K2fly Limited

ABN 69 125 345 502

ANNUAL REPORT

For the Year Ended

30 June 2021

CONTENTS

CORPORATE DIRECTORY	1
CHAIRMAN REPORT	2
CEO REPORT	4
DIRECTORS' REPORT	6
REMUNERATION REPORT	16
AUDITOR'S INDEPENDENCE DECLARATION	21
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	22
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	23
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	24
CONSOLIDATED STATEMENT OF CASH FLOWS	26
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	27
DIRECTORS' DECLARATION	69
INDEPENDENT AUDITOR'S REPORT	70
ADDITIONAL SHAREHOLDER INFORMATION	75

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

JOINT COMPANY SECRETARY
Melissa Chapman
Catherine Grant-Edwards

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS
Level 4
502 Hay Street
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) 6370 4203

BANKERS
Bendigo Bank
431 Fitzgerald Street
North Perth WA 6006

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

SOLICITORS
Steinepreis Paganin
Level 4, The Read Building
16 Milligan Street
Perth WA 6000

AUSTRALIAN SECURITIES EXCHANGE
K2fly Limited Shares (**K2F**) are listed on the Australian Securities Exchange

Dear Fellow Shareholders

On behalf of K2fly Limited's Board of Directors I am pleased to present the Company's Annual Report for the 2021 financial year (**FY21**).

Our Purpose and Vision

Our vision as a Company is to be a trusted partner of choice to enterprise customers in asset intensive industries. We also want our people and our software to contribute to a more sustainable and transparent world. Therefore, K2F has become a provider of 'net positive impact' solutions in ESG compliance and technical assurance.

We are particularly proud that we have been selected by mining majors like Rio Tinto, Indigenous owned and operated business The Keeping Place and other stakeholders such as Griffith University and Traditional Owner groups to build cultural heritage systems that will protect the priceless cultural heritage of Australia's indigenous communities. We see this as critical for the protection of cultural heritage and communities as well as regaining the trust of the communities in mining operations and the reputation of mining overall. We take this responsibility very seriously.

Strategy

Our FY21 strategies included:

- To grow organically by increasing our annual recurring revenue (particularly Software as a Service (SaaS)) and diversifying our revenue.
- Continuing our "land & expand" strategy with our client base by demonstrating the increased benefits of adding our solutions together in the client's ecosystem.
- Operating in a financially sustainable manner.
- To grow as a thought leader in our specialist areas.
- Continue to improve and broaden our current software solutions in line with customer demand.
- Continue to grow inorganically, through complementary acquisitions.

Financial Metrics

While FY21 was a positive year for the Company, in which our revenues grew 24% year on year, K2fly's first half year (H1 FY21) performance was clearly impacted by effects from Covid-19. This resulted in flat revenues in the first half and significantly impacted demand for our asset management consulting business. Whilst the consulting business is no longer core to our business, it did reduce our overall revenue and affected our EBITDA performance in FY21. However, in the second half (H2) of FY21 the Company grew strongly with new sales, including to new customers and record invoicing in Q3 and Q4.

Consistent with our FY21 strategy we increased the percentage of revenue from SaaS / licence revenues, our annual recurring revenue and total contract values. Revenue continued to grow to a record level and increased to $6.9M, an increase of 24% year on year from FY20. As at 30 June 2021 the Company had a cash balance of $6.90M and no debt (other than deferred consideration).

Acquisitions

During the year, K2F completed two acquisitions, Sateva and Decipher for Mining.

With the Sateva acquisition we acquired not only valuable intellectual property (within the resource technical assurance space) that fitted with our product solutions and overall Company strategy, but also a very valuable software consulting business which was particularly well positioned in the iron ore market at a time of record iron ore prices.

Decipher for Mining offers cloud-based software-as-a-service monitoring and compliance solutions in tailings management and rehabilitation for mining industry customers. These software solutions increased K2F's SaaS and licence revenues, as well as our consulting revenues, and added valuable customers to our stable of high calibre clients.

The acquisitions also saw our K2fly team grow with:

- Mark Forster, founder and managing director of Sateva, joining K2F's Executive team; and
- The Sateva team and core members of the Decipher team expanding our talented K2F team.

Investment in Solutions

In FY21 while seeing demand from our existing or prospective clients, K2F strategically decided to invest heavily in either enhancing our product suite or in enhancing existing products, namely a new version of our RCubed Mineral Inventory Reporting solution as well as the Mining Technical Assurance products. These internal investments are working towards creating both new products and additional capability for our rapidly growing pipeline and will form part of K2F's "land and expand" strategy. We are confident that these investments will result in sales in FY22 and beyond.

Partnerships / Strategic Relationships

In terms of partnerships and strategic relationships, we continued to strengthen our current partnerships/relationships (SAP, Esri) as well as form new ones:

- K2fly formed partnerships /strategic relationships with Griffith University and also Descartes Lab (a geospatial intelligence company based in USA).
- K2fly's solutions were certified on SAP Endorsed Apps, at the time being one of only 12 companies globally to be invited and achieve this certification.

Capital Raising

In April 2021 the Company successfully completed a $7.25M placement (before costs). Pleasingly, the Placement was very well supported by new high quality institutional investors and sophisticated investors, whom we very much welcome to our share register.

Board, Leadership and K2F Team

The current Board members have diverse and complementary skills and have made significant contributions to set K2F's strategy direction, and to the sustainability, long term growth and governance of our Company. The Non-Executive Directors are also members of the Remuneration Committee and contribute an enormous amount of time to ensure the Company's effectiveness and governance.

More recently we advised that Brian Miller wished to reduce his working hours and therefore from 1 September he stepped down from the role of CEO. Brian had been CEO since K2fly relisted in November 2016 and has been instrumental in getting K2F to where it is today. We very much thank Brian for his efforts as CEO. We are fortunate that Nic Pollock (previously our Chief Commercial Officer) agreed to step into the role of CEO. Brian has transitioned to an Executive Director role responsible for capital markets (investors), acquisitions and the consulting business.

To our talented and highly skilled K2fly team, I would like to welcome new members and very much thank all members for contributing to the Company's overall performance in FY21.

Our Valued Shareholders

Importantly, on behalf of the Board, I would like to express our gratitude to K2F's valued shareholders.

Kind regards

Jenny Cutri
Non-Executive Chair

Dear Fellow Shareholders

I am pleased to deliver this year end (FY21) Annual Report as CEO of K2fly. This will be my final report as CEO, and I am delighted to report that Nic Pollock, formerly Chief Commercial Officer has taken the reins as CEO from September onwards. I've reduced my hours to 4 days per week and I am continuing in my capacity as an Executive Director, now responsible for capital markets (investors), acquisitions and the consulting business. Nic and I have worked closely together over the last three years to grow K2fly to where it is today and will continue to do so.

In last year's Annual Report, I was happy to report that we had successfully transitioned our Software as a Service (**SaaS**) business to become the dominant part of K2fly. Consistent with our strategy, this focus has strengthened and continued in FY21 and we have gained new solutions via exciting acquisitions, as well as invested in new home-grown solutions. We currently boast a total of 11 solutions primarily focused on the Resources sector.

Acquisitions

Sateva

In November 2020, we completed the acquisition of Sateva complete with its suite of solutions. Sateva provides innovative software solutions and IT consulting services, including software development and services for mining, resources, and rail industries. Sateva had an established consulting services business with Tier 1 and 2 Resource companies and had also developed additional SaaS solutions within the resource technical assurance space, complementing and adding to K2F's existing software products:

I am delighted to say that Sateva has further flourished within its new home at K2fly and has gone from strength to strength. Sateva's products, in the mining technical assurance space, has been a hugely successful addition to our suite of products:

- In the eight months since the Sateva acquisition until the end of June 2021 K2fly invoiced $1.234m in additional services via Sateva.
- In May 2021 we announced the signing of a 5-year contract with Roy Hill for the full suite of Sateva Software Products. The total contract value was $2.44M.

Decipher for Mining

In May 2021 we completed a Business Sale Agreement to acquire assets held by CSBP Limited and Wesfarmers Chemicals, Energy and Fertilisers (WesCEF) Limited used in the operation of the 'Decipher for Mining' business.

We had previously established an MOU with Decipher in July 2020 and it had become apparent that their solution was the perfect adjunct to our other SaaS offerings. Decipher has been developed and operated by CSBP Limited and WesCEF, subsidiaries of Wesfarmers Limited.

Decipher offers cloud-based SaaS monitoring and compliance solutions in tailings management and rehabilitation for mining industry customers. Since the acquisition, K2fly has deployed the solution to South African Energy Coal, Evolution Mining, Heathgate Resources and Hunter Valley Coal (a BHP subsidiary). In the current financial year (FY22), additional sales of the Decipher solution have been made and the pipeline is very encouraging.

Sales

During FY21 six new name clients (Orano, Alcoa, Coeur Mining Resources, Evolution, Heathgate and Griffith University) signed multi-year contracts to implement and deploy across the range of our solutions. These six examples provide evidence as to how our clients view both K2fly and its solutions. It is a validation of our SaaS strategy and sees our solutions being adopted for the long-term. Our aim is to "land & expand" within our client base by delivering outstanding implementations of world class solutions.

Additionally in February 2021 we signed Rio Tinto Iron Ore as a client for our Infoscope solution in the Heritage arena. The importance of this work for the protection of priceless cultural heritage, the communities in which Rio Tinto operates along with the reputational value of Rio and the Mining industry as a whole cannot be understated. This is a 3-year SaaS deal covering the client's assets in the Pilbara region. In May 2021 long-term Infoscope client Fortescue

Metals Group extended its use of the solution by an additional 3 years and expanded its use to its European and South American assets.

Partnerships and Collaboration

November 2020 saw us announce our new status within the SAP ecosystem. We completed our final certification as an SAP Endorsed App at this time. SAP Endorsed Apps are a new category of solutions from SAP's partner ecosystem to help customers become best-run, intelligent enterprises. Endorsed apps complement and extend SAP products and are designed to deliver value with desired outcomes – quickly, easily, and with support from SAP. The solutions are tested and premium certified by SAP with added security, in-depth testing and measurements against benchmark results. The Endorsed Apps partnership program is by invitation only. Due to the high level of certification, the solutions are available for all SAP sales staff to market into their accounts and be recognised and compensated alongside SAP products. This new enhanced relationship with SAP has provided us with additional sales opportunities especially in Europe and the Americas.

We also established two new partnership arrangements in FY21. K2fly partnered with Griffith University to deliver a new system for Aboriginal rock art and cultural heritage management in the sandstone country of southeast Cape York Peninsula. K2fly is working with its long-term cultural heritage partner The Keeping Place, to deliver the solution for Griffith University and its project stakeholders.

K2fly and Descartes Labs (DL) signed a reseller agreement whereby K2fly will resell DL Deformation solutions. This strategic relationship adds further enhancement to K2fly's position in support of Global Industry Standards on Tailings Management (GISTM).

Capital Raising

In April 2021 the Company successfully completed a $7.25M placement (before costs). The Placement was very well supported by new high quality institutional investors and sophisticated investors, whom we very much welcome to our share register. In addition, during FY21, the Company successfully received funding of $648k through the exercise of options.

Overall

The Company has made great progress in the last 12 months which includes absorbing two new entities (Sateva and Decipher). Due the impacts of COVID-19 in FY21 we had a relatively modest Q1 and Q2, but Q3 was our first ever quarter with more than $2M of invoicing and Q4 quickly followed with another record total for invoicing of greater than $2.5M.

During FY21 we attracted four significant institutional investors, namely: CSBP (Wesfarmers), First Sentier, Regal and Tribeca. We are committed to investing in new, adjacent solutions as we seek to grow the business and round out our suite of products and services. We are also looking out for acquisitions which can be made at the right price and can add value to our range of solutions.

I would like to thank the non-executive directors for their hard work on behalf of the shareholders. I would also like to thank all of the staff who have helped to make FY21 such a success under some very trying circumstances. We owe a debt of gratitude to the staff and their families who support their efforts. Thank you.

Kind Regards

Brian Miller
Executive Director

Your Directors present their report together with the financial statements of the Group consisting of K2fly Limited (the **Company**, **K2fly** or **K2F**) and the entities it controlled during the financial year ended 30 June 2021 (**FY21**). In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

DIRECTORS

The names of Directors who held office during or since the end of the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Brian Miller B.Ed (Hons), M.A
Executive Director and CEO

Mr Miller has in excess of 30 years' experience in the IT sector and was a founding member of the Institute of Asset Management (UK). He influenced the development of the initial BS5750 standard for asset management within the UK energy sector, and worked closely with various UK industry regulators including Energy, Water and Rail. He has held Board directorships with UK and Australian IT companies. He also brings an extensive network of contacts, opportunities and experience within the asset intensive sectors.

In the 3 years immediately before the end of the financial year, Mr Miller did not serve as a Director of any other ASX listed company.

Neil Canby BA Hons (Accounting and Financial Management), FCA, MAICD
Non-Executive Director

Mr Canby has an extensive history of senior roles across a variety of industries including energy and utilities with responsibilities ranging from business development, project and operational delivery and commercial and financial management.

In the 3 years immediately before the end of the financial year, Mr Canby did not serve as a Director of any other ASX listed company.

James Deacon BSc MBA (Exec) GAICD
Non-Executive Director

Mr Deacon is a veteran of the technology sector with a proven track record in successful business transformation in IT services across a number of industries including utilities, mining and airlines. He currently provides advisory services to the management teams of large Australian private and public sector organisations. He has held senior positions at Information Services Group (**ISG**), Horizon Power, UnisysWest and US Airways. Mr Deacon is a Certified Professional and Member of the Australian Computer Society and Member of the International Association of Outsourcing Professionals.

In the 3 years immediately before the end of the financial year, Mr Deacon did not serve as a Director of any other ASX listed company.

Jenny Cutri BLaws, B Juris, BCom (Accounting), Grad Dip Executive (MBA)
Non-Executive Chair

Ms Cutri is a highly experienced legal practitioner and compliance specialist with over 25 years' experience, in both the private and public sectors. Ms Cutri is a member of WA Law Society's Commercial Law Committee (previously having being its Convenor (Chair) in 2016 to 2017), a member of Law Council of Australia (Business Law section) and was previously a Director with City of Perth Surf Life Saving Club Inc. Ms Cutri has extensive experience in the regulatory environment previously having been: Assistant State Manager, Listings Compliance at ASX in Perth for 7 years; and having held senior positions within the Australian Securities and Investments Commission (**ASIC**). She has also worked with Bankwest heading up their Marketing Compliance.

In the 3 years immediately before the end of the financial year, Ms Cutri did not serve as a Director of any other ASX listed company.

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

At the date of this report, shares and options held directly or indirectly by Directors are:

	Fully paid ordinary shares Number	Options Number
Brian Miller	3,065,985	1,988,178
Neil Canby	992,844	-
James Deacon	566,111	-
Jenny Cutri	620,660	-

JOINT COMPANY SECRETARY

Melissa Chapman and Catherine Grant-Edwards

Ms Melissa Chapman (Certified Practicing Accountant (CPA), AGIA/ACIS, GAICD) and Ms Catherine Grant- Edwards (Chartered Accountant (CA)) are directors of Bellatrix Corporate Pty Ltd (**Bellatrix**), a company that provides company secretarial and accounting services to a number of ASX listed companies. Between them, Ms Chapman and Ms Grant-Edwards have over 30 years' experience in the provision of accounting, finance and company secretarial services to public listed resource and private companies in Australia and the UK, and in the field of public practice external audit.

PRINCIPAL ACTIVITIES

The principal activities of the entities within the Group during the year were: sales of owned and third party software; software and integration consulting services; asset management consultant services, in the resources sector and asset management and asset intensive industries (including utility sector).

K2fly is an ASX listed technology company providing enterprise-level technical assurance and reporting solutions across all aspects of the Environmental, Social and Governance functions.

Servicing the mining, oil & gas, utilities and agriculture sectors, K2fly delivers a suite of solutions in governance and compliance, stakeholder engagement and permits and obligations services for clients covering:

- Land Access
- Community and heritage
- Rehab
- Dams & Tailing
- Resources Inventory and Mine Geology Systems
- Ground Disturbance

Underpinning K2fly's Software as a Service (SaaS) offering are its proprietary technologies: RCubed, Infoscope, SATEVA Suite and Decipher for Mining.

K2fly has strategic alliances with global technology companies such as Esri (USA), SAP (Germany) and Hitachi-ABB (Japan).

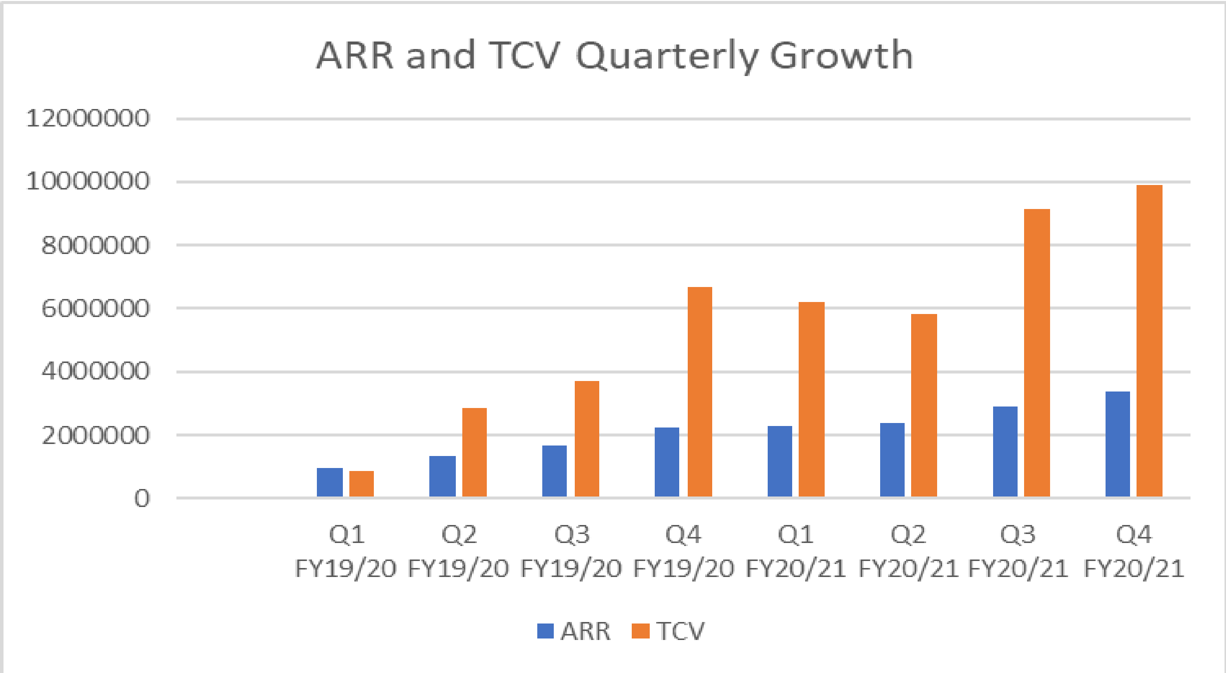
In addition, K2fly provides cutting edge business consultancy services with subject matter experts across Rail, Electricity, Gas, Water, Mining, Oil & Gas, and Facilities Management.

REVIEW OF OPERATIONS

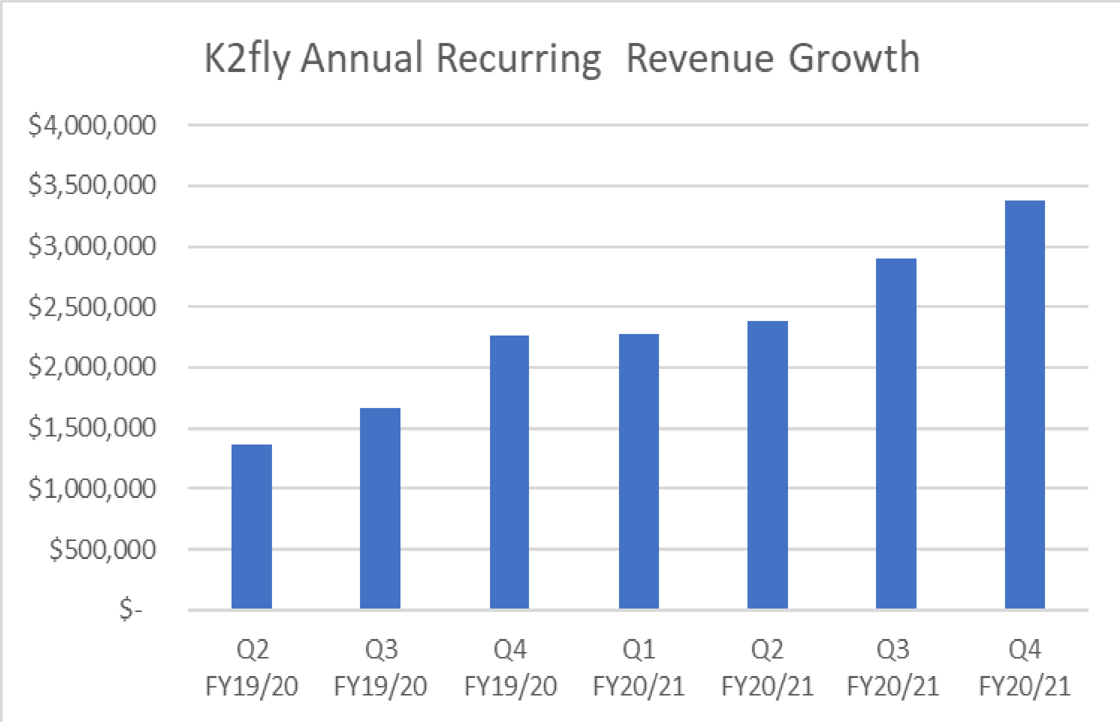
ACTIVITIES REPORT

Highlights

- Total revenue for FY21 is $6,955k, a growth of 24% on the FY20 revenue of $5,601k
- 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**) and Roy Hill Holdings Pty Ltd (**Roy Hill**)
- In March 2021, K2fly completes the acquisition of Decipher for Mining, a technology unit wholly owned by a Wesfarmers' subsidiary. Consequently, K2F engaged 11 new staff members
- Key contracts executed during the year include:
  - Five-year contract for RCubed signed with Orano SA (Paris) in July 2020
  - Five-year contract for RCubed signed with Alcoa USA Corp in January 2021
  - Five-year contract for RCubed signed with Coeur Mining Inc in March 2021
  - Five-year contract for Sateva signed with Roy Hill in May 2021
  - Three-year contract for Infoscope signed with FMG in May 2021
  - Three-year contract for Infoscope signed with Rio Tinto in February 2021
- K2fly's SaaS/Software subscriptions business:
  - Annual Recurring Revenue has grown to over $3.38M
  - Total Contract Value has grown to >$9.90M by 30 June 2021
- K2fly achieved SAP Endorsed Apps Certification, one of only 12 companies (at the time) worldwide to achieve this certification
- K2fly and Descartes Labs (DL) signed a reseller agreement whereby K2fly will resell DL Deformation solutions. The strategic relationship strengthens K2fly's position in support of Global Industry Standard on Tailings Management (GISTM)
- K2fly partnered with Griffith University to deliver a new system for Aboriginal rock art and cultural heritage management in the sandstone country of southeast Cape York Peninsula
- In October, the Company raised funds of $648,000 from the exercise of options
- In April 2021 the Company successfully completed a $7.25M placement (before costs)
- As at 30 June 2021, there was cash at hand of $6.90M and $1.93M in aged receivables largely from Tier 1 clients



Quarterly Annual Recurring Revenue (**ARR**) and Total Contract Value (**TCV**) Growth.



FINANCIAL RESULTS

Financial Position

As at 30 June 2021, the Group had cash reserves of $6,906,331 (30 June 2020: $2,919,788) and trade receivables of $1,927,292 (30 June 2021: $1,127,917).

Operating Results

The Group incurred a net loss after income tax during the full year of $2,962,795 (30 June 2020: $3,330,987).

The financial year ended 30 June 2021 represented a positive and successful period for K2F, in which we continued to build our capabilities across a number of different sectors. We continue to grow and win new contracts.

K2fly invoiced a total of $7.60m during FY21 representing a 15% increase from the prior year (FY20: $6.63m). K2fly's revenue reported for FY21 of $6.95m represents at 24% increase from prior year (FY20: $5.60m). 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 Annual Report is recognised and presented in accordance with International Financial Reporting Standards (**IFRS**) including *AASB 15 Revenue from Contracts with Customers*. At 30 June 2021, an amount of $2.06m (30 June 2020: $1.34m) 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 next year's reported revenue.

The Company's revenues have been further enhanced as a result of SaaS sales from its own software solutions, RCubed, Infoscope, Sateva and Decipher for Mining.

Included in the period FY21 net losses 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, and securities issued to corporate advisors totalling $557,830 (30 June 2020: $440,162) (refer to note 21); and
- stamp duty and acquisition costs in relation to the acquisition of Sateva and Decipher $422,653 (30 June 2020: nil) (refer to note 31).

CORPORATE

Sateva Acquisition

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 (together, referred to as **Sateva**) (**Sateva Acquisition**).

Sateva was an established consulting services business with Tier 1 and 2 resource companies and had 3 SaaS products in production, development or near commercialisation within the resource technical assurance space (Sateva Software Products):

- Sateva Maximum Return
- Sateva Model Manager
- Sateva Automation

The Sateva Software Products strengthened K2fly's technical assurance suite of software solutions that address global tier 1 and tier 2 mining companies.

Decipher Acquisition

On 31 March 2021, K2fly completed the acquisition of Decipher for Mining from CSBP Limited (**CSBP**) and Wesfarmers Chemicals, Energy & Fertilisers Ltd (subsidiaries of Wesfarmers Limited) (**Decipher Acquisition**).

The Decipher for Mining business provides cloud-based software-as-a-service technology and compliance solutions for mining industry customers, including in relation to rehabilitation and closure, tailings governance and monitoring and tailings disclosure database solution.

Placement

On 27 April 2021, the Company completed a placement of 25,000,000 fully paid ordinary shares at $0.29 per share to raise cash funds of $7,250,000 (before costs) (**Placement**). Funds raised from the Placement will be applied towards potential acquisitions, sales and marketing, product development and general working capital.

Shareholder Meetings

The Company's Annual General Meeting (**AGM**) was held on 27 November 2020, where all resolutions put to shareholders were passed.

The Company held a General Meeting (**GM**) on 29 March 2021 predominantly to approve the Decipher Acquisition. All resolutions put to shareholders were passed.

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

Shares

During the year, 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 (**Canary**)
- 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 Sateva Acquisition
- 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

- 31 March 2021 – Issue of 11,366,691 shares (subject to voluntary escrow of 2 years) and 5,345,633 performance shares (any shares issued on conversion of the performance shares will be subject to a voluntary period of 12 months) pursuant to the Decipher Acquisition
- 27 April 2021 – Issue of 25,000,000 shares pursuant to the Placement
- 11 June 2021 – Issue of 718,484 shares upon the exercise of unlisted options
- 23 June 2021 – Issue of 105,225 shares upon the exercise of unlisted options

Unlisted Options

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

- 17 September 2020 – Issue of 83,333 unlisted options with an exercise price of $nil expiring 16 September 2022
- 26 October 2020 – Issue of 200,000 unlisted options pursuant to an investor marketing mandate between the Company and Canary
- 3 November 2020 – Issue of 140,845 unlisted options pursuant to the Sateva Acquisition
- 15 December 2020 – Issue of 1,115,879 unlisted options to Directors and consultants as approved by shareholders at the Company's AGM held on 27 November 2020, including:
    - 856,926 unlisted options exercisable at $0 each on or before 27 November 2022 Zero Exercise Price Options (**ZEP Options**) (406,926 of which are subject to vesting conditions);
    - 258,953 unlisted options exercisable at $0.497 each on or before 27 November 2024 (subject to vesting conditions) Premium Exercise Price Options (**PEP Options**); and
- 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 (subject to vesting conditions)
    - 395,236 PEP Options (subject to vesting conditions)
- 27 April 2021 – Issue of 2,265,625 unlisted options at an issue price of $0.00001 each, exercisable at $0.435 each on or before 10 March 2024 to Argonaut in relation to the Placement

During the year, the following unlisted options were exercised:

- 10 July 2020 – 741,105 unlisted options of which 700,000 exercisable at $0 each and expiry date 25 November 2021 and 41,105 exercisable at $0 each and expiry date 26 November 2020 (under EIOP)
- 20 July 2020 – 42,351 unlisted options exercisable at $0 each and expiry date 26 November 2020 (under EIOP)
- 21 July 2020 – 64,967 unlisted options exercisable at $0 each and expiry date 26 November 2020 (under EIOP)
- 17 September 2020 – 122,510 unlisted options exercisable at $0 each and expiry date 26 November 2020 (under EIOP)
- 2 October 2020 – 7,500 unlisted options exercisable at $0.25 each and expiry date 17 November 2020
- 16 October 2020 – 489,330 unlisted options exercisable at $0.25 each and expiry date 17 November 2020
- 27 October 2020 – 278,000 unlisted options exercisable at $0.25 each and expiry date 17 November 2020
- 5 November 2020 – 252,500 unlisted options exercisable at $0.25 each and expiry date 17 November 2020
- 18 November 2020 – 1,564,670 unlisted options of which 764,670 exercisable at $0.25 each and expiry date 17 November 2020 and 800,000 exercisable at $0.25 each and expiry date 1 December 2020
- 11 June 2021 – 718,484 unlisted options of which 450,000 exercisable at $0 each and expiry date 27 November 2022, 83,333 exercisable at $0 each and expiry date 16 September 2022, 133,923 exercisable at $0 and expiry date 26 November 2020 and 51,228 exercisable at $0 and expiry date 25 November 2021 (under EIOP)
- 23 June 2021 – 105,225 unlisted options exercisable at $0 and expiry date 25 November 2021 (under EIOP)

During the year, the following unlisted options lapsed:

- 7 July 2020 – Expiry of 350,000 unlisted options with an exercise price of $0.25;
- 17 September 2020 - 707,263 unlisted options of which 233,997 exercisable at $0 each with an expiry date 26 November 2020 and which did not vest and 473,266 exercisable at $0 each with an expiry date of 25 November 2021 and which did not vest (under EIOP);
- 18 November 2020 – Expiry of 128,000 unlisted options with an exercise price of $0.25

DIVIDENDS

No dividends have been paid or declared since the start of the financial year and the Directors do not recommend the payment of a dividend in respect of the financial year.

DIRECTORS' MEETINGS

The number of meetings of Directors held during the financial year and the number of meetings attended by each Director were as follows:

	Board Meetings	
	Eligible to Attend	**Attended**
Brian Miller	12	12
Neil Canby	12	12
James Deacon	12	12
Jenny Cutri	12	12

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Group to the date of this report.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 6 July 2021, the Company issued 55,431 shares on the exercise of unlisted options exercisable at $0 and expiry date 25 November 2021.

On 23 July 2021, the Company announced that from 1 September 2021, Mr Brian Miller will step down as CEO, although he will continue to be engaged as an Executive Director of K2F. In addition, Mr Nic Pollock has been appointed into the role of CEO.

On 6 August 2021, the Company announced that Alcoa USA Corp has signed a 5-year contract with K2fly for stage 1 of a Dams and Tailings (Decipher) solution across 7 global sites commencing in August 2021.

On 2 September 2021, the Company announced that it has appointed Sara Amir-Ansari as Chief Financial Officer (CFO) commencing 25 October 2021.

On 17 September 2021, the Company announced that Newmont Corporation has signed a 5-year extension to their existing contract for K2F's Resource Governance Solution.

On 20 September 2021, the Company announced that Sibanye-Stillwater had entered in to a 5-year contract for Decipher Tailings solution to be rolled out across its 38 tailings facilities globally. The initial total contract value is $2.85M.

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 Group in future financial periods.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Disclosure of information regarding likely developments in the operations of the Group in future financial years and the expected results of those operations is uncertain and therefore not appropriate to disclose. Therefore, this information has not been presented in this report.

OPTIONS GRANTED TO DIRECTORS

At the date of this report, the following options were held directly or indirectly by Directors, having been granted as part of their remuneration:

	Series	Number	Exercise price	Expiry date	Listed / Unlisted
Brian Miller	Series 10	639,019	$0.243	26/11/2022	Unlisted
	Series 15	683,280	$0.291	25/11/2023	Unlisted
	Series 23	406,926	$0.000	27/11/2022	Unlisted
	Series 24	258,953	$0.497	27/11/2024	Unlisted
Neil Canby	-	-	-	-	-
James Deacon	-	-	-	-	-
Jenny Cutri	-	-	-	-	-

SHARES

At 30 June 2021 there were 137,977,777 fully paid ordinary shares on issue. At the date of this report, there were 138,033,208 shares on issue.

UNISSUED SHARES UNDER OPTION

Since the end of the year to the date of this report a total of 55,431 shares have been issued as a result of exercise of options.

At the date of this report unissued ordinary shares or interests of the Company under option are:

	Number of shares under option	Exercise price of options	Expiry date of option	Listed / Unlisted
Series 10	639,019	$0.243	26/11/2022	Unlisted
Series 11	1,278,179	$0.243	26/11/2022	Unlisted
Series 12	750,000	$0.350	11/10/2022	Unlisted
Series 15	683,280	$0.291	25/11/2023	Unlisted
Series 16	63,830	$0.000	25/11/2021	Unlisted
Series 17	1,401,600	$0.291	25/11/2023	Unlisted
Series 18	1,912,500	$0.30	12/06/2023	Unlisted
Series 20	140,845	$0.00	03/05/2022	Unlisted
Series 21	200,000	$0.70	26/10/2022	Unlisted
Series 23	406,926	$0.00	27/11/2022	Unlisted
Series 24	258,953	$0.497	27/11/2024	Unlisted
Series 25	2,265,625	$0.435	10/03/2024	Unlisted
Series 26	946,878	$0.00	27/11/2022	Unlisted
Series 27	395,236	$0.497	27/11/2024	Unlisted

PERFORMANCE SHARES

At the date of this report, there are 5,345,633 performance shares on issue. Of this balance, none have vested.

PERFORMANCE RIGHTS

At the date of this report, there are 660,000 performance rights on issue with no expiry date. Of this balance, none have vested.

REMUNERATION REPORT

The Remuneration Report which forms part of the Directors' Report, outlines the remuneration arrangements in place for Key Management Personnel for the financial year ended 30 June 2021 and is included on pages 16 to 20.

ENVIRONMENTAL LEGISLATION

The Company is not currently subject to any specific environmental regulation. There have not been any known significant breaches of any environmental regulations during the year under review and up until the date of this report.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Under the Company's Constitution and to the extent permitted by law (subject to the restrictions in section 199A and 199B of the *Corporations Act 2001*), the Company indemnifies every person who is or has been an officer of the Company against:

(a) any liability (other than for legal costs) incurred by that person as an officer of the Company where the Company requested the officer to accept appointment as Director; and

(b) reasonable legal costs incurred in defending an action for a liability incurred by that person as an officer of the Company.

The Company has insured its Directors, Company Secretaries and executive officers. Under the Company's Directors' and Officers' Liability Insurance Policy (**D&O Policy**), the Company cannot release to any third party or otherwise publish details of the nature of the liabilities insured by the policy or the amount of the premium. Accordingly, the Company relies on section 300(9) of the *Corporations Act 2001* to exempt it from the requirement to disclose the nature of the liability insured against and the premium amount of the relevant policy.

The Company also has in place a Deed of Indemnity, Access and Insurance with each of the Directors.

This Deed:

(i) indemnifies the Director to the extent permitted by law and the Constitution against certain liabilities and legal costs incurred by the Director as an officer of any Group Company;

(ii) requires the Company to maintain, and pay the premium for, a D&O Policy in respect of the Director; and

(iii) provides the Director with access to particular papers and documents requested by the Director for a Permitted Purpose; both during the time that the Director holds office and for a seven-year period after the Director ceases to be an officer of any Group Company, on the terms and conditions contained in the Deed.

NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 29 to the financial statements. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the impartiality and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional & Ethical Standards Board.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

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 audit of the financial report. This Independence Declaration is set out on page 21 and forms part of this Directors' report for the year ended 30 June 2021.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of K2fly support and have adhered to principles of sound corporate governance. The Company continued to follow best practice recommendations as set out by the 4th edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. Where the Company has not followed best practice for any recommendation, an explanation is given in the Corporate Governance Statement which is available on the Company website at https://www.k2fly.com.

Signed in accordance with a resolution of the Directors.

Brian Miller	Jenny Cutri
Executive Director	Non-Executive Chair
Perth, 29 September 2021	Perth, 29 September 2021

REMUNERATION REPORT

This report, which forms part of the Directors' report, outlines the remuneration arrangements in place for the Key Management Personnel of K2fly Limited for the year ended 30 June 2021. The information provided in this remuneration report has been audited as required by Section 308(3C) of the *Corporations Act 2001*.

The Remuneration Report details the remuneration arrangements for Key Management Personnel who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Group.

Key Management Personnel

The Key Management Personnel of the Group during the financial year were:

Directors

Brian Miller	Chief Executive Officer and Executive Director	Appointed 18 November 2016
Neil Canby	Non-Executive Director	Appointed 14 February 2017
James Deacon	Non-Executive Director	Appointed 14 February 2017
Jenny Cutri	Non-Executive Chair	Appointed 15 September 2017

There are no other Key Management Personnel of the Company.

Remuneration Policy

The Board is responsible for determining and reviewing compensation arrangements for the Directors and management. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

As part of its Corporate Governance Policies and Procedures, the Board has adopted a formal Remuneration Committee Charter. In accordance with the Company's Securities Trading Policy, employees, directors and officers must not enter into transactions or arrangements which operate to limit the economic risk of their security holding in the Company without first seeking and obtaining written acknowledgement from the Chair.

The Company engaged BDO Reward (WA) Pty Ltd (**BDO**) previously in 2018 and again in 2021 as an independent advisor to the Board for the provision of advice on board and executive remuneration structures and Employee Incentive Option Plan (**EIOP**). The fee paid to BDO for the provision of these services was $20,250 (ex. GST).

Remuneration Committee

The Remuneration Committee comprises of Non-Executive Directors. Mr James Deacon is the chairman of the committee, and its members include Ms Jenny Cutri and Mr Neil Canby.

	Remuneration Committee Meetings	
	Eligible to Attend	**Attended**
James Deacon	6	6
Neil Canby	6	6
Jenny Cutri	6	6

Executive Incentive Scheme

The Company has implemented an executive incentive scheme (**Executive Incentive Scheme**) comprising of the following components (representing variable remuneration):

- Short term incentives (**STI**) – cash based
- Medium term incentives (**MTI**) – equity based (in the form of ZEP Options)
- Long term incentives (**LTI**) – equity based (in the form of PEP Options)

For those eligible to participate in the Executive Incentive Scheme, total fixed remuneration (**TFR**) remains unchanged. However, TFR determines the potential size of the individual's variable remuneration made up of STI, MTI and LTIs.

The amount that may be earned under the STI and MTI components is linked to both company and individual performance metrics. These metrics are agreed with individuals at the commencement of the financial year. For FY21 the Company's performance metrics were determined by the Company's Remuneration Committee and are linked to operational and sustainability objectives (including targets associated with revenue, annual recurring revenue, and cashflow positivity) (**KPIs**).

Remuneration structure

In accordance with best practice corporate governance, the structure of Executive Director and Non-Executive Directors' remuneration is separate and distinct.

Executive Director Remuneration

Remuneration consists of fixed remuneration and variable remuneration.

Fixed remuneration

Remuneration and other terms of employment of the Executive Director is formalised in an employment contract. The major provision of an agreement related to the remuneration is set out below.

	Total Fixed Remuneration (TFR)	Terms of agreement	Notice period
Brian Miller	$250,000 plus superannuation	Permanent	3 months

Subsequent to the year end, on 23 July 2021, the Company announced that effective 1 September 2021, Mr Miller will step down as CEO however will continue to be engaged as an Executive Director of K2fly with a fixed remuneration of $220,000 (FTE: 0.8) plus superannuation.

Variable remuneration

In accordance with the Executive Incentive Scheme, in FY21 Mr Miller is entitled to the following variable remuneration:

- STI: $14,932 plus superannuation (this amount is included in the Company's trade and other payables at 30 June 2021);
- MTI: 406,926 ZEP Options (unlisted options at $0 each on or before 27 November 2022, subject to vesting conditions). ZEP Options shall vest and become exercisable when any vesting conditions (including remaining employed by the Company for a period of 18 months from date of issue of the ZEP Options, that is remaining employed at 27 May 2022) have been satisfied or waived by the Board. The ultimate number of options that are capable of vesting are based on the extent of achievement against both Company and individual KPIs in respect of the year ended 30 June 2021, as determined by the Board. Based on an assessment undertaken at 30 June 2021 and subject to Brian Miller meeting the employment tenure condition, the Board has determined that 81,385 of these ZEP Options are likely to vest.
- LTI: 258,953 PEP Options (unlisted options at $0.497 each on or before 27 November 2024 (subject to vesting conditions). PEP Options shall vest and become exercisable upon the employee remaining employed by the Company for a period of 3 years from date of issue of the PEP Options, that is remaining employed at 27 November 2023).

For details of share-based payments recognised in respect of options issued to the Executive Director, refer to note 21.

Director fees

Mr Miller is also entitled to receive a fixed fee of $12,000 per annum in director fees.

Non-Executive Director remuneration

Fixed cash remuneration

The Non-executive Directors are entitled to receive directors' fees of amounts as determined by the shareholders of the Company in general meeting. Non-executive directors may also be remunerated for additional, recognised services performed at the request of the Board and reimbursed for reasonable expenses incurred on Company business.

Directors receive a fixed fee and are remunerated for any professional services conducted for the Company. There are no retirement schemes for any Directors.

Equity-based remuneration

Following receipt of shareholder approval at the AGM, Non-Executive Directors Ms Jenny Cutri, Mr Neil Canby, and Mr James Deacon were each issued, in lieu of cash remuneration (directly or indirectly), 150,000 ZEP Options (unlisted options at $0 each on or before 27 November 2022 (no vesting conditions).

For details of share-based payments recognised in respect of options issued to Non-Executive Directors, refer to note 21.

Options

Granted as Compensation

The following table summarises remuneration options granted to Key Management Personnel during the year ended 30 June 2021:

Recipient	Options	Series	Number Issued	Grant Date	Value per Option at Grant Date	Value of Options at grant date	Vesting and first exercise date	Expiry date
Brian Miller	ZEP Options	Series 23	406,926	27/11/2020	$0.335	$27,264[1]	Not Vested	27/11/2022
Brian Miller	PEP Options	Series 24	258,953	27/11/2020	$0.148	$38,445	Not Vested	27/11/2024
Neil Canby	ZEP Options	Series 22	150,000	27/11/2020	$0.335	$50,250	Vested	27/11/2022
James Deacon	ZEP Options	Series 22	150,000	27/11/2020	$0.335	$50,250	Vested	27/11/2022
Jenny Cutri	ZEP Options	Series 22	150,000	27/11/2020	$0.335	$50,250	Vested	27/11/2022

[1]Value reflects the number of options likely to vest based on FY21 KPI performance.

Remuneration of Key Management Personnel

30 June 2021	Short-term employee benefits		Post-employment benefits	Share-based payments			Equity based
	Salary and fees	Cash bonus	Superannuation	Options	Performance Rights	Total	
	$	$	$	$	$	$	%
Brian Miller	262,000	14,932	25,243	86,981	-	389,156	22%
Neil Canby	46,000[1]	-	-	50,250	-	96,250	52%
James Deacon	36,000	-	-	50,250	-	86,250	58%
Jenny Cutri	36,000	-	-	50,250	-	86,250	58%
	380,000	14,932	25,243	237,731	-	657,906	36%

[1]Includes $10,000 'special exertion fee' in relation to the Sateva acquisition.

30 June 2020	Short-term employee benefits		Post-employment benefits	Share-based payments			Equity based
	Salary and fees	Cash bonus	Superannuation	Options	Performance Rights	Total	
	$	$	$	$	$	$	%
Brian Miller	252,000	17,472	24,460	62,983	-	356,915	18%
Neil Canby	36,000	-	-	49,289	-	85,289	58%
James Deacon	36,000	-	-	49,289	-	85,289	58%
Jenny Cutri	36,000	-	-	49,289	-	85,289	58%
	360,000	17,472	24,460	210,850	-	612,782	34%

Other information

Shares held by Key Management Personnel

30 June 2021	Opening Balance No.	Exercise of options* No.	Net Change Other No.	Closing Balance No.
Brian Miller	2,756,162	133,923	73,900[1]	2,963,985
Neil Canby	614,844	350,000	-	964,844
James Deacon	216,111	350,000	-	566,111
Jenny Cutri	270,660	350,000	-	620,660
	3,857,777	1,183,923	73,900	5,115,600

*Movements in remuneration-related securities held by Key Management Personnel.

[1]Includes the on-market purchase of 73,900 shares 23-25 June 2021.

Options held by Key Management Personnel

30 June 2021	Opening Balance No.	Granted* No.	Exercise of options* No.	Lapsed* No.	Net Change Other No.	Closing Balance No.
Brian Miller	1,690,219	665,879	(133,923)	(233,997)	-	1,988,178
Neil Canby	200,000	150,000	(350,000)	-	-	-
James Deacon	200,000	150,000	(350,000)	-	-	-
Jenny Cutri	200,000	150,000	(350,000)	-	-	-
	2,290,219	1,115,879	(1,183,923)	(233,997)	-	1,988,178

*Movements in remuneration-related securities held by Key Management Personnel.

Loans to Key Management Personnel

No loans were advanced to Key Management Personnel in the current or prior year.

Other transactions with Key Management Personnel

There are no other transactions with Key Management Personnel during the year ended 30 June 2021.

Company Performance and Shareholder Wealth

The earnings of the Group for the four years to 30 June 2021 are summarised below:

	2021	2020	2019	2018
Revenue	6,954,942	5,601,481	3,787,826	2,523,151
Loss after income tax	(2,962,795)	(3,330,987)	(1,938,528)	(5,410,273)

The share price and EPS of the Group for the four years to 30 June 2021 are summarised below:

	2021	**2020**	**2019**	**2018**
Share price at year end ($)	$0.310	$0.200	$0.155	$0.248
Basic earnings/(loss) per share (cents)	(2.81)	(4.08)	(2.94)	(9.55)

Voting at Company's 2020 Annual General Meeting

The Company's remuneration report for the 2020 financial year was approved at the Annual General Meeting (**AGM**) of Shareholders. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

End of audited remuneration report.

HLB MANN JUDD
ADVISORY AND ACCOUNTING

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of K2fly Limited for the year ended 30 June 2021, 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 audit; and

b) any applicable code of professional conduct in relation to the audit.

Perth, Western Australia
29 September 2021

D I Buckley
Partner

hlb.com.au

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
Level 4, 130 Stirling Street, Perth WA 6000 / PO Box 8124 Perth BC WA 6849
T: +61 (0)8 9227 7500 **E:** mailbox@hlbwa.com.au

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 $	2020 $
Revenue	2(a)	6,954,942	5,601,481
Cost of sales		(3,272,257)	(3,298,975)
Gross profit		**3,682,685**	**2,302,506**
Other income	2(b)	117,268	79,365
Administration expense		(493,288)	(197,961)
Amortisation expense	12	(361,772)	(86,240)
Compliance & regulatory expense		(155,428)	(126,103)
Consultancy expense		(593,356)	(282,780)
Depreciation plant and equipment	10	(34,253)	(23,733)
Depreciation right of use assets	11	(81,876)	(71,532)
Directors fees		(120,000)	(120,000)
Employee benefit expense	3	(3,353,244)	(2,398,578)
Occupancy expense		(73,067)	(51,319)
Public relations & marketing expense		(380,679)	(402,064)
Research costs		(58,655)	(69,200)
Share-based payments reversal / (expense)	21	(557,830)	(440,162)
Travel expense		(19,091)	(187,880)
Finance expense		(17,736)	(10,628)
Stamp duty		(288,000)	-
Acquisition expenses	31	(134,653)	-
Milestone incentive payments		-	(1,200,000)
Foreign exchange		(39,820)	(132,820)
Loss before income tax expense		(2,962,795)	(3,419,129)
Income tax benefit	4	-	88,142
Loss for the year		**(2,962,795)**	**(3,330,987)**
Other comprehensive income/(loss), net of income tax:			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign subsidiaries		(1,904)	23,153
Income tax relating to these items		-	-
Other comprehensive income/(loss) for the year, net of tax		**(1,904)**	**23,153**
Total comprehensive loss for the year		**(2,964,699)**	**(3,307,834)**
Basic and diluted loss per share (cents per share)	6	(2.81)	(4.08)

The accompanying notes form part of the financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	Notes	2021 $	2020 $
Assets			
Current assets			
Cash and cash equivalents	7	6,906,331	2,919,788
Trade and other receivables	8	2,164,674	1,152,714
Total current assets		**9,071,005**	**4,072,502**
Non-current assets			
Restricted cash	9	125,175	20,000
Property, Plant and Equipment	10	60,704	39,196
Right of use assets	11	70,899	94,006
Intangible assets	12	5,655,144	337,773
Goodwill	13	7,342,817	731,543
Other financial assets	14	844	844
Total non-current assets		**13,255,583**	**1,223,362**
Total assets		**22,326,588**	**5,295,864**
Liabilities			
Current liabilities			
Trade and other payables	15	1,670,427	956,718
Provisions and other liabilities	16	2,232,552	931,910
Interest-bearing lease liabilities	17	49,172	66,971
Contract liabilities	18	2,059,890	1,344,058
Total current liabilities		**6,012,041**	**3,299,657**
Non-current liabilities			
Provisions and other liabilities	16	3,030,653	442,437
Interest-bearing lease liabilities	17	36,667	33,230
Deferred tax liabilities	4	1,256,475	-
Total non-current liabilities		**4,323,795**	**475,667**
Total liabilities		**10,335,836**	**3,775,324**
Net assets		**11,990,752**	**1,520,540**
Equity			
Issued capital	19	30,865,720	18,189,874
Reserves	20	1,978,257	1,221,096
Accumulated losses		(20,853,225)	(17,890,430)
Total equity		**11,990,752**	**1,520,540**

The accompanying notes form part of the financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2021

	Issued capital $	Performance rights reserve $	Option reserve $	FCTR reserve $	Asset revaluation reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2019	**15,661,041**	**199,100**	**385,507**	**(1,030)**	**120**	**(14,559,443)**	**1,685,295**
Loss for the year	-	-	-	-	-	(3,330,987)	(3,330,987)
Exchange differences on translation of foreign subsidiaries	-	-	-	23,153	-	-	23,153
Total comprehensive loss for the year	-	-	-	23,153	-	(3,330,987)	(3,307,834)
Issue of shares – placement	1,000,000	-	-	-	-	-	1,000,000
Issue of shares – exercise of options	1,854,717	-	-	-	-	-	1,854,717
Share issue costs	(151,800)	-	-	-	-	-	(151,800)
Share-based payments – shares	30,000	-	-	-	-	-	30,000
Share-based payments – options	(204,084)	-	614,246	-	-	-	410,162
Balance as at 30 June 2020	**18,189,874**	**199,100**	**999,753**	**22,123**	**120**	**(17,890,430)**	**1,520,540**

The accompanying notes form part of the financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2021

	Issued capital $	Performance rights reserve $	Option reserve $	FCTR reserve $	Asset revaluation reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2020	**18,189,874**	**199,100**	**999,753**	**22,123**	**120**	**(17,890,430)**	**1,520,540**
Loss for the year	-	-	-	-	-	(2,962,795)	(2,962,795)
Exchange differences on translation of foreign subsidiaries	-	-	-	(1,904)	-	-	(1,904)
Total comprehensive loss for the year	-	-	-	(1,904)	-	(2,962,795)	(2,964,699)
Issue of shares – placement	7,250,000	-	-	-	-	-	7,250,000
Issue of shares – exercise of options	648,000	-	-	-	-	-	648,000
Issue of shares – Sateva acquisition	2,000,000	-	-	-	-	-	2,000,000
Issue of shares – Decipher acquisition	3,410,007	-	-	-	-	-	3,410,007
Issue of options – Argonaut placement options	23	-	-	-	-	-	23
Share issue costs	(430,949)	-	-	-	-	-	(430,949)
Share-based payments – shares	15,000	-	-	-	-	-	15,000
Share-based payments – options	(216,235)	-	759,065	-	-	-	542,830
Balance as at 30 June 2021	**30,865,720**	**199,100**	**1,758,818**	**20,219**	**120**	**(20,853,225)**	**11,990,752**

The accompanying notes form part of the financial statements

CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 $ Inflows / (Outflows)	2020 $ Inflows / (Outflows)
Cash flows from operating activities			
Receipts from customers		7,126,977	6,296,693
Payments to suppliers and employees		(8,788,211)	(6,967,348)
Government grants received		115,527	164,663
Interest received		1,448	279
Interest paid		-	(9,686)
Income tax paid		8,789	-
Movement of cash from non-restricted to restricted		(105,175)	(5,000)
Net cash (used in) operating activities	7	**(1,640,645)**	**(520,399)**
Cash flows from investing activities			
Payments for plant and equipment	10	(34,387)	(20,458)
Intangible asset (internally generated)	12	(1,110,143)	-
Investment in subsidiaries (Sateva)	31	(2,511,836)	-
Investment in subsidiaries (Decipher)	31	(5,509)	-
Payments for vendor incentive remuneration	16	(550,000)	(100,000)
Investment in subsidiaries acquisition costs	31	(134,653)	(55,439)
Cash acquired on acquisition of accounting (Sateva)	31	2,685,996	-
Net cash (used in) investing activities		**(1,660,532)**	**(175,897)**
Cash flows from financing activities			
Proceeds from the issue of shares		7,250,000	1,000,000
Payments for share issue costs		(472,648)	(151,800)
Proceeds from exercise of options		648,000	1,854,719
Proceeds from issue of options		23	-
Repayment of lease liabilities		(84,544)	(75,045)
Net cash provided by financing activities		**7,340,831**	**2,627,874**
Net increase in cash held		**4,039,654**	**1,931,578**
Cash at beginning of the year	7	2,919,788	1,059,247
Effects of exchange rate fluctuations on cash held		(53,111)	(71,037)
Cash and cash equivalents at the end of the year	7	**6,906,331**	**2,919,788**

The accompanying notes form part of the financial statements

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation and statement of compliance

These financial statements are general purpose financial statements, which have been prepared in accordance with the requirements of the *Corporations Act 2001*, Accounting Standards and Interpretations and comply with other requirements of the law. The financial report was authorised for issue on 29 September 2021.

The financial statements are for the Group consisting of K2fly Limited (**Company**, **K2fly** or **K2F**) and its subsidiaries (**Group**). The financial statements comprise the consolidated financial statements for the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

The accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated.

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**).

The financial statements have been prepared on a historical cost basis, except for available-for-sale investments which have been measured at fair value. Historical cost is based on the fair values of the consideration given in exchange for goods and services. The financial statements are presented in Australian dollars.

The Company is a listed public Company, incorporated and operating in Australia. The Company also has a subsidiary which operates in South Africa.

(b) Going concern

The 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 30 June 2021 of $2,962,795 (30 June 2020: $3,330,987), had cash and cash equivalents of $6,906,331 at 30 June 2021 (30 June 2020: $2,919,788), had a net working capital surplus of $3,058,964 (30 June 2020: $772,845) and a net cash outflow from operating activities amounting to $1,640,645 (30 June 2020: $520,399), 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;
- 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 (if required).

(c) New standards, interpretations and amendments adopted by the Group

In the year ended 30 June 2021, the Directors have reviewed all the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the year end reporting period 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

The Group has adopted the conceptual framework for financial reporting and relevant amending standards 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 for financial reporting and relevant amending standards 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 July 2020 it was determined that the adoption of AASB 2018-7 had no impact on the Group.

(d) New accounting standards and interpretations not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2021. The Group's assessment of the impact of these new standards and interpretations has not identified any impact.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(e) Significant accounting estimates and judgements

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Useful lives of depreciable assets
Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and IT equipment.

Impairment
In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Capitalisation of internally developed software
Distinguishing the research and development phases of a new customised software project and determining whether the recognition requirements for the capitalisation of development costs are met requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired.

Impairment of intangibles with indefinite useful lives and goodwill
The Group determines whether intangibles with indefinite useful lives and goodwill are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in notes 12 and 13.

Share-based payment transactions
The Group measures the cost of equity-settled transactions with employees, directors and consultants by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of unlisted options (other than **ZEP Options**) is determined in reference to the prevailing share price on date of grant or by using a Black-Scholes model using the assumptions detailed in note 21. The fair value of ZEP Options is calculated using a probability-based valuation methodology with reference to the share price at grant date to issue the ZEP Options.

Performance rights
The Company measures performance rights based upon the grant date being the date of a shared understanding of the terms and conditions being achieved or the date of shareholder approval if required. Where the grant date is after the period in which services have begun to be rendered, the grant date fair value is estimated by reference to the period end share price.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that sufficient future tax profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

Business combinations
Management uses valuation techniques in determining the fair values of the various elements of a business combination. Particularly, the fair value of contingent consideration is dependent on the outcome of many variables that affect future profitability.

Fair value of financial instruments
Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible, but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Significant judgement in determining the lease term of contracts with renewal options
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has an option, under one of its leases to lease the assets for additional terms of 12 months. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

(f) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:
- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement in the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements listed above.

When the Company has less than a majority of the voting rights in an investee, it has the power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights are sufficient to give it power, including:
- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties; rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholder meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Changes in the Group's ownership interest in existing subsidiaries
Changes in the Group's ownership interest in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in subsidiaries. Any difference between the amount paid by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between:

- The aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- The previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by the applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under *AASB 9*, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(g) Revenue

Revenue is recognised when the significant control of products has been transferred to the customer, recovery of the consideration is probable and the associated costs can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

The Group generates its revenue from owned software, third-party software, and consulting and implementation services. Revenue is recognised based on the principles set out in *AASB 15*. K2fly has utilised the practical expedient under *AASB 15* paragraph 121(a) relating to contracts with an expected duration of 12 months or less, which applies to all of the Company's contracts with customers.

Revenue is recognised upon satisfaction of performance obligations, which occur when control of goods or services is transferred, rather than on transfer of risks or rewards.

Revenue is recognised either when the performance obligation in the contract has been performed (so "point in time" recognition) or "over time" as control of the performance obligation is transferred to the customer as determined in reference to the underlying contracts.

For all contracts the Group determines if the arrangement with a customer creates enforceable rights and obligations. The Group enters into contracts which contain extension periods, where the customer can choose to extend the contract or there is an automatic renewal, and/or termination clauses that could impact the actual duration of the contract. Judgement is applied to assess the impact that these clauses have when determining the appropriate contract term. The term of the contract impacts both the period over which revenue from performance obligations may be recognised.

For contracts that include software and services to be delivered management applies judgement to consider whether those promised services are (i) distinct – to be accounted for as separate performance obligations; (ii) not distinct – to be combined with other promised services until a bundle is identified that is distinct; or (iii) part of a series of distinct services that are substantially the same and have the same pattern of transfer to the customer.

At contract inception the total transaction price is estimated, being the amount to which the Group expects to be entitled and has rights to under the present contract. The transaction price does not include estimates of consideration resulting from change orders for additional services unless these are agreed. Once the total transaction price is determined, the Group allocates this to the identified performance obligations in proportion to their relative standalone selling prices and recognises revenue when (or as) those performance obligations are satisfied.

Licenses

Software licenses delivered by the Group can either be right to access (**active**) or right to use (**passive**) licenses. Active licenses require continuous upgrade and updates for the software to remain useful, all other license are treated as passive licenses. The assessment of whether a license is active or passive involves judgement. The key determinant of whether a licence is active is whether the Group is required to undertake activities that significantly affect the licensed intellectual property (or the customer has a reasonable expectation that it will do so) and the customer is, therefore, exposed to positive or negative impacts resulting from those changes.

When software upgrades are sold as part of the software license agreement (i.e. software upgrades are promised to the customer), the Group applies judgement to assess whether the software upgrade is distinct from the licence (i.e. a separate performance obligation). If the upgrade is considered fundamental to the ongoing use of the software by the customer, the upgrades are not considered distinct and not accounted for as a separate performance obligation.

The Group considers for each contract that includes a separate licence performance obligation all the facts and circumstances in determining whether the licence revenue is recognised over time or at a point in time from the go live date of the licence.

Owned Software Provided as a Service

The Group provides its Owned Software to customers as a service either on the customer's infrastructure or cloud hosted infrastructure sourced by the Group. The Group considers these licenses to be 'Active' licences as the customer has an expectation that the software will be continuously maintained so it remains functional. Much of this maintenance can be related to the infrastructure that the software operates on and is not specifically related to the software itself. Management judgement is that the performance obligation on these contracts occurs over time. Revenue is recognised over time, typically reflecting the annual payment nature of these contracts.

Owned Software provided via a Perpetual Licence

The Group provides its Owned Software to customers on a perpetual licence along with an annual support and maintenance arrangement. Management judgement is that the perpetual licence component of these contracts is a point in time performance obligation.

The customer has an expectation that the annual support and maintenance arrangement will lead to the software being continuously maintained so it remains functional. Much of this maintenance can be related to the infrastructure that the software operates on and is not specifically related to the software itself. Management judgement is that the annual support and maintenance arrangement is an over time performance obligation.

Third-party Software Provided as a Service

If in future, the Group provides third-party software to customers as a service either on the Customer's infrastructure or cloud hosted infrastructure typically provided by the third-party the Company may account for revenue as follows: the Group will consider if its role in any contracts is as principal (as opposed to an agent), and will also consider if the Group is engaged to perform the implementation services of any third-party software licenses.

The Group may consider that these licenses are 'active' licences as the customer has an expectation that the software will be continuously maintained so it remains functional. Much of this maintenance can be related to the infrastructure that the software operates on and is generally not specifically related to the software itself. Management judgement will consider if the performance obligation on these contracts occurs over time. Revenue may then be recognised over time, typically reflecting the annual payment nature of these type of contracts.

Third-party Software Provided via a Perpetual Licence

The Group provides third-party software to customers on a perpetual licence along with an annual support and maintenance arrangement. The Group considers its role in these contracts is as principal (as opposed to an agent), as the Group is engaged to perform the implementation services of these third-party software licences.

Management judgement is that the perpetual licence component of these contracts is a point in time performance obligation. The customer has an expectation that the annual support and maintenance arrangement will lead to the software being continuously maintained so it remains functional. Much of this maintenance can be related to the infrastructure that the software operates on and is not specifically related to the software itself. Management judgement is that the annual support and maintenance arrangement is an over time performance obligation.

Consulting and Implementation Services Provided on a Time and Materials Basis

The Group provides a range of services to customers on a 'time and materials' basis where the customer pays for the actual time spent by the Group's consultants delivering the service based on an hourly or daily rate.

The Group considers these services to be transactional services for which revenue is recognised over time when control of the services has transferred to the customer over time.

Consulting and Implementation Services Provided on a Fixed Price Basis

The Group provides some services on a fixed price for a fixed scope of work basis. The contract duration for these services is typically less than one year. Each contract is broken down into a set of performance obligations, with revenues and costs recognised on the achievement of each of the performance obligations.

Contract Assets and Contract Liabilities

The Group's customer contracts include a diverse range of payment schedules dependent on the nature and type of services being provided. The timing of invoicing of sales may differ to when revenue is recognised under this accounting policy. Where sales invoices raised are greater than the revenue recognised at the period end date, the Group recognises a deferred income contract liability for this difference. Where sales have not been invoiced in advance of the revenue being recognised at the period end date, the Group recognises an accrued income contract asset for this difference.

Government Grants

Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Interest income

Interest revenue is recognised using the effective interest rate method.

(h) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only capitalized to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be recognised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.
Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

K2fly Limited and its 100% owned Australian resident subsidiaries have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liability of these entities are set off in the consolidated financial statements.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is capitalized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Research and Development
The Group undertakes expenditure on activities that are categorised as "eligible expenditure" under the Research and Development Tax Incentive which, dependent upon certain criteria, may be subject to a tax offset. Where a tax offset has been received or is receivable in cash, the Group accounts for the tax offset as follows:

- Where a grant is received or receivable in relation to research and development costs which have been capitalized, the tax offset is deducted from the carrying amount of the assets; or
- Where a grant is received or receivable in relation to research and development costs which have been charged to profit or loss during this or a prior financial year, the tax offset shall be credited to the Statement of Comprehensive Income.

(i) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker.

The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of K2fly Limited.

(j) Earnings per share

Basic earnings/loss per share is calculated as net profit/loss attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings/loss per share is calculated as net profit/loss attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(k) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(l) Cash and cash equivalents

Cash comprises cash at bank and in hand.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(m) Trade and other receivables

Initial recognition
Receivables are initially recognised and measured at fair value. Receivables that are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest are classified and subsequently measured at amortised cost. Receivables that do not meet the criteria for amortised cost are measured at fair value through comprehensive income.

Subsequent measurement
Financial assets at amortised cost are subsequently measured using the effective interest (**EIR**) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Impairment
The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The expected credit losses on financial assets are estimated based on the Group's historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as forecast conditions at the reporting date.

In relation to all other receivables measured at amortised cost, the Group applies the credit loss model. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. In particular, the Group measures the loss allowance at an amount equal to lifetime expected credit loss (**ECL**) if the credit risk on the instrument has increased significantly since initial recognition. On the other hand, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the ECL within the next 12 months.

The Group considers an event of default has occurred when external sources indicate that the debtor is unlikely to pay its creditors, including the Group. A financial asset is credit impaired when there is evidence that the counterparty is in significant financial difficulty or a breach of contract, such as a default or past due event has occurred. The Group writes off a financial asset when there is information indicating the counterparty is in severe financial difficulty and there is no realistic prospect of recovering the contractual cash flow.

(n) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Electronic equipment	3 years
Leasehold improvements	3 years
Office equipment	3 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Derecognition and disposal
An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Impairment
The carrying values of plant and equipment are reviewed for impairment at each balance date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.
The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to approximate fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.
For plant and equipment, impairment losses are recognised in the statement of comprehensive income in the cost of sales line item.

(o) Intangible assets and goodwill

Intangible assets acquired separately
Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

Internally generated intangible assets – research and development expenditure
Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The following useful lives are used in the calculation of amortisation:

Software	3-5 years

Intangible assets acquired in a business combination
Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Impairment of tangible and intangible assets other than goodwill
The Group assesses at each balance date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

Goodwill
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or Groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with *AASB 8 Operating Segments*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(p) Trade and other payables

Trade and other payables
Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

Employee leave benefits
Wages, salaries, annual leave and sick leave
Liabilities accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave expected to be settled within 12 months of the balance date are recognised in provisions in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Liabilities accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave not expected to be settled within 12 months of the balance date are recognised in non-current provisions in respect of employees' services up to the balance date. They are measured as the present value of the estimated future outflows to be made by the Group.

(q) Leases

Right of use asset

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease Liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group has elected not to recognise right of use assets and lease liabilities for short term leases and low value assets. For these leases, the Group recognised the lease payments as an expense on a straight-line basis over the lease term.

(r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses. When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value or management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Group's obligation.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the balance date. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the balance date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(s) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (**functional currency**). The consolidated financial statements are presented in Australian dollars, which is K2fly Limited's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless that is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

(t) Share-based payments reserve

Equity settled transactions

The Group provides benefits to employees (including Directors) of the Group and those performing employee like services in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black-Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of K2fly Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each balance date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award with market vesting conditions are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share, refer note 6.

(u) Issued Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

(v) Business Combination

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or business under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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 (see above), 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.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with *AASB 9*, or *AASB 137 Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

(w) Parent entity disclosures

The financial information for the parent entity, K2fly Limited, has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries, associates and joint venture entities
Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the parent entity's financial statements. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

Share-based payments
The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

NOTE 2: REVENUE AND OTHER INCOME

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 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 5).

	2021 $	2020 $
(a) Revenue		
At a point in time		
Consulting and implementation revenue (provided on a fixed price basis)	908,051	716,891
Sales of third-party software (provided via a perpetual license)	18,700	29,000
	926,751	745,891
Over time		
Consulting and implementation revenue (provided on a time and material basis)	3,223,452	3,524,968
Hosting services revenue	193,773	106,561
Sales of own software (provided as a service)	2,610,966	1,224,061
	6,028,191	4,855,590
	6,954,942	5,601,481

The Group has applied *AASB 15 Revenue from Contracts with Customers*. The core principle of *AASB 15* is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Please refer to note 18 (contract liability) for details on deferred revenue representing contracts that have been billed however the performance obligations are unsatisfied or partially satisfied.

The Group did not recognise any impairment loss on receivables and contract assets from contracts with customers in the statement of comprehensive income for the year ended 30 June 2021 (2020: $ nil).

	2021 $	2020 $
(b) Other income		
Interest income	1,448	279
Government grants received	115,527	76,521
Other	293	2,565
	117,268	79,365

NOTE 3: EMPLOYEE BENEFIT EXPENSE

	2021 $	2020 $
Wages and salaries	2,596,241	1,972,565
Superannuation	204,199	149,669
Redundancies	-	39,044
Payroll tax	196,046	91,860
Fringe benefits tax	13,426	(4,014)
Training	6,417	13,897
Provision	166,072	96,464
Recruitment and relocation costs	167,869	39,093
Other	2,974	-
	3,353,244	2,398,578

NOTE 4: INCOME TAX EXPENSE

	2021 $	2020 $
Income tax expense		
The major components of tax expense are:		
Current tax expense / (income)	-	-
Deferred tax expense	-	-
	-	-

Reconciliation

The prima facie income tax expense on pre-tax accounting result from operations reconciles to the income tax expense in the financial statements as follows:

	2021 $	2020 $
Accounting loss before tax	(2,962,795)	(3,419,129)
Income tax benefit calculated at 2021 26.0% (2020: 27.5%)	(770,327)	(940,260)
Non-deductible expenses	352,181	475,890
Non-assessable income	(25,487)	(21,043)
Recognition of tax losses not previously recognised	(30,708)	-
R&D refundable rebate	-	88,142
Unused tax losses and tax utilised as deferred tax assets	659,792	519,030
Other deferred tax assets and tax liabilities not recognised	(159,928)	(33,079)
Effect of tax rates of subsidiaries in different jurisdictions	3,685	(538)
Income tax in different jurisdictions not recognised	(29,209)	-
Income tax benefit	-	88,142

	2021 $	2020 $
Deferred tax liabilities comprise:		
Business combinations	(1,256,475)	-
	(1,256,475)	-

Unrecognised deferred tax balances

The following deferred tax assets and (liabilities) have not been brought to account:

Deferred tax assets comprise:		
Losses available for offset against future taxable income	2,385,082	1,956,442
Depreciation timing differences	1,191,127	1,380,201
Share issue and business costs	13,466	25,485
Employee entitlement	150,563	75,524
Superannuation payable	37,783	21,137
Deferred gains and losses on foreign exchange contracts	4,056	28,674
Investments	1,166	1,283
Leases	4,183	1,727
Other	137,035	-
Deferred taxes not recognised	(3,924,461)	(3,490,473)
	-	-
Recognised in equity:		
Share issue costs	3,765	28,018
Deferred tax assets not recognized	(3,765)	(28,018)
	-	-

The Group has tax losses arising in Australia of $12,183,544 (2020: $7,114,333) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits thereof.

Deferred tax liabilities have been recognised in relation to the acquisitions of Sateva Pty Ltd and Sateva Development Pty Ltd and the Decipher for Mining software asset during the year. Please refer to Note 31: Business Combination for further explanation.

NOTE 5: SEGMENT REPORTING

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 Limited reviews internal reports prepared as consolidated financial statements and strategic decisions of the Group are determined upon analysis of these internal reports (refer note 2).

During the year, the Group operated predominantly in one business and geographical segment being the technology sector in Australia but identifies their revenue streams from consulting, sale of own software and sale of third party software as its operating segment.

During 2021, the Group's revenues depended on several main customers as follows:

- $1,591,995 or 23% (2020: $1,102,529 or 20%)
- $1,114,889 or 16% (2020: $345,783 or 6%)
- $452,163 or 7% (2020: $701,689 or 13%)
- $371,496 or 5% (2020: $1,031,958 or 18%)

NOTE 6: LOSS PER SHARE

	2021	2020
Basic loss per share (cents per shares)	(2.81)	(4.08)
Loss		
Loss used in the calculation of basic loss per share ($)	(2,962,795)	(3,330,987)
Weighted average number of shares		
Weighted average number of ordinary shares (number of shares)	105,267,006	81,633,144

Diluted loss per share has not been calculated as the result does not increase loss per share.

NOTE 7: CASH AND CASH EQUIVALENTS

	2021 $	2020 $
Cash at bank and on hand	6,906,331	2,919,788
	6,906,331	2,919,788

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Reconciliation to the Statement of Cash Flows:

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and at bank, net of corporate credit cards.

Cash and cash equivalents as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2021 $	2020 $
Cash and cash equivalents	6,906,331	2,919,788

Reconciliation of profit for the year to net cash flows from operating activities

Net loss for the year	(2,962,795)	(3,330,987)
Non-cash items and other adjustments:		
Amortisation	361,772	86,240
Depreciation plant and equipment	34,253	23,733
Depreciation leased assets	81,876	71,532
Share-based payments	557,830	440,162
Employment provisions	166,072	96,464
Acquisition expenses (investing activity) (note 31)	134,653	55,439
Foreign exchange	39,821	-

Movements in working capital:		
Increase in trade and other receivables	(730,355)	(277,868)
Increase/(decrease) in restricted cash	(105,175)	5,000
Increase in provisions	(118,667)	1,193,816
Increase in contract assets	-	68,750
Increase in contract liabilities	640,914	907,182
Increase in trade and other payables	259,156	140,138
Net cash used in operating activities	(1,640,645)	(520,399)

Changes in liabilities arising from financing activities

	2021 $	2020 $
Opening balance	100,201	179,324
Acquisition of plant and equipment by means of finance leases	56,122	-
Interest expense	9,705	9,686
Repayments of principal	(84,544)	(75,045)
Foreign exchange	4,355	(13,764)
Closing balance	85,839	100,201

NOTE 8: TRADE AND OTHER RECEIVABLES

	2021 $	2020 $
Trade receivables	1,927,292	1,127,917
Prepayments	193,063	15,886
Deposits	43,760	8,911
Other	559	-
	2,164,674	1,152,714

Terms and conditions relating to the above:

- All amounts are expected to be recoverable.
- Trade receivables are non-interest bearing and normally settled on 30 to 60 day terms.
- Due to the short nature of trade and other receivables, their carrying value is assumed to be approximate to their fair value.

Ageing of past due but not impaired

	2021 $	2020 $
30 – 60 Days	1,187,789	934,899
60 – 90 Days	532,894	121,137
90+ Days	206,609	71,880
Total	1,927,292	1,127,916

NOTE 9: RESTRICTED CASH

	2021 $	2020 $
Bank guarantees	125,175	20,000

NOTE 10: PLANT AND EQUIPMENT

	Electronic Equipment $	Leasehold improvements $	Office equipment $	Total $
Cost	126,477	2,939	35,206	164,622
Accumulated depreciation	(69,445)	(2,939)	(31,534)	(103,918)
	57,032	-	3,672	60,704
Reconciliation				
Opening balance	32,701	-	6,495	39,196
Additions	34,387	-	-	34,387
Acquired as part of Sateva acquisition (note 31)	10,687	-	3,715	14,402
Acquired as part of Decipher acquisition (note 31)	5,353	-	-	5,353
Depreciation	(27,383)	-	(6,870)	(34,253)
Foreign exchange	1,287	-	332	1,619
Closing balance	57,032	-	3,672	60,704

NOTE 11: RIGHT OF USE ASSETS

	2021 $	2020 $
Right of use assets		
Cost	229,959	165,538
Accumulated depreciation	(159,060)	(71,532)
	70,899	94,006
Balance as at beginning of year	94,006	178,749
Acquisition of plant and equipment by means of finance leases	46,971	-
Depreciation	(81,876)	(71,532)
Foreign exchange	11,798	(13,211)
Balance at end of year	70,899	94,006

Leased assets are capitalised at the commencement date of the lease and comprise of the initial lease liability amount, initial direct costs incurred when entering into the lease less any lease incentives received. On initial adoption of *AASB 16* the Group has adjusted the right-of-use assets at the date of initial application by the amount of any provision for onerous leases recognised immediately before the date of initial application. Following initial application, an impairment review is undertaken for any right of use lease asset that shows indicators of impairment and an impairment loss is recognised against any right of use lease assets that is impaired.

NOTE 12: INTANGIBLE ASSETS

	2021 $	2020 $
Software at cost	6,110,343	431,200
Software - accumulated amortisation	(455,199)	(93,427)
Total Intangible Assets	5,655,144	337,773

	2021 $	2020 $
Movements:		
Carrying amount at the beginning of the year	337,773	424,013
Acquired as part of Sateva acquisition (a)	565,000	-
Provisionally accounted intangibles as part of Decipher acquisition (b)	4,004,000	-
Internally generated intangible assets (c)	1,110,143	-
Amortisation	(361,772)	(86,240)
Carrying amount at the end of the year	5,655,144	337,773

(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**). As part of the acquisition accounting, $565,000 was ascribed to the intellectual property rights associated with the Sateva software based on an independent valuation (refer note 31).

(b) On 31 March 2021, the Company completed the acquisition of the assets held by CSBP Limited (**CSBP**) and Wesfarmers Chemicals, Energy & Fertilisers Limited (**WesCEF**) used in the operation of the 'Decipher for Mining' mining (together **Decipher**). As part of the acquisition accounting, $4,004,000 was ascribed to the intellectual property rights associated with the Decipher software based on an independent valuation at 12 August 2021 (refer note 31).

(c) Expenditure in relation to development of the Company's own IP to enhance its current Software as a Service (**SaaS**) product suite and as additional opportunities in the Resources' sector, including:

- Increased investment in new product development within the SATEVA suite of technical assurance solutions Model Manager and Ore Blocker.
- Continued investment in the Tailings Governance Solution.
- Upgrading the leading RCubed Mineral Inventory Governance and Reporting solution to support our rapidly growing customer list of Tier 1 and Tier 2 miners.
- Development of NextGen which utilises Infoscope and Decipher for Mining for a land management solution.

NOTE 13: GOODWILL

	2021 $	2020 $
Goodwill (a)	7,342,817	731,543

	2021 $	2020 $
Movements:		
Carrying amount at the beginning of the year (a)	731,543	731,543
Acquired as part of Sateva acquisition (b)	4,430,642	-
Provisionally accounted goodwill as part of Decipher acquisition (c)	2,180,632	-
Carrying amount at the end of the year	7,342,817	731,543

(a) Goodwill arose in relation to the Infoscope Acquisition (refer note 34 of the FY19 annual report for details). During the year ended 30 June 2021, management engaged an external firm to conduct an impairment assessment in relation to goodwill. The recoverable amount was based on a value-in-use calculation and was determined at the cash-generating unit level (**Infoscope CGU**). The pre-tax discount rate adopted was 29.2% (2020: 29.2%) and the value-in-use was based upon forecast cash flows over a five-year period with a final year terminal value. The five-year forecast used as the basis for the value-in-use model was based on the 12 month budget (extrapolated over a four year period at a 25% annual growth rate in revenue to provide a total five year forecast model) and forecast assumptions as approved by the Board of Directors. The assumptions are considered reasonable and supportable and were derived with due consideration to actual Infoscope CGU performance indicators, actual revenue achieved in the year immediately before the budgeted year, existing revenue streams, and potential new client revenue streams.

The Company has considered the impact of possible changes in key assumptions. Based on a sensitivity analysis undertaken, the following possible changes (taken in isolation) would not result in a reduction of the carrying value of goodwill:

- reduction of forecast revenue of up to 22% against management's estimates at 30 June 2021;
- adjustment of terminal value amount to $0.3m;
- increase in the post-tax discount rate to over 54%; and
- increase of 35% in allocated overhead costs.

Based upon the value in use calculation, no impairment has been recognised.

(b) Goodwill arose in relation to the Sateva acquisition (refer note 31). As the business combination was only recently completed during the period, management is of the view that the key assumptions underlying the acquisition remain valid and as such there is no indication of impairment at the reporting date.

(c) Goodwill arose in relation to the Decipher acquisition (refer note 31).

NOTE 14: OTHER FINANCIAL ASSETS

	2021 $	2020 $
Shares in listed entity – at fair value	844	844

NOTE 15: TRADE AND OTHER PAYABLES

	2021 $	2020 $
Current		
Accounts payable	353,454	443,158
Accrued expenses	656,778	166,244
Sateva Deferred Consideration payable	118,667	-
Other payable	193,464	124,958
Employee liabilities	348,064	222,358
	1,670,427	956,718

Terms and conditions relating to the above:

- All amounts are expected to be settled.
- Trade payable are non-interest bearing and normally settled on 30-day terms.
- Due to the short nature of trade and other payables, their carrying value is assumed to be approximate to their fair value.

NOTE 16: PROVISIONS AND OTHER PAYABLES

	2021 $	2020 $
Current		
Employee leave provisions	473,863	231,910
RCubed Milestone Incentives (a)	450,000	700,000
Sateva deferred consideration (b)	471,600	-
Provisionally accounted Decipher performance shares (c)	837,089	-
	2,232,552	931,910
Non-Current		
Employee leave provisions	123,103	42,437
RCubed Milestone Incentives (a)	100,000	400,000
Sateva deferred consideration (b)	2,250,000	-
Provisionally accounted Decipher performance shares (c)	557,550	-
	3,030,653	442,437
Total Current and Non-Current	5,263,205	1,374,347

(a) On 31 May 2019 K2F RCubed Pty Ltd, a wholly owned subsidiary of the Company, acquired 100% of the assets of RCubed Global Pty Ltd, XCube Holdings Pty Ltd and Prodmark Pty Ltd relating to the RCubed Resources and Reserve Reporting software pursuant to an asset sale agreement (**Agreement**).

In accordance with the terms of the Agreement (as varied) the following incentive payments have been paid or are payable:

- Milestone Payment A (being $600,000) – RCubed sales generated not less than AUD$500k of new net recurring annual license 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) - RCubed sales 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) - RCubed sales achieved up to AUD$500k of New Net Revenue in the 12 month period from the end of the Milestone B payment period.

With the additional contracts secured for K2F's RCubed resource governance solution, the performance milestone revenue hurdles (which were set to be achieved over a three-year period) were achieved in just thirteen months from acquisition, and as such the full provision was recognised in FY20.

At 30 June 2021, all of the Milestone Payment A has been paid and $50k of the Milestone Payment B had been made. The balance of the Milestone Payment B and Milestone Payment C (totaling $550k) are included in provisions at 30 June 2021.

(b) In accordance with the terms of the Sateva acquisition (refer to note 31), 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 30 June 2021, the Company recognised an initial amount of $2,840,267 in respect to Deferred Consideration, of which $118,667 had been achieved at 30 June 2021 (refer note 15).

(c) In accordance with the terms of the Decipher acquisition (refer to note 31), the Company issued performance shares which are converted on an annual basis into a number of fully paid ordinary shares to a value equal to 22% of the annual revenues attributable to the Decipher business, over a four-year period following completion (**Performance Shares**). Each tranche of shares issued on conversion of the performance shares will also be subject to voluntary escrow for 12 months. A maximum of 5,345,633 fully paid ordinary shares in the Company can be issued to CSBP Limited as a result of the conversion of the performance shares. At 30 June 2021, the Company is yet to fair value the Performance Shares. 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.

NOTE 17: INTEREST BEARING LEASE LIABILITIES

	2021 $	2020 $
Current		
Lease liability	49,172	66,971
	49,172	66,971
Non-Current		
Lease liability	36,667	33,230
	36,667	33,230
Total Current and Non-Current	85,839	100,201

The Group has also entered a commercial lease to rent office space at its South African branch. The lease has a fixed term of three years with a renewal option of a further 12 months following this initial term unless terminated.

NOTE 18: CONTRACT LIABILITIES

	2021 $	2020 $
Deferred revenue (a)	2,059,890	1,344,058

Movements:	2021 $	2020 $
Opening balance	1,344,058	436,876
Deferred during the year	2,976,280	1,344,058
Acquired as part of Decipher acquisition	74,918	-
Released to the statement of profit or loss	(2,335,366)	(436,876)
Closing balance	2,059,890	1,344,058

(a) Represents aggregate amounts of transaction prices relating 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:

	2021 $	2020 $
Hosting services revenue	51,815	25,358
Sales of own software (software as a service)	2,008,075	1,318,700
	2,059,890	1,344,058

NOTE 19: ISSUED CAPITAL

	2021 $	2020 $
Issued and paid up capital	34,361,719	21,038,690
Share issue costs	(3,495,999)	(2,848,816)
	30,865,720	18,189,874

	2021		2020	
Movements:	**Number**	**$**	**Number**	**$**
Opening balance	91,546,781	18,189,874	75,354,141	15,661,041
Shares issued – Placement (a)	25,000,000	7,250,000	-	-
Broker Options issued – Placement (a)	-	22	-	-
Shares issued – Sateva acquisition (b)	5,633,803	2,000,000	-	-
Shares issued – Decipher acquisition (c)	11,366,691	3,410,007	-	-
Shares issued to advisors (d)	43,860	15,000	-	-
Shares issued – Exercise of options (e)	1,794,642	-	-	-
Shares issued – Exercise of options (f)	2,592,000	648,000	-	-
Shares issued – Placement	-	-	6,250,000	1,000,000
Shares issued – Exercise of listed options	-	-	8,596,096	1,719,217
Shares issued – Vesting of performance rights	-	-	137,500	-
Shares issued to advisors	-	-	81,522	15,000
Shares issued to advisors	-	-	68,182	15,000
Shares issued – Exercise of options	-	-	479,340	-
Shares issued – Exercise of options			580,000	135,500
Share issue costs	-	(430,948)	-	(355,884)
Share based payments – options (a)	-	(216,235)	-	-
Closing balance	137,977,777	30,865,720	91,546,781	18,189,874

(a) On 27 April 2021, the Company completed a placement of 25,000,000 fully paid ordinary shares at $0.29 per share to raise cash funds of $7,250,000 (before costs) (**Placement**). Funds raised from the Placement will be applied towards potential acquisitions, sales and marketing, product development and general working capital. On the same day, the Company issued 2,265,625 unlisted options at an issue price of $0.00001 each to raise funds of $23, exercisable at $0.435 each on or before 10 March 2024 to Argonaut (**Lead Manager**) in relation to the Placement.

(b) On 5 November 2020, the Company issued 5,633,803 shares in respect to the acquisition of 100% of the issued share capital and voting rights of Sateva Pty Ltd and Sateva Development Pty Ltd (**Sateva Acquisition**) (refer note 31).

(c) On 31 March 2021, the Company issued 11,366,691 shares in respect to the acquisition of Decipher for Mining from CSBP Limited (**CSBP**) (a subsidiary of Wesfarmers Limited) (**Decipher Acquisition**) (refer note 31).

(d) 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 21(a)).

(e) During the year ended 30 June 2021 the following shares were issued upon the exercise of unlisted options:
- On 10 July 2021, a total of 700,000 shares were issued upon the exercise of 600,000 unlisted options exercisable at $0 each expiring 25 November 2021 (**Series 13**) by Non-Executive Directors of the Company and 100,000 shares exercisable at $0 each expiring 25 November 2021 (**Series 13**) by consultants of the Company
- At various dates in July 2021 and September 2021, a total of 270,933 shares were issued upon the exercise of 270,933 unlisted options exercisable at $0 each expiring 26 November 2020 (**Series 9**) by employees of the Company (issued under the Company's EIOP)
- On 11 June 2021, a total of 450,000 shares were issued upon the exercise of 450,000 unlisted options exercisable at $0 each expiring 27 November 2022 (**Series 22**) by Non-Executive Directors of the Company
- On 11 June 2021, a total of 83,333 shares were issued upon the exercise of 83,333 unlisted options exercisable at $0 each expiring 16 September 2022 (**Series 19**) by consultants of the Company
- On 11 June 2021 and 23 June 2021, a total of 156,453 shares were issued upon the exercise of 156,453 unlisted options exercisable at $0 each expiring 25 November 2021 (**Series 16**) by employees of the Company (issued under the Company's EIOP)
- On 11 June 2021, a total of 133,923 shares were issued upon the exercise of 133,923 unlisted options exercisable at $0 each expiring 26 November 2020 (**Series 14**) by the CEO of the Company.

(f) During the year ended 30 June 2021, a total of 2,592,000 shares were issued upon the exercise of 1,792,000 unlisted options exercisable at $0.25 each on or before 17 November 2020 (**Series 1**) and 800,000 unlisted options exercisable at $0.25 each on or before 1 December 2020 (**Series 2**).

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

NOTE 20: RESERVES

Nature and purpose of reserves

Asset revaluation reserve
The asset revaluation reserve is used to record changes in the fair value of investments.

Performance rights and option reserves
These reserves are used to record the value of equity benefits provided to employees and Directors as part of their remuneration or to consultants arising from services performed. Refer to note 21 for further details of these plans.

	2021 $	2020 $
Performance rights reserve	199,100	199,100
Option reserve (a)	1,758,818	999,753
Foreign currency translation reserve	20,219	22,123
Asset revaluation reserve	120	120
	1,978,257	1,221,096

(a) Movements in option reserve		
Carrying amount at the beginning of the period	999,753	385,507
Share-based payments expense – options (recorded through profit or loss)	542,830	410,162
Share-based payments expense – options (recorded through equity in share issue costs)	216,235	204,084
Carrying amount at the end of the period	1,758,818	999,753

NOTE 21: SHARE-BASED PAYMENTS EXPENSE

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

	2021 $	2020 $
Shares issued to advisor (a)	15,000	30,000
Unlisted options issued to advisors (b)	16,495	50,782
Unlisted options issued to directors, employees and consultants (c)	526,335	359,380
	557,830	440,162

Total costs arising from share-based payment transactions recognised through equity during the year were as follows:

	2021 $	2020 $
Options issued to advisor (d)	216,235	204,084

(a) Shares

During the year a total of 43,860 shares were issued to Canary Capital pursuant to the Investor Marketing Mandate. Refer to note 19(d).

(b) Unlisted options to advisor

On 26 October 2020, the **Company** issued to Canary Capital 200,000 unlisted options at an exercise price of $0.70 each expiring 26 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:

	Canary Options (Series 21)
Dividend yield (%)	Nil
Expected volatility (%)	77%
Risk free interest rate (%)	0.21%
Exercise price ($)	$0.700
Marketability discount (%)	Nil
Expected life of options (years)	2.00
Share price at grant date ($)	$0.355
Value per option ($)	$0.0825

(c) Unlisted options to directors, employees and consultants

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

- 83,333 unlisted options issued on 17 September 2020 to a consultant of the Company exercisable at $0 each on or before 16 September 2022 (**Bellatrix Options**) (no vesting conditions) (**Series 19**)
- 140,845 unlisted options on 3 November 2020 to Mark Forster pursuant to the Sateva Acquisition agreement for ongoing services to the Company exercisable at $0 each on or before 3 May 2022 (**Sateva Options**) (subject to vesting conditions) (**Series 20**)
- 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 (**ZEP Options**) (no vesting conditions) (**Series 22**)
  - 406,926 unlisted options exercisable at $0 each on or before 27 November 2022 (**ZEP Options**) (subject to vesting conditions) (**Series 23**); and
  - 258,953 unlisted options exercisable at $0.497 each on or before 27 November 2024 (**PEP Options**) (subject to vesting conditions) (**Series 24**); 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 unlisted options exercisable at $0 each on or before 27 November 2022 (**ZEP Options**) (subject to vesting conditions) (**Series 26**); and
  - 395,236 unlisted options exercisable at $0.497 each on or before 27 November 2024 (**PEP Options**) (subject to vesting conditions) (**Series 27**).

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.

Series	Recipient	Number Issued	Value per ZEP Option	Expected % to vest	Condition	Vested / Not Vested	Total Value $
Series 22	Non-Executive Directors	450,000	$0.335	100%	Non-Market	Vested	$150,750
Series 23	Executive Director / CEO	406,926	$0.335	20%	Non-Market[1]	Not Vested	$10,736
Series 26	Employees (EIOP participants)	946,878	$0.335	35%	Non-Market[1]	Not Vested	$44,008
		1,803,804					$205,494

[1] Options shall vest and become exercisable when any vesting conditions (including remaining employed by the Company for a period of 18 months from date of issue of the ZEP Options, that is remaining employed at 15 May 2022) have been satisfied or waived by the Board. The ultimate number of options that are capable of vesting are based on the extent of achievement against both Company and individual KPIs in respect of the

year ended 30 June 2021, as determined by the Board.

Fair Value of PEP Options

The fair value of PEP Options was 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 input to the model for the options:

	PEP Options (Series 24 and Series 27)
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

The PEP Options shall vest and become exercisable upon the employee remaining employed by the Company for a period of three years from date of issue of the PEP Options, that is remaining employed at 27 November 2023.

Fair Value of Bellatrix Options and Sateva Options

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

Series	**Recipient**	**Number Issued**	**Value per Option**	**Expected % to vest**	**Condition**	**Vested / Not Vested**	**Total Value $**
Series 19	Bellatrix Options	83,333	$0.36	100%	Non-Market	Vested	$30,000
Series 20	Sateva Options	140,845	$0.355	100%	Non-Market[1]	Vested	$50,000
		224,178					$80,000

[1] Options shall vest and become exercisable when any vesting conditions (including the completion and commercial delivery of three software products by SATEVA referred to as Maximum Return, Optimiser and Block Model Manager by 30 June 2021 and Mark Forster remaining as an employee of K2F).

(d) Unlisted options to advisor

On 27 April 2021, the Company issued to Argonaut 2,265,625 unlisted options at an issue price of $0.00001 each to raise funds of $23 at an exercise price of $0.435 expiring 10 March 2024 pursuant to the mandate to act as lead manager in respect to the placement completed in April 2021. Refer to note 19(a).

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:

	Argonaut Options (Series 25)
Dividend yield (%)	Nil
Expected volatility (%)	57%
Risk free interest rate (%)	0.07%
Exercise price ($)	$0.435
Marketability discount (%)	Nil
Expected life of options (years)	2.87
Share price at grant date ($)	$0.330
Value per option ($)	$0.0954

NOTE 22: UNLISTED OPTIONS (SHARE-BASED PAYMENTS)

The following refers to unlisted options issued as share-based payment. Other options issued by the Company which do not constitute a share-based payment are not included in this disclosure note.

The following share-based payment arrangements were in place during the current and prior periods.

	Grant date	Expiry date	Exercise price	Fair value at grant date per option	Vesting date
Series 1	22/11/2016	17/11/2020	$0.25	$0.016	17/11/2016
Series 2	22/11/2016	01/12/2020	$0.25	$0.016	17/11/2016
Series 7	07/7/2017	07/7/2020	$0.25	$0.030	7/7/2017
Series 9*	26/11/2018	26/11/2020	$0.00	$0.170	26/05/2020
Series 10	26/11/2018	26/11/2022	$0.243	$0.105	26/11/2021
Series 11*	26/11/2018	26/11/2022	$0.243	$0.105	26/11/2021
Series 12	8/10/2019	11/10/2022	$0.350	$0.068	8/10/2019
Series 13	25/11/2019	25/11/2021	$0.000	$0.215	25/11/2019
Series 14	25/11/2019	25/11/2021	$0.000	$0.215	25/05/2021
Series 15	25/11/2019	25/11/2023	$0.291	$0.127	25/11/2022
Series 16*	25/11/2019	25/11/2021	$0.000	$0.215	25/05/2021
Series 17*	25/11/2019	25/11/2023	$0.291	$0.127	25/11/2022
Series 18	18/05/2020	12/06/2023	$0.30	$0.107	12/06/2020
Series 19	16/09/2020	16/09/2022	$0.00	$0.360	16/09/2020
Series 20	27/10/2020	03/05/2022	$0.00	$0.355	30/06/2021
Series 21	26/10/2020	26/10/2022	$0.70	$0.082	26/10/2020
Series 22	27/11/2020	27/11/2022	$0.00	$0.335	27/11/2020
Series 23	27/11/2020	27/11/2022	$0.00	$0.335	27/05/2022
Series 24	27/11/2020	27/11/2024	$0.497	$0.148	27/11/2023
Series 25	27/04/2021	10/03/2024	$0.435	$0.095	27/04/2021
Series 26*	27/11/2020	27/11/2022	$0.00	$0.335	27/05/2022
Series 27*	27/11/2020	27/11/2024	$0.497	$0.148	27/11/2023

*Issued under the Company's EIOP.

There has been no alteration of the terms and conditions of the above share-based payment arrangements since grant date.

Movements in the various classes of unlisted options during the year ended 30 June 2021 is detailed as follows:

	Opening balance 1 July 2020	Granted	Exercised	Lapsed / Expired	Closing balance 30 June 2021	Vested / Unvested
Series 1	1,920,000	-	(1,792,000)	(128,000)	-	-
Series 2	800,000	-	(800,000)	-	-	-
Series 7	350,000	-	-	(350,000)	-	-
Series 9*	270,933	-	(270,933)	-	-	-
Series 10	639,019	-	-	-	639,019	Unvested
Series 11*	1,278,179	-	-	-	1,278,179	Unvested
Series 12	750,000	-	-	-	750,000	Vested
Series 13	700,000	-	(700,000)	-	-	Vested
Series 14	367,920	-	(133,923)	(233,997)	-	-
Series 15	683,280	-	-	-	683,280	Unvested
Series 16*	748,980	-	(156,453)	(473,266)	119,261	Vested
Series 17*	1,401,600	-	-	-	1,401,600	Unvested
Series 18	1,912,500	-	-	-	1,912,500	Vested
Series 19	-	83,333	(83,333)	-	-	-
Series 20	-	140,845	-	-	140,845	Vested
Series 21	-	200,000	-	-	200,000	Vested
Series 22	-	450,000	(450,000)	-	-	-
Series 23	-	406,926	-	-	406,926	Unvested
Series 24	-	258,953	-	-	258,953	Unvested
Series 25	-	2,265,625	-	-	2,265,625	Vested
Series 26*	-	946,878	-	-	946,878	Unvested
Series 27*	-	395,236	-	-	395,236	Unvested
	11,822,411	5,147,796	(4,386,642)	(1,185,263)	11,398,302	

*Issued under the Company's EIOP.

The following table illustrates the number and weighted average price and movements in share options issued during the year in summary form.

	2021		2020	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Opening balance	11,822,411	$0.23	7,536,416	$0.20
Granted	5,147,796	$0.24	6,564,280	$0.14
Exercised	(4,386,642)	$0.15	(1,059,340)	$0.13
Lapsed / expired	(1,185,263)	$0.10	(1,218,945)	$0.11
Outstanding at the end of the year	11,398,302	$0.28	11,822,411	$0.23
Exercisable at the end of year	5,388,231	$0.36	6,703,433	$0.24

A total of 4,386,642 unlisted options were exercised during the year for $648,000 (2020: 1,059,340 for $135,000).

Unlisted options outstanding at 30 June 2021 had a weighted average exercise price of $0.28 (2020: $0.23) and a weighted average remaining contractual life of 739 days (2020: 704 days).

The weighted average fair value of options granted during the year was $0.24 (2020: $0.14).

NOTE 23: INVESTMENT IN CONTROLLED ENTITIES

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

	Country of Incorporation	2021 Percentage owned	2020 Percentage owned
Controlled entities			
Power Minerals Pty Ltd	Australia	100%	100%
Infoscope Pty Ltd	Australia	100%	100%
K2fly RCubed Pty Ltd	Australia	100%	100%
K2fly South Africa Pty Ltd	South Africa	100%	100%
Sateva Pty Ltd	Australia	100%	-
Sateva Development Pty Ltd	Australia	100%	-
K2fly (UK) Limited	United Kingdom	100%	-

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

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

NOTE 24: PARENT ENTITY DISCLOSURES

	2021 $	2020 $
Statement of financial position		
Assets		
Current assets	6,897,541	2,664,560
Non-current assets	8,982,324	1,914,820
Total assets	15,879,864	4,579,380
Liabilities		
Current liabilities	2,829,834	2,693,357
Non-current liabilities	1,576,354	365,483
Total liabilities	4,406,187	3,058,840
Equity		
Issued capital	30,865,738	18,189,892
Share-based payment reserve	1,957,917	1,198,852
Accumulated losses	(21,349,978)	(17,868,204)
Total equity	11,473,677	1,520,540
Statement of comprehensive income		
Loss for the year	(3,481,774)	(3,307,885)
Other comprehensive income	-	-
Total comprehensive loss	(3,481,774)	(3,307,885)

No guarantees have been entered into by the parent entity in relation to the debts of its subsidiaries.

Contingent liabilities of the parent entity
Contingent liabilities of the parent entity are the same as those of the Group at 30 June 2021, as detailed at note 26.

Commitments

Commitments of the parent entity are the same as those of the Group at 30 June 2021, as detailed at note 25.

NOTE 25: COMMITMENTS

The Company had no commitments at 30 June 2021 (30 June 2020: nil).

NOTE 26: CONTINGENT ASSETS AND LIABILITIES

The Company had no contingent assets and liabilities at 30 June 2021 (30 June 2020: nil).

NOTE 27: FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2020. The Group is involved in the sale of software licenses under a Software-as-a-Service business model. The Group is actively engaged in the direct sale of its own intellectual property rights (**IPR**) as well as the sale of third party IPR through its partnership arrangements.

The capital structure of the Group consists of cash and cash equivalents, borrowings and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand operations, as well as to make routine expenditures such as tax, dividends and general administrative outgoings.

Gearing levels are reviewed by the Board on a regular basis in line with its target gearing ratio, the cost of capital and the risks associated with each class of capital.

Financial assets and liabilities

	2021	**2020**
	$	**$**
Cash	6,906,331	2,919,788
Trade and other receivables	2,164,674	1,152,714
Fair value through other comprehensive income	844	844
Trade and other payables	1,670,427	956,718
Interest-bearing liabilities	85,839	100,201

Financial risk management objectives

The Group has exposure to the following risks from their use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk
- Foreign exchange risk
- Equity price risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Group through regular reviews of the risks.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

Interest rate risk management

The Group has no material exposure to interest rate risk.

Equity price risk management

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group. The majority of the Group's investments are publicly traded.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's trade debtors. For the parent entity it also arises from receivables due from subsidiaries. The Group has adopted the policy of only dealing with credit worthy counterparties where appropriate, as a means of mitigating the risk of financial loss from defaults.

Foreign Exchange Risk

Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities denominated in a currency that is not the Entity's functional currency and net investments in foreign operations. The Group has not formalised a foreign currency risk management policy however it monitors its foreign currency expenditure in light of exchange rate movements. The international operations are at the start-up stage and there is limited exposure at the reporting date to assets and liabilities denominated in foreign currencies.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following tables detail the Groups expected contractual maturity for its non-derivative financial liabilities as at 30 June 2021:

	Current 0-1 years $	Non-Current 1-5 years $	5+ years $
Trade and other payables	1,670,427	-	-
Interest-bearing liabilities	49,172	36,667	-

The following tables detail the Groups expected contractual maturity for its non-derivative financial liabilities as at 30 June 2020:

	Current 0-1 years $	Non-Current 1-5 years $	5+ years $
Trade and other payables	956,718	-	-
Interest-bearing liabilities	71,809	34,462	-

Fair value measurement
Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the Group as at 30 June 2021:

	At amortised cost $	Fair value through profit or loss $	Fair value through other comprehensive income $
Financial Assets			
Trade and other receivables	2,164,674	-	-
Other financial assets	-	-	844
Total Assets	2,164,674	-	844
Financial Liabilities			
Trade and other payables	1,670,427	-	-
Interest-bearing liabilities	85,839	-	-
	1,756,266	-	-

Set out below is a comparison of the carrying amount and fair values of financial instruments as at 30 June 2021:

	Carrying Value $	Fair Value $
Financial Assets		
Trade and other receivables	2,164,674	2,164,674
Other financial assets	844	844
Total Assets	2,165,518	2,165,518
Financial Liabilities		
Trade and other payables	1,670,427	1,670,427
Interest-bearing liabilities	85,839	85,839
Total Liabilities	1,756,266	1,756,266

Fair value measurement

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the Group as at 30 June 2020:

	At amortised cost $	Fair value through profit or loss $	Fair value through other comprehensive income $
Financial Assets			
Trade and other receivables	1,152,714	-	-
Other financial assets	-	-	844
Total Assets	1,152,714	-	844
Financial Liabilities			
Trade and other payables	956,718	-	-
Interest-bearing liabilities	100,201	-	-
	1,056,919	-	-

Set out below is a comparison of the carrying amount and fair values of financial instruments as at 30 June 2020:

	Carrying Value $	Fair Value $
Financial Assets		
Trade and other receivables	1,152,714	1,152,714
Other financial assets	844	844
Total Assets	1,153,558	1,153,558
Financial Liabilities		
Trade and other payables	956,718	956,718
Interest-bearing liabilities	100,201	100,201
Total Liabilities	1,056,919	1,056,919

NOTE 28: RELATED PARTY DISCLOSURES

Remuneration of Key Management Personnel

	2021 $	2020 $
Short-term employee benefits	394,932	377,472
Post-employment employee benefits	25,243	24,460
Share-based payment	237,731	210,850
	657,906	612,782

	2021 $	2020 $
Payables and accruals:		
Brian Miller	44,238	57,982
Neil Canby	3,300	12,000
James Deacon	12,888	15,000
Jenny Cutri	6,000	12,000

There are no other transactions with Key Management Personnel during the year ended 30 June 2021.

NOTE 29: AUDITOR'S REMUNERATION

	2021 $	2020 $
Audit or review of financial statements	49,169	46,575
Taxation compliance	21,250	16,750
	70,419	63,325

NOTE 30: SIGNIFICANT EVENTS AFTER BALANCE DATE

On 6 July 2021, the Company issued 55,431 shares on the exercise of unlisted options exercisable at $0 and expiry date 25 November 2021.

On 23 July 2021, the Company announced that from 1 September 2021, Mr Brian Miller will step down as CEO and be engaged as an Executive Director of K2F. In addition, Mr Nic Pollock has been appointed into the role of CEO.

On 6 August 2021, the Company announced that Alcoa USA Corp has signed a 5-year contract with K2fly for stage 1 of a Dams and Tailings solution across seven global sites commencing in August 2021.

On 2 September 2021, the Company announced that it has appointed Sara Amir-Ansari as CFO commencing 25 October 2021.

On 17 September 2021, the Company announced that Newmont Corporation has signed a 5-year extension to their existing contract for K2F's Resource Governance Solution.

On 20 September 2021, the Company announced that Sibanye-Stillwater had entered in to a 5-year contract for Decipher Tailings solution to be rolled out across its 38 tailings facilities globally. The initial total contract value is $2.85M.

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.

NOTE 31: BUSINESS COMBINATIONS

Sateva

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.

The fair values of identifiable assets and liabilities acquired in the business combination were previously provisionally accounted for in accordance with *AASB 3*. The Company completed a comprehensive analysis of the assets and liabilities acquired, as well as a purchase price allocation, which produced the fair values reported below.

	$
Consideration	
Cash	2,511,836
Equity	2,000,000
Deferred consideration	2,840,267
	7,352,103

	$
Assets Acquired	
Cash acquired	2,685,996
Trade and other receivables	253,604
Tangible fixed assets	14,402
Intellectual property rights – Sateva	565,000
	3,519,002
Less: Trade and other payables	(413,375)
Less: Provisions	(28,791)
Less: Deferred tax liability	(155,375)
Fair value of net assets acquired	2,921,461
Goodwill	**4,430,642**
Net cash outflow/(inflow) arising on acquisition	
Cash paid	2,511,836
Less: net cash acquired	(2,685,996)
Net cash outflow	**(174,160)**

The provisional amounts previously disclosed were amended to reflect the final allocations, which comprised attributing a value of $565,000 to intangible assets (based on independent valuation) and the corresponding deferred tax liability of $155,375 with the excess consideration allocated to goodwill.

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 totaling $14,402. The value of intangible assets amounted to $565,000 as outlined in the intangible assets note (refer note 12).

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 and deferred tax liability on intangible asset acquired. 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.

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. Refer to note 16 for details.

Sateva contribution to the Group's results

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

The acquired entities contributed $1,314,548 to the Group's revenues from the date that K2Fly assumed control being 26 October 2020 to 30 June 2021. Had Sateva been part of the Group for the full year, total revenue would have increased by approximately $809,163 and net loss increased by approximately ($633,350).

Decipher

On 31 March 2021, the Company completed the acquisition of the assets held by CSBP Limited (**CSBP**) and Wesfarmers Chemicals, Energy & Fertilisers Limited (**WesCEF**) used in the operation of the 'Decipher for Mining' (together **Decipher**). Decipher offers cloud-based software-as-a-service monitoring and compliance solutions in tailings management and rehabilitation for mining industry customers. The Decipher 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.

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 note 1(v) for further details), for 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:

	$
Consideration	
Cash	5,509
Equity	3,410,007
Performance shares	1,394,639
	4,810,155

	$
Assets Acquired	
Trade and other receivables	28,001
Tangible fixed assets	5,353
Intellectual property rights – Decipher	4,004,000
	4,037,354
Less: Contract liabilities	(74,918)
Less: Provisions	(231,813)
Less: Deferred tax liability	(1,101,100)
Fair value of net assets acquired	2,629,523
Goodwill [1]	**2,180,632**
Net cash outflow arising on acquisition	
Cash paid	5,509
Less: net cash acquired	-
Net cash outflow	**5,509**

[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 31 March 2021. The fair value of the trade and other receivables acquired as part of the business combination amounted to $28,001 with fixed assets totaling $5,353. The value of intangible assets amounted to $4,004,000 as outlined in the intangible assets note (refer note 12).

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 Decipher which cannot be recognised as an intangible asset. A deferred tax asset in recognition of the carried forward losses is likely to arise on finalisation of the acquisition accounting for Decipher. This will offset the deferred tax liability that will arise from the value attributed to the intangible asset. This amount has not been booked at 30 June 2021 due to the Company provisionally accounting for Decipher at 30 June 2021, as well as the requirement for the Company to undertake an assessment of available losses. The Company is currently performing this assessment of available carried forward losses.

Deferred consideration

In accordance with the terms of the Agreement, the performance shares issued will convert on an annual basis into a number of fully paid ordinary shares to a value equal to 22% of the annual revenues attributable to the Decipher business, over a four-year period following completion. Each tranche of shares issued on conversion of the performance shares will also be subject to voluntary escrow for 12 months. A maximum of 5,345,633 fully paid ordinary shares in the Company can be issued to CSBP as a result of the conversion of the performance shares. At 30 June 2021, 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.

Decipher contribution to the Group's results

Acquisition costs incurred by the Company in respect to the Decipher transaction, and included in the Consolidated Statement of Comprehensive Income, amounted to $49,133. In addition, the Company has accrued stamp duty of $288,000 as at 30 June 2021 in relation to the acquisition of Decipher.

The acquired assets contributed $105,303 to the Group's revenues from the date that K2fly assumed control being 31 March 2021 to 30 June 2021. The Company is unable to reliably determine the impact on net revenue and net profit for this same time period.

In the opinion of the Directors of K2fly Limited (the 'Company'):

(a) the accompanying financial statements and notes are in accordance with the *Corporations Act 2001* including:

i. giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the year then ended; and

ii. complying with Australian Accounting Standards, the *Corporations Regulations 2001*, professional reporting requirements and other mandatory requirements.

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2021.

This declaration is signed in accordance with a resolution of the board of Directors.

Brian Miller	Jenny Cutri
Executive Director / CEO	Non-Executive Chair
Perth, 29 September 2021	Perth, 29 September 2021

INDEPENDENT AUDITOR'S REPORT
To the members of K2fly Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of K2fly Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group 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* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our report.

hlb.com.au

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
Level 4, 130 Stirling Street, Perth WA 6000 / PO Box 8124 Perth BC WA 6849
T: +61 (0)8 9227 7500 **E:** mailbox@hlbwa.com.au

Key Audit Matter	How our audit addressed the key audit matter
Recoverable amount of goodwill Note 13 of the financial report	
The carrying amount of goodwill of $731,543, recognised on acquisition of Infoscope Pty Ltd, is required to be tested for impairment annually in accordance with AASB 138 *Intangible Assets* and AASB 136 *Impairment of Assets*. It is due to size, complexity and judgement involved that this is considered a key audit matter.	Our audit procedures included but were not limited to: • We assessed the appropriateness of the allocated cash generating units; • We assessed the appropriateness of the methodology in the value in use model and the basis for key assumptions; • We assessed the value in use model for consistency with the requirements of Australian Accounting Standards; • We performed sensitivity analyses around the key inputs used in the cash flow forecasts and the headroom impact on the value in use model; • We reviewed the mathematical accuracy of the model; • We compared the discounted cash flow value to the carrying amount of assets comprising the cash-generating unit; • We considered whether the assets comprising the cash-generating unit had been correctly allocated; • We assessed the reasonableness of forecast cash flows; • We considered the appropriateness of the discount rate used; and • We assessed the adequacy of the disclosures made in the financial report.
Acquisition of Sateva Note 31 of the financial report	
During the year the Group completed the acquisition of 100% of the issued share capital and voting rights of Sateva Pty Ltd and Sateva Development Pty Ltd (Sateva). In addition to the cash and shares issued as consideration, deferred consideration will be payable until 30 June 2024 and equates to an amount equal to 18% of the invoiced amounts relating to product sales, during that time, from the Sateva software products. The acquisition has been accounted for as a business combination under AASB 3 *Business Combinations*. It is due to size, complexity and judgement involved that this is considered a key audit matter.	Our audit procedures included but were not limited to: • We read the share sale agreement to understand the key terms and conditions; • We assessed the principles applied in the acquisition accounting; • We considered whether the companies acquired constituted a business under AASB 3; • We assessed and recalculated the deemed consideration constituting the purchase price; • We audited the net assets acquired; • We assessed the identified intangible asset, being the intellectual property acquired, including review of the

	recognition and valuation of this asset under AASB 138; and • We assessed the appropriateness of the disclosures included in the relevant notes to the financial report in relation to the acquisition.
Acquisition of Decipher Note 31 of the financial report	
During the year the Group completed the acquisition of the assets used in the operation of the Decipher business. In addition to the shares issued as consideration, the seller will be entitled to a share-based earn-out of 22% of the annual revenues attributable to Decipher over a four year period following completion. The acquisition has been accounted for as a business combination under *AASB 3 Business Combinations*, including the ability to provisionally account for the acquisition for a period of 12 months from the date of acquisition. It is due to size, complexity and judgement involved that this is considered a key audit matter.	Our audit procedures included but were not limited to: • We read the business sale agreement to understand the key terms and conditions; • We assessed the principles applied in the acquisition accounting; • We considered whether the companies acquired constituted a business under AASB 3; • We audited the net assets acquired; • We assessed the identified intangible asset, being the intellectual property acquired, including review of the recognition and valuation of this asset under AASB 138; and • We assessed the appropriateness of the disclosures included in the relevant notes to the financial report in relation to the acquisition and the use of provisional accounting.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included within the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of K2Fly Limited for the year ended 30 June 2021 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

D I Buckley
Partner

Perth, Western Australia
29 September 2021

HOLDINGS AS AT 23 AUGUST 2021

ORDINARY SHARES

Number of securities held	Fully paid ordinary shares	Number of holders	% of total issued capital
1 to 1,000	5,709	97	0.00%
1,001 to 5,000	849,063	373	0.62%
5,001 to 10,000	1,305,621	162	0.95%
10,001 to 100,000	17,303,834	451	12.54%
100,001 and over	118,568,981	144	85.90%
Total	**138,033,208**	**1,227**	**100.00%**

ASX escrowed shares	**Nil**	
Number of holders of less than a marketable parcel	**269**	**0.16%**
Percentage of the 20 largest holders		**61.16%**

TOP 20 SHAREHOLDERS

Rank	Name	Units	% of Units
1	**GROUP # 29957**	**15,810,548**	**11.45**
.	CITICORP NOMINEES PTY LIMITED	15,810,548	11.45
2	CSBP LIMITED	11,366,691	8.23
3	CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	8,865,843	6.42
4	**GROUP # 1524287**	**5,633,803**	**4.08**
.	MARK FORSTER + LEONIE FORSTER <THE M FORSTER FAMILY A/C>	795,493	0.58
.	MARK FORSTER	2,021,408	1.46
.	MARK FORSTER + LEONIE FORSTER <THE FORSTER SUPER FUND A/C>	2,816,902	2.04
5	**GROUP # 1166440**	**5,211,057**	**3.78**
.	MRS NARELLE FAY	896,000	0.65
.	MRS NARELLE FAY	4,315,057	3.13
6	UBS NOMINEES PTY LTD	4,920,675	3.56
7	**GROUP # 37237**	**4,449,000**	**3.22**
.	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	4,449,000	3.22
8	**GROUP # 36516**	**3,954,037**	**2.86**
.	BNP PARIBAS NOMS PTY LTD <DRP>	24,000	0.02
.	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	3,930,037	2.85
9	KALGOORLIE MINE MANAGEMENT PTY LTD	3,800,000	2.75
10	MR NICHOLAS JOHN AXAM	3,340,600	2.42
11	BPM CAPITAL LIMITED	3,029,000	2.19
12	**GROUP # 11856**	**2,963,985**	**2.15**
.	MR BRIAN PETER MILLER	23,000	0.02
.	DR ROSLYN JANE CARBON	289,844	0.21
.	MR BRIAN PETER MILLER	753,154	0.55

Rank	Name	Units	% of Units
.	MR BRIAN PETER MILLER	1,897,987	1.38
13	**GROUP # 1321161**	**1,926,341**	**1.4**
.	MR BARRY RICHARD LINDEMANN + MRS LEONE EILEEN LINDEMANN	92,000	0.07
.	MRS MARGARET JANE LINDEMANN + MR LUKE CHARLES LINDEMANN <LINDEMANN SUPER FUND A/C>	1,834,341	1.33
14	**GROUP # 1176150**	**1,424,943**	**1.03**
.	B2B HOLDINGS PTY LIMITED	134,000	0.1
.	GREGORY J WOOD & ASSOCIATES PTY LTD	141,900	0.1
.	GREGORY J WOOD & ASSOCIATES PTY LTD <THE G J WOOD FAMILY A/C>	552,560	0.4
.	K S CAPITAL PTY LIMITED	596,483	0.43
15	**GROUP # 1166451**	**1,420,000**	**1.03**
.	INSYNC EQUITY SERVICES PTY LTD	100,000	0.07
.	ANNA CARINA PTY LTD <ANNA CARINA FAMILY A/C>	120,000	0.09
.	MRS ANNA CARINA HART + MR PAUL HART <HART FAMILY SUPER FUND A/C>	1,200,000	0.87
16	MR PAUL JAMES MADDEN	1,401,665	1.02
17	JETOSEA PTY LTD	1,400,000	1.01
18	KISMAR PTY LTD <THE M KISIRWANI FAM A/C>	1,230,765	0.89
19	CANARY CAPITAL PTY LTD	1,210,000	0.88
20	INTERNATZIONALE CONSULTING PTY LTD	1,062,760	0.77
	Totals: Top 20 holders of K2F ORDINARY FULLY PAID	**84,421,713**	**61.16**

Substantial Shareholders

The Group has been notified of the following substantial shareholdings:	**Number**	**%**
CSBP Limited	11,366,691	8.23%
Regal Funds Management Pty Ltd	11,119,637	8.06%
Tribeca Investment Partners Pty Ltd	10,865,000	7.87%
Mitsubishi UFJ Financial Group, Inc	10,300,000	7.46%

Voting Rights

The Constitution of the Group makes the following provision for voting at general meetings:

On a show of hands, every ordinary shareholder present in person, or by proxy, attorney or representative has one vote. On a poll, every shareholder present in person, or by proxy, attorney or representative has one vote for any share held by the shareholder.

Unlisted Securities

At 23 August 2021 the Company has on issue 11,342,871 unlisted options over ordinary shares, 5,345,633 performance shares and 660,000 performance rights.

The names of security holders holding more than 20% of an unlisted class of security are listed below.

Holder	Performance Rights (Class 2)	Performance Rights (Class 3)	Performance Rights (Class 4)	Performance Rights (Class 7)	Performance Rights (Class 8)	Performance Rights (Class 9)
Rachael D'Anna	66,250	66,250	66,250	66,250	66,250	66,250
Talos Mining Pty Ltd <Talos Mining A/C>	43,750	43,750	43,750	43,750	43,750	43,750
Holders individually less than 20%	-	-	-	-	-	-
Total	**110,000**	**110,000**	**110,000**	**110,000**	**110,000**	**110,000**

Holder	Performance Shares
CSBP Limited	5,345,633
Total	**5,345,633**

Holder	Unlisted Options $0.243 26/11/22	Unlisted Options $0.291 25/11/23	Unlisted Options $0.00 27/11/22	Unlisted Options $0.00 27/11/24	Unlisted Options $0.35 11/10/22	Unlisted Options $0.30 12/06/23	Unlisted Options $0.70 26/10/22	Unlisted Options $0.435 10/03/24	Unlisted Options $0.00 3/05/22
Dr Roslyn Jane Carbon	639,019	683,280	406,926	258,953	-	-	-	-	-
Mark and Leonie Forster <M Forster Family Trust>	-	-	-	-	-	-	-	-	140,845
Argonaut Investments Pty Ltd	-	-	-	-	-	-	-	2,265,625	-
Canary Capital Pty Ltd	-	-	-	-	750,000	-	200,000	-	-
Holders individually less than 20%	-	-	-	-	-	1,912,500	-	-	-
Total	**639,019**	**683,280**	**406,926**	**258,953**	**750,000**	**1,912,500**	**200,000**	**2,265,625**	**140,845**

Holder	Unlisted Options $0.243 26/11/22 (EIOP)	Unlisted Options $0.00 25/11/21 (EIOP)	Unlisted Options $0.291 25/11/23 (EIOP)	Unlisted Options $0.00 27/11/22 (EIOP)	Unlisted Options $0.497 27/11/24 (EIOP)
Robert William Pradera	284,944	-	-	-	-
Jessica Eve Pradera	-	63,830	332,880	201,983	86,564
Neil David Young & Lucrezia Maria Young ATF the Zenith Trust <The Zenith A/C>	268,662	-	289,080	178,159	76,354
Navin Nirmalrajan & Aparna Navin ATF Elohim Family Trust <Elohim Family Trust>	276,803	-	297,840	196,804	84,345
Livvy Pty Ltd <Pollock Family Trust>	447,770	-	481,800	369,932	147,973
Total	**1,278,179**	**63,830**	**1,401,600**	**946,878**	**395,236**