2021



Jenny Cutri
Non-Executive Chair
Perth, 26 February 2021

AUDITOR'S INDEPENDENCE DECLARATION

**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 2020, 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
26 February 2021

A handwritten signature in blue ink, appearing to read 'D I Buckley', with a stylized flourish at the end.

D I Buckley
Partner

hlb.com.au

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

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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 2020

	Notes	Consolidated 31 December 2020	Consolidated 31 December 2019
		\$	\$
Revenue	3	3,412,994	2,652,648
Cost of sales		(1,602,675)	(1,629,804)
Gross profit		1,810,319	1,022,844
Other income	4	116,451	905
Administration expense		(217,931)	(114,345)
Compliance & regulatory expense		(65,872)	(68,566)
Consultancy expense		(228,861)	(169,303)
Amortisation expense		(74,786)	(43,120)
Depreciation plant and equipment		(18,129)	(11,859)
Depreciation right of use assets		(33,733)	(37,265)
Directors' fees		(60,000)	(60,000)
Employee benefits expense	5	(1,496,717)	(1,082,967)
Occupancy expense		(41,888)	(19,407)
Public relation & marketing expense		(190,424)	(230,074)
Research costs		(58,655)	(48,655)
Share-based payments revenue/(expense)	13	(369,146)	(308,871)
Travel expense		(6,275)	(99,234)
Finance expense		(7,715)	(6,183)
Acquisition costs	14	(85,520)	-
Milestone incentive payments		-	(600,000)
Foreign exchange		(38,784)	(43,885)
Loss before income tax expense		(1,067,666)	(1,919,985)
Income tax expense		-	-
Loss for the period		(1,067,666)	(1,919,985)
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		(5,921)	8,877
Other comprehensive income/(loss) for the period, net of tax		(5,921)	8,877
Total comprehensive loss for the period		(1,073,587)	(1,911,108)
Basic and diluted loss per share (cents)		(1.12)	(2.44)

The accompanying notes form part of the financial statements

CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	Consolidated 31 December 2020	Consolidated 30 June 2020
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents		2,560,665	2,919,788
Trade and other receivables		1,010,251	1,152,714
Total Current Assets		3,570,916	4,072,502
Non-Current Assets			
Restricted cash		20,000	20,000
Plant and equipment		56,213	39,196
Right of use assets		62,859	94,006
Intangible assets	6	1,212,987	337,773
Goodwill	7	5,145,993	731,543
Other financial assets		844	844
Total Non-Current Assets		6,498,896	1,223,362
Total Assets		10,069,812	5,295,864
LIABILITIES			
Current Liabilities			
Trade and other payables	8	1,086,182	956,718
Provisions	9	844,666	931,910
Interest bearing lease liabilities		53,492	66,971
Contract liability	10	1,132,941	1,344,058
Total Current Liabilities		3,117,281	3,299,657
Non-Current Liabilities			
Provisions	9	3,214,478	442,437
Interest bearing lease liabilities		16,224	33,230
Deferred tax liability		261,250	-
Total Non-Current Liabilities		3,491,952	475,667
Total Liabilities		6,609,233	3,775,324
Net Assets		3,460,578	1,520,540
EQUITY			
Issued capital	11	20,849,353	18,189,874
Reserves	12	1,569,321	1,221,096
Accumulated losses		(18,958,096)	(17,890,430)
Total Equity		3,460,578	1,520,540

The accompanying notes form part of the financial statements

CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

Consolidated	Issued capital	Performance rights reserve	Option reserve	FCTR reserve	Asset revaluation reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$	\$	\$
Balance as at 1 July 2020	18,189,874	199,100	999,753	22,123	120	(17,890,430)	1,520,540
Loss for the period	-	-	-	-	-	(1,067,666)	(1,067,666)
Exchange differences on translation of foreign subsidiaries	-	-	-	(5,921)	-	-	(5,921)
Total comprehensive loss for the period	-	-	-	(5,921)	-	(1,067,666)	(1,073,587)
Issue of shares – Sateva acquisition (note 14)	2,000,000	-	-	-	-	-	2,000,000
Issue of shares – Exercise of options	648,000	-	-	-	-	-	648,000
Share issue costs	(3,521)	-	-	-	-	-	(3,521)
Share-based payments – shares	15,000	-	-	-	-	-	15,000
Share-based payments – options	-	-	354,146	-	-	-	354,146
Balance as at 31 December 2020	20,849,353	199,100	1,353,899	16,202	120	(18,958,096)	3,460,578
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

The accompanying notes form part of the financial statements

CONDENSED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

	Note	Consolidated 31 December 2020	Consolidated 31 December 2019
		\$	\$
Cash flows from operating activities			
Receipts from customers		3,664,828	2,783,818
Payments to suppliers and employees		(4,243,299)	(3,639,216)
Government grants received		115,527	-
Interest received		1,070	174
Interest paid		-	-
Income tax refund		38,694	-
Net cash (used in) operating activities		(423,180)	(855,224)
Cash flows from investing activities			
Payments for plant and equipment		(21,412)	(17,069)
Investment in subsidiaries (K2fly RCubed)		(550,000)	-
Investment in subsidiaries (Sateva)	14	(2,511,836)	-
Investment in subsidiaries acquisition costs		(85,520)	-
Cash acquired on acquisition of accounting subsidiary	14	2,685,996	-
Payment of subsidiaries acquisition costs		-	(55,439)
Net cash (used in) investing activities		(482,772)	(72,508)
Cash flows from financing activities			
Proceeds from the issue of shares	11	-	1,000,000
Payments for share issue costs	11	(3,521)	(60,000)
Proceeds from exercise of options	11	648,000	135,500
Repayment of lease liabilities		(35,298)	(38,765)
Net cash provided by financing activities		609,181	1,036,735
Net increase/(decrease) in cash held		(296,771)	109,003
Cash at beginning of the period		2,919,788	1,059,247
Effects of exchange rate fluctuations on cash held		(62,352)	(23,531)
Cash and cash equivalents at the end of the period		2,560,665	1,144,719

The accompanying notes form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

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 2020 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 2020 of \$1,067,666 (31 December 2019: \$1,919,985 loss), had cash and cash equivalents of \$2,560,665 at 31 December 2020 (30 June 2020: \$2,919,788), had a net working capital surplus of \$453,635 (30 June 2020: \$772,845 surplus) and a net cash outflow from operating activities amounting to \$423,180 (31 December 2019: \$855,224), 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 2020

- 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 a number of unlisted options on issue. 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 2020

In the half-year ended 31 December 2020, 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 2020.

As a result of this review, the Directors have applied all new and amended Standards and Interpretations that were effective as at 1 July 2020 including:

Conceptual Framework for Financial Reporting and relevant amending standards (Conceptual Framework)

The Group has adopted the Conceptual Framework with the date of initial application being 1 July 2020.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:

- Chapter 1 – The objective of financial reporting
- Chapter 2 – Qualitative characteristics of useful financial information
- Chapter 3 – Financial statements and the reporting entity
- Chapter 4 – The elements of financial statements
- Chapter 5 – Recognition and derecognition
- Chapter 6 – Measurement
- Chapter 7 – Presentation and disclosure
- Chapter 8 – Concepts of capital and capital maintenance

Amendments to References to the Conceptual Framework in IFRS Standards has also been issued, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying IFRS 3 and developing accounting policies for regulatory account balances using IAS 8, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the 2010 Conceptual Framework, and not the definitions in the revised Conceptual Framework.

At 1 July 2020 it was determined that the adoption of the Conceptual Framework had no impact on the Group.

AASB 2018-7 Definition of Material (Amendments to AASB 101 and AASB 108)

The Group has adopted AASB 2018-7 with the date of initial application being 1 July 2020.

This Standard amends AASB 101 Presentation of Financial Statements and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

At 1 January 2020 it was determined that the adoption of AASB 2018-7 had no impact on the Group.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

(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.

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 2020.

In the half-year ended 31 December 2020, management's significant judgements were:

- Assessing whether indicators of impairment existed in relation to intangible assets; and
- Recognising deferred tax liabilities for all taxable temporary differences between the carrying amount and tax bases; and
- The fair value of unlisted options (other than ZEP Options) in reference to the prevailing share price on date of grant or by using a Black-Scholes model (Note 13(b)); and
- The fair value of ZEP Options using a probability-based valuation methodology with reference to the share price at grant date to issue the ZEP Options (Note 13(c)).

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 2020	31 December 2019
	\$	\$
At a point in time		
Consulting and implementation services revenue	626,839	281,751
Sales of third-party software (provided via a perpetual license)	3,400	29,000
	630,239	310,751
Over time		
Consulting and implementation services revenue (provided on a time and material basis)	1,617,142	1,927,828
Hosting services revenue	36,335	59,424
Sales of own software (provided as a service)	1,129,278	354,645
	2,782,755	2,341,897
	3,412,994	2,652,648

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

4. OTHER INCOME

	31 December 2020 \$	31 December 2019 \$
Interest income	1,070	174
Grant	115,527	-
Other	(146)	731
	<u>116,451</u>	<u>905</u>

5. EMPLOYEE BENEFITS EXPENSE

	31 December 2020 \$	31 December 2019 \$
Wages & salaries	1,229,887	869,800
Superannuation	94,067	72,957
Redundancies	-	31,980
Payroll tax	71,697	65,027
Fringe benefits tax	9,706	(4,014)
Training	6,324	21
Provision for employee entitlements	71,735	22,676
Recruitment and relocation costs	69,050	24,520
Other	2,906	-
	<u>1,555,372</u>	<u>1,082,967</u>

6. INTANGIBLE ASSETS

	31 December 2020 \$	30 June 2020 \$
Software at cost	1,381,200	431,200
Software - accumulated amortisation	(168,213)	(93,427)
Total Intangible Assets	<u>1,212,987</u>	<u>337,773</u>

	6 months to 31 December 2020 \$	Year to 30 June 2020 \$
Movements:		
Carrying amount at the beginning of the year	337,773	424,013
Provisionally accounted intangibles (a)	950,000	-
Amortisation	(74,786)	(86,240)
Carrying amount at the end of the year	<u>1,212,987</u>	<u>337,773</u>

- (a) On 5 November 2020, the Company completed the acquisition of 100% of the issued share capital and voting rights of Sateva Pty Ltd and Sateva Development Pty Ltd (**Sateva**). Cash consideration of \$2,511,836 was paid for the acquisition of which \$950,000 was ascribed to the intellectual property rights associated with the Sateva software based on an independent valuation at 27 October 2020 (refer note 14). There have been no indicators of impairment since this date.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

7. GOODWILL

	31 December 2020 \$	30 June 2020 \$
Goodwill	5,145,993	731,543
	31 December 2020 \$	30 June 2020 \$
Movements:		
Carrying amount at the beginning of the year	731,543	731,543
Provisionally accounted goodwill (a)	4,414,450	-
Impairment (b)	-	-
Carrying amount at the end of the year	5,145,993	731,543

(a) Goodwill arose in relation to the Sateva acquisition (refer note 14). As the business combination was only recently completed during the period, management are of the view that there is no indication of impairment at the reporting date.

(b) Goodwill acquired in relation to Infoscope Acquisition (refer note 34 of the FY19 annual report for details).

8. TRADE AND OTHER PAYABLES

	31 December 2020 \$	30 June 2020 \$
Current		
Accounts payable	431,170	443,158
Accrued expenses	33,000	166,244
Other payables	156,203	124,958
Employee liabilities	465,810	222,358
	1,086,183	956,718

9. PROVISIONS

	31 December 2020 \$	30 June 2020 \$
Current		
Employee leave provisions	331,766	231,910
RCubed Milestone Incentives	350,000	700,000
Provisionally accounted Sateva Deferred Consideration (a)	162,900	-
	844,666	931,910
Non Current		
Employee leave provisions	74,178	42,437
RCubed Milestone Incentives	200,000	400,000
Provisionally accounted Sateva Deferred Consideration (a)	2,940,300	-
	3,214,478	442,437
Total Current and Non-Current	4,059,144	1,374,347

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

- (a) In accordance with the terms of the Sateva acquisition (refer to note 14), the Company will pay additional performance-based consideration (**Deferred Consideration**) to Sateva. Deferred Consideration will be payable until 30 June 2024 and equates to an amount equal to 18% of the invoiced amounts relating to product and product consulting sales, during that time, from the SATEVA Software Products, ongoing or additional development of those products and any other documented or concept products that are being developed by SATEVA. At 31 December 2020, the Company is yet to fair value the Deferred Consideration. As such, the acquisition has been provisionally accounted for in accordance with AASB 3. Any potential adjustments to provisional amounts, and the identification of newly identifiable assets and liabilities, will be made within the measurement period.

10. CONTRACT LIABILITIES

	31 December 2020	30 June 2020
	\$	\$
Deferred revenue (a)	1,132,941	1,344,058
<i>Movements:</i>	6 months to 31 December 2020	Year to 30 June 2020
	\$	\$
Opening balance	1,344,058	436,876
Deferred during the year	754,372	1,344,058
Released to the statement of profit or loss	(965,489)	(436,876)
Closing balance	1,132,941	1,344,058

- (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 3) to which these contracts liabilities will be 18% recognized in the next financial year is as follows:

	6 month to 31 December 2020	Year to 30 June 2020
	\$	\$
Hosting services revenue	127,086	25,358
Sales of own software (software as a service)	1,005,855	1,318,700
	1,132,941	1,344,058

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

11. ISSUED CAPITAL

	31 December 2020 \$		30 June 2020 \$	
Issued and paid up capital	23,701,690		21,038,690	
Share issue costs	(2,852,337)		(2,848,816)	
	20,849,353		18,189,874	

Reconciliation	6 months to 31 December 2020		Year to 30 June 2020	
	Number	\$	Number	\$
Opening balance	91,546,781	18,189,874	75,354,141	15,661,041
Shares issued – Placement	-	-	6,250,000	1,000,000
Shares issued to advisors	-	-	81,522	15,000
Shares issued to advisors	-	-	68,182	15,000
Shares issued to advisors	-	-	323,419	-
Shares issued – Exercise of options	-	-	155,921	-
Shares issued – Exercise of options	-	-	580,000	135,500
Shares issued – Vesting of performance rights	-	-	137,500	-
Shares issued – Exercise of listed options	-	-	8,596,096	1,719,217
Shares issued to advisors (a)	43,860	15,000	-	-
Shares issued – Exercise of options (b)	700,000	-	-	-
Shares issued – Exercise of options (c)	270,933	-	-	-
Shares issued – Exercise of options (d)	2,592,000	648,000	-	-
Shares issued – Sateva acquisition (e)	5,633,803	2,000,000	-	-
Share issue costs	-	(3,521)	-	(355,884)
Closing balance	100,787,377	20,849,353	91,546,781	18,189,874

- (a) On 26 October 2020, 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 43,860 shares were issued to Canary Capital pursuant to Investor Marketing Mandate as equity-settled fees for the six-month period from September 2020 to February 2021, valued at \$15,000 which has been recognised as a share-based payment expense during the period (refer note 13(a)).
- (b) During the half year ended 31 December 2020, a total of 600,000 shares were issued upon the exercise of 600,000 unlisted options exercisable at \$0 each expiring 25 November 2021 by Non-Executive Directors of the Company and a total of 100,000 shares were issued upon the exercise of 100,000 unlisted options exercisable at \$0 each expiring 25 November 2021 by consultants of the Company.
- (c) During the half year ended 31 December 2020, a total of 270,933 shares were issued upon the exercise of 270,933 unlisted options exercisable at \$0 each expiring 26 November 2020 to employees under its shareholder approved Employee Incentive Option Plan (**EIOP**).
- (d) During the half year ended 31 December 2020, a total of 1,792,000 shares were issued upon the exercise of 1,792,000 unlisted options exercisable at \$0.25 each on or before 17 November 2020 and 800,000 shares were issued upon the exercise of 800,000 unlisted options exercisable at \$0.25 each on or before 1 December 2020.
- (e) On 5 November 2020, the Company completed the acquisition of 100% of the issued share capital and voting rights of Sateva Pty Ltd and Sateva Development Pty Ltd (**Sateva**). On 3 November 2020, a total of 5,633,803 shares were issued in respect to the Sateva acquisition (refer note 14).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

12. RESERVES

	31 December 2020	30 June 2020
	\$	\$
Performance rights reserve	199,100	199,100
Option reserve (a)	1,353,899	999,753
FCTR reserve	16,202	22,123
Asset revaluation reserve	120	120
	1,569,321	1,221,096

(a) *Movements in option reserve:*

	6 month to 31 December 2020	Year to 30 June 2020
Carrying amount at the beginning of the period	999,753	385,507
Share based payments expense – options (recorded through profit or loss)	354,146	410,162
Share based payments expense – options (recorded through equity in share issue costs)	-	204,084
Carrying amount at the end of the period	1,353,899	999,753

13. SHARE-BASED PAYMENTS EXPENSE

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

	31 December 2020	31 December 2019
	\$	\$
Shares issued to advisor (a)	15,000	15,000
Unlisted options issued to advisors (b)	46,496	50,782
Unlisted options issued to directors and employees (c)	307,650	243,089
	369,146	308,871

(a) Shares

On 26 October 2020, a total of 43,860 shares were issued to Canary Capital pursuant to Investor Marketing Mandate. Refer note 11(a) for further details.

(b) Unlisted options to advisors

(i) *Canary Options*

During the period, the Company issued to Canary Capital 200,000 unlisted options at an exercise price of \$0.70 expiring 26 October 2022 pursuant to the Investor Marketing Mandate in respect of marketing services provided and to be provided (**Canary Options**).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

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:

	Canary Options
Dividend yield (%)	Nil
Expected volatility (%)	77.39%
Risk free interest rate (%)	0.21%
Exercise price (\$)	\$0.70
Marketability discount (%)	Nil
Expected life of options (years)	2.0
Share price at grant date (\$)	\$0.355
Value per option (\$)	\$0.0825

(ii) *Bellatrix Options*

During the period, the Company issued to Bellatrix Corporate Pty Ltd (**Bellatrix**) 83,333 unlisted options exercisable at \$0 expiring 16 September 2022 (no vesting conditions) in respect of advisory services provided (**ZEP Options A**). The valuation methodology of ZEP Options A is included at note 13(c).

(c) Unlisted options to directors and employees

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

- 1,115,879 unlisted options issued on 15 December 2020 to directors, as approved by shareholders at the Company's Annual General Meeting (**AGM**), including:
 - 450,000 unlisted options exercisable at \$0 each on or before 27 November 2022 (no vesting conditions) (**ZEP Options B**);
 - 406,926 unlisted options exercisable at \$0 each on or before 27 November 2022 (subject to vesting conditions) (**ZEP Options C**);
 - 258,953 unlisted options exercisable at \$0.497 each on or before 27 November 2024 (subject to vesting conditions) (**PEP Options**); and
- 1,342,114 unlisted options issued on 15 December 2020 to employees under its shareholder approved Employee Incentive Option Plan (**EIOP**), including:
 - 946,878 ZEP Options C;
 - 395,236 PEP Options; and
- 140,845 unlisted options exercisable at \$0 each on or before 3 May 2022 (subject to vesting conditions) were issued on 3 November 2020 to Mark Forster (who became an employee of K2F following the Company's acquisition of SATEVA) (**ZEP Options D**).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

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	Grant date	Value per ZEP Option	Expected % to vest	Condition	Vested / Not Vested	Total Value \$
A	Bellatrix	83,333	16-Sep-20	\$0.360	100%	Non-Market	Vested	\$30,000
B	Non-Executive Directors	450,000	27-Nov-20	\$0.335	100%	Non-Market	Vested	\$150,750
C	Director/CEO	406,926	27-Nov-20	\$0.335	79%	Non-Market	Not Vested	\$6,706
C	Employees (EIOP participants)	946,878	27-Nov-20	\$0.335	64%	Non-Market	Not Vested	\$12,716
D	Employee	140,845	27-Oct-20	\$0.355	100%	Non-Market	Not Vested	\$13,211
		<u>2,027,982</u>						<u>\$213,383</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:

	PEP Options
Dividend yield (%)	Nil
Expected volatility (%)	72.90%
Risk free interest rate (%)	0.20%
Exercise price (\$)	\$0.497
Marketability discount (%)	Nil
Expected life of options (years)	4.0
Share price at grant date (\$)	\$0.335
Value per option (\$)	\$0.1485

Exercise of options

During the period, a total of 3,562,933 shares were issued upon exercise of the following unlisted options:

- 270,933 unlisted options at an exercise price of \$0 each expiring 26 November 2020
- 1,792,000 unlisted options at an exercise price of \$0.25 each expiring 17 November 2020
- 800,000 unlisted options at an exercise price of \$0.25 each expiring 1 December 2020
- 700,000 unlisted options at an exercise price of \$0 each expiring 25 November 2021

14. BUSINESS COMBINATION

On 5 November 2020, the Company completed the acquisition of 100% of the issued share capital and voting rights of Sateva Pty Ltd and Sateva Development Pty Ltd (**Sateva**). Sateva provides innovative software solutions and IT consulting services, including software development and services for sectors in which the Company already operates including mining, resources, and rail industries. The Sateva software products suite will strengthen K2fly's technical assurance suite of software solutions that address global tier 1 and tier 2 mining companies with the objective of the acquisition including exposure to future potential cash flows from an established and profitable business.

Provisional Accounting

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. These provisional amounts are adjusted during the measurement period (refer to the Business

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

Combination accounting policy contained in the FY19 annual report for details), or additional assets or liabilities recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The provisional fair value of identifiable assets and liabilities acquired in the business combination are as follows:

	31 December 2020
	\$
Consideration	
Cash	2,511,836
Equity	2,000,000
Deferred consideration	3,103,200
	7,615,036
	\$
Assets Acquired	
Cash acquired	2,685,996
Trade and other receivables	253,604
Tangible fixed assets	14,402
Intellectual property rights – Sateva	950,000
	3,904,002
Less: Trade and other payables	(413,375)
Less: Provisions	(28,791)
Less: Deferred tax liability	(261,250)
	3,200,586
Excess consideration paid over net assets acquired ¹	4,414,450
Net cash outflow/(inflow) arising on acquisition	
Cash paid	2,511,836
Less net cash acquired	(2,685,996)
Net cash outflow	(174,160)

¹ At reporting date, the business combination has been accounted for using provisional amounts in accordance with AASB 3.

Identifiable net assets

The fair values of the identifiable intangible assets have been determined at 26 October 2020. The fair value of the trade and other receivables acquired as part of the business combination amounted to \$253,604 with fixed assets totalling \$14,402. The value of intangible assets amounted provisionally accounted of \$950,000 (refer note 6).

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 Sateva which cannot be recognised as an intangible asset (\$1,050,000) and deferred tax liability on intangible asset acquired (\$261,500). 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 2020

Deferred Consideration

In accordance with the terms of the acquisition, the Company will pay additional performance-based consideration (**Deferred Consideration**) to Sateva. Deferred Consideration will be payable until 30 June 2024 and equates to an amount equal to 18% of the invoiced amounts relating to product and product consulting sales, during that time, from the SATEVA Software Products, ongoing or additional development of those products and any other documented or concept products that are being developed by SATEVA. At 31 December 2020, the Company is yet to fair value the Deferred Consideration. As such, the acquisition has been provisionally accounted for in accordance with AASB 3. Any potential adjustments to provisional amounts, and the identification of newly identifiable assets and liabilities, will be made within the measurement period.

Sateva contribution to the Group's results

Acquisition related costs of \$85,520 are included in the condensed statement of comprehensive income for this reporting period.

The acquired entities contributed \$351,205 to the Group's revenues from the date that K2Fly assumed control being 26 October 2020 to 31 December 2020. The acquired entities contributed \$119,408 to the Group's net loss after tax for the same period.

15. 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:

- 406,926 ZEP Options and 258,953 PEP Options were issued to Dr Roslyn Jane Carbon, spouse of Mr Brian Miller;
- 150,000 ZEP Options were issued to M Cavanagh and T Cavanagh <ECMC Family Trust>, a family trust associated with Ms Jenny Cutri;
- 150,000 ZEP Options were issued to Ms Ann Kelly, spouse of Mr James Deacon; and
- 150,000 ZEP Options were issued to Mr Neil William Canby <Neil Canby Family A/C>.

16. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

17. 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 2020:

	At amortised cost \$	Fair value through profit or loss \$	Fair value through other comprehensive income \$
Financial Assets			
Trade and other receivables	1,010,251	-	-
Other Financial assets	-	-	844
Total Assets	1,010,251	-	844
Financial Liabilities			
Trade and other payables	1,086,183	-	-
Interest bearing liabilities	69,716	-	-
	1,155,899	-	-

Set out below is a comparison on the carrying amount and fair values of financial instruments as at 31 December 2020:

	Carrying Value \$	Fair Value \$
Financial Assets		
Trade and other receivables	1,010,251	1,010,251
Other Financial assets	844	844
Total Assets	1,011,095	1,011,095
Financial Liabilities		
Trade and other payables	1,086,183	1,086,183
Interest bearing liabilities	69,716	69,716
Total Liabilities	1,155,899	1,155,899

18. SIGNIFICANT EVENTS AFTER BALANCE DATE

On 25 January 2021 K2fly announced that Alcoa USA Corp signed a new 5-year contract for RCubed software solution, for its global operations and major projects, and which will commence immediately.

On 1 February 2021 K2fly announced it had executed a Business Sale Agreement (**BSA**) to acquire assets held by CSBP Limited (**CSBP**) and Wesfarmers Chemicals, Energy & Fertilisers Limited (**WesCEF**) used in the operation of the 'Decipher for Mining' business (**Decipher**). Decipher has been developed and operated by CSBP and WesCEF, subsidiaries of Wesfarmers Limited (**Wesfarmers**). Decipher offers cloud-based software-as-a-service monitoring and compliance solutions in tailings management and rehabilitation for mining industry customers.

On 4 February 2021 K2fly announced that Rio Tinto signed a 3-year contract for the Infoscope platform to replace its Heritage Management system for the Rio Tinto iron ore division.

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 Group, the results of those operations, or the state of affairs of the Group 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 2020 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, 26 February 2021



Jenny Cutri
Non-Executive Chair
Perth, 26 February 2021



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 2020, 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 information, 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 does not comply with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2020 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*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's responsibilities for the review of the financial report* section of our report. We are independent of the company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibility of the directors for the 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.

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INDEPENDENT AUDITOR'S REVIEW REPORT

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether 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 2020 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*.

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*.



HLB Mann Judd
Chartered Accountants

Perth, Western Australia
26 February 2021



D I Buckley
Partner