ASX Release
ASX code: K2F

27 January 2022

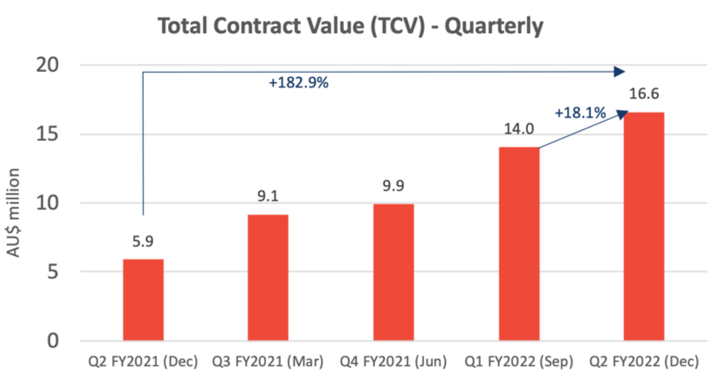
Q2 FY2022 Quarterly Activities Report

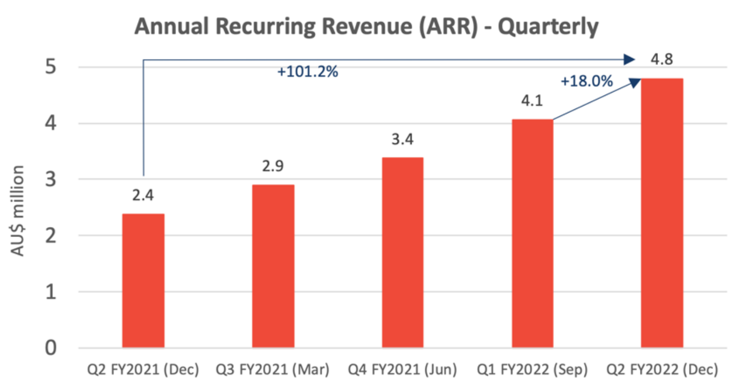
Continued growth in TCV and ARR following continued signing of record contracts

Highlights

- **Total Contract Value (TCV) growth of 18.1% to $16.6m in Q2 FY2022, over prior quarter and 182.9% over Q2 FY2021**
- **Annual Recurring Revenue (ARR) growth of 18.0% to $4.8m in Q2 FY2022, over prior quarter and 101.2% over Q2 FY2021**
- **Largest contract signed to date with Rio Tinto (TCV $3.44m / ARR $620k) on a 5-year contract term and Glencore Canada Corporation existing contract extended for further 3 years (TCV $443k / ARR $130k). This follows consecutive record deals in Q4 Roy Hill and Q1 Sibanye Stillwater**
- **ARR average deal size grew threefold to >$370k in the first half of FY2022, from less than $100k**
- **Significant growth expectations for Ground Disturbance solutions as the only commercial off-the-shelf (COTS) offering in the market today**
- **Cost increases to scale team to meet the contracted and expected demand for new projects and expansion of existing projects. Work in Progress (WIP) of $1.2m and growing with new PO from Rio Tinto to scope "Heritage 2"**
- **Invoices Raised were $2.5m in Q2 FY2022, up 58.5% compared to Q2 FY2021**
- **Cash Receipts from Customers were $2.7m in Q2 FY2022, up 59.8% compared to Q2 FY2021**
- **Cash balance on 31 December 2021 was $3.6m (no debt) and trade receivables were $1.5m**

K2fly Limited (K2F, K2fly or the Company) (ASX: K2F), a provider of 'net positive impact' solutions in Environmental, Social and Governance (ESG) compliance, disclosure, and technical assurance, to operations of mining and asset intensive industries through its platform-based SaaS cloud solutions, is pleased to provide commentary regarding its activities for the December quarter, Q2 FY2022.





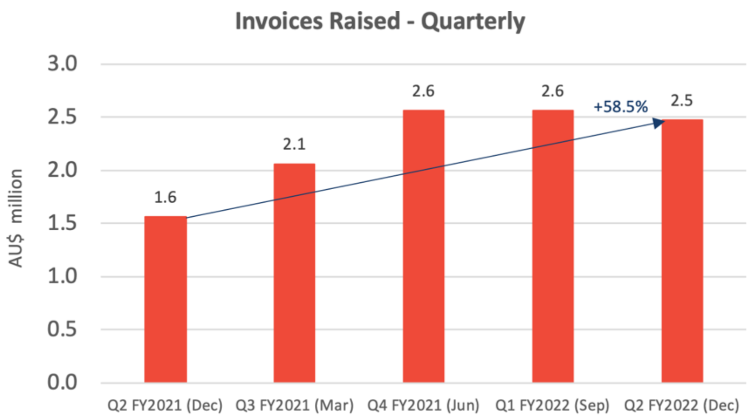
CONTRACTS AND FINANCIAL RESULTS

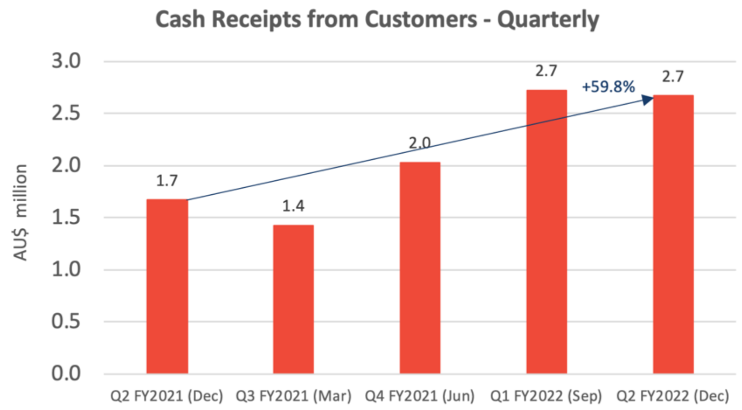
TCV & ARR[1]: Two major contracts were signed during the December quarter, Q2 FY2022 (Rio Tinto and an existing contract extended with Glencore Canada Corporation), resulting in double-digit growth in **TCV of 18.1%** and **ARR of 18.0%** in the quarter compared to the prior quarter (Q1 FY2022) and up 182.9% and 101.2% respectively compared to Q2 FY2021. See Major Contracts section of this report for more detail.

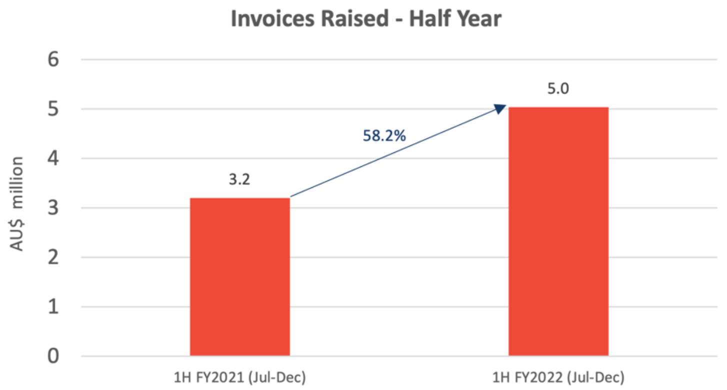
Invoices Raised and Cash Receipts: Invoices Raised during the quarter were $2.5m, down 3.3% over the prior quarter and 58.5% higher compared to Q2 FY2021. Invoices Raised vary due to the anniversary dates of the client contracts, and the timing of implementation fees. Licence and SaaS fees are billed annually, in advance.

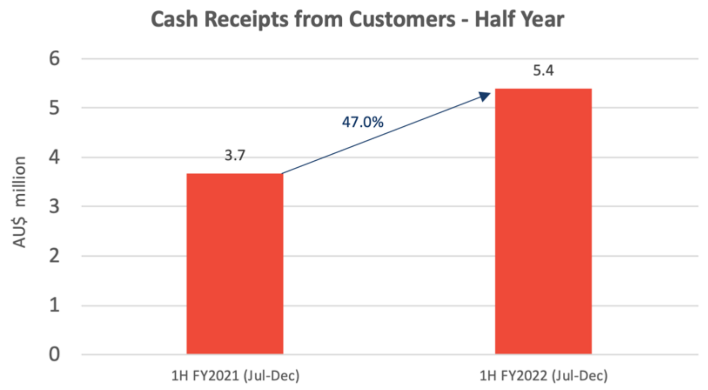
Cash Receipts from Customers during the quarter were $2.7m, down 1.9% over the prior quarter and up 59.8% compared to Q2 FY2021. Cash Receipts is also influenced by an annual invoicing cycle as explained above.

Both Invoices Raised and Cash Receipts grew strongly in the first half of the financial year to date, 1H FY2022, compared to 1H FY2021.









Nic Pollock CEO of K2fly said *"In this quarter, we achieved the signing of our largest contract to date on a 5-year term with Rio who have continued to take up more of our solutions.*

[1] Exchange rate fluctuations impact ARR and TCV.

We added an additional $800k of ARR in the quarter which is a new record from last quarter ($700k) which is helped by a dramatic increase in our average ARR deal size to $373k up from $100k in FY20.

The ESG thematic and ongoing focus by leading international mining companies to manage risk continues to build.

We continue to execute on our land and expand strategy with clients and solutions coupled by being the sole COTS supplier of many of the ESG solutions we offer – Mineral Inventory, Heritage and Ground Disturbance to name a few.

We have continued to expand the team to meet new, larger contracts and to scale to meet anticipated new contracts with tier 1 clients.

We remain focused on our strategy to 'land and expand' our solutions with existing and new clients. Our sales and development pipeline of new logo contracts and customer expansion will continue to drive the rapid ARR and TCV growth.

CONTRACTS

Major Contracts

Rio Tinto (announced 5 October 2021): A 5-year contract was signed for K2fly's Natural Resource Governance – Ground Disturbance solution, to be implemented in the Pilbara region of Western Australia. Rio Tinto operates the world's largest integrated portfolio of iron ore assets. The contract expands the number of K2fly's solutions used by Rio Tinto to five out of nine solutions which already include: Resource Inventory & Reconciliation, Dams & Tailings, Community & Heritage and Mine Geology Data Management.

Glencore Canada Corporation (announced 10 November 2021): A 3-year contract extension was signed for K2fly's Mineral Resource Governance – RCubed Resources & Reserves Solution through to December 2026 (previously an annual contract), for global zinc operations across 56 sites in 7 countries.

Summary of major new contracts signed

Client	TCV (AU$)	ARR (AU$)	Term (Years)	Solution Area
Rio Tinto	3.44m	620k	5	Natural Resource Governance (Ground Disturbance)
Glencore Canada Corporation (contract extension)	443k	130k	3	Mineral Resource and Reserve Governance (RCubed)
Total Q2 FY2022	**3.883m**	**750k**		

Smaller Contracts (Non-Material)

Rio Tinto: Rio Tinto have issued a Purchase Order for K2fly to scope the next phase of the Heritage project delivered in Calendar 21.

Seriti Power (Pty) Limited: A 5-year contract was signed on 14 December 2021 for K2fly's for Mineral Resource Governance – RCubed Resources & Reserves Solution across 6 sites in Seriti's South African operations.

SOLUTIONS UPDATE

Decipher Tailings Solution acquisition: Following significant new client acquisitions in Q1 FY2022, K2fly continues to build additional pipeline and completed a paid proof of concept for a global mining major and International Council on Mining and Metals member.

Ground Disturbance Solution: Since the high-profile destruction of a culturally significant site in Australia in May 2020, there has been an increasing focus by large mining companies on their ground disturbance processes and systems which (in addition to Heritage systems) are fundamental to the protection of heritage and environmentally sensitive areas and are critical for miners to maintain their social license to operate, generate qualitative ESG outcomes and, increasingly, to ensure the support of the investment community. K2fly's Ground Disturbance solution is the only COTS solution in the marketplace globally and we anticipate a strong growth trajectory for this solution. It is currently in use by Fortescue Metals Group, Westgold Resources and API Management and is currently being implemented at Rio Tinto (see ASX announcement 5 October 2021) which is initially limited to its Pilbara operations only.

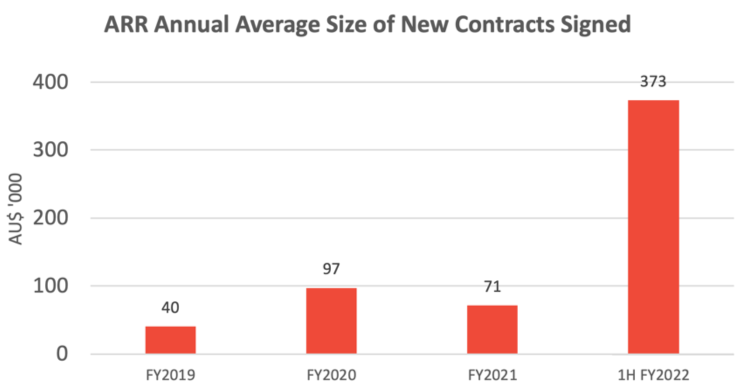
Ground disturbance systems are complex and critical enterprise software systems, which are typically used for at least 10 years. As such, they attract higher annual license fees and longer terms. Most existing systems are bespoke developments and are generally dated. With the increased awareness of their impact on ESG performance, and the management of risk, there is a compelling proposition to replace these incumbent systems across all the major mining companies and their multiple operations. As the only COTS provider of these systems globally, K2fly is well positioned to support this transition, which potentially puts the Ground Disturbance Solution on the same growth trajectory as the Resource Inventory and Reconciliation Solution.

CORPORATE

Strategy delivering growth: Execution of the Company's 'go to market' and 'land and expand' growth strategy with existing and new customers targeting tier-1 and tier-2 global miners is proving successful as evidenced by:

- Signing of consecutive large contracts in recent quarters with new and existing clients.
- Signing of our largest contract to date with Rio Tinto this quarter (now 5 of nine solutions in use)
- Material increases in the average size of contracts signed

Over the last three financial years, the annual average size of new contracts signed in ARR terms has grown threefold to >$370k in the first half of FY2022, from less than $100k.



K2fly continues to experience strong growth of new customers, new projects, project extensions and additional phases as part of our land and expand strategy. As such we are investing heavily in building multi-functional teams to develop and deliver software to our clients all over the globe. Typically, this recruitment needs to occur in advance of projects once they are properly qualified. The employment market is very hot across the world. This is particularly noticeable in our head office location in Perth, where there is a war for talent in the mining sector. As such we are experiencing higher than expected labour costs and increased spend on recruitment fees. We continue to be as prudent as possible and balance our resources across different jurisdictions with different cost structures such as Perth, South Africa, and other low-cost development jurisdictions.

Cash position: The Company held a cash position of $3.6m at 31 December 2021 (no debt).

The cash runway calculation (estimated quarters of funding available) shown in section 8.7 of the Appendix 4C does not consider the timing of cash inflows throughout the annual billing cycle, which are aligned with contract anniversary dates. 60% of our existing annual license contracts are due in the second half of the fiscal year.

During Q2 we had a $769k increase in cash outflow relating to staff costs compared to Q1. This increase was driven by the following:

1. The prioritisation of implementation delivery and support for current clients over product development, which resulted in the lower investment of labour costs in intellectual property.
2. Payment of contracted bonuses and commissions, including amounts accrued but unpaid in the prior year - a new sales compensation plan which incentivises large ARR and TCV contracts was established with effect from 1 July 2021. Commissions paid under this scheme are paid quarterly in arrears.
3. Increased recruitment fees to source a number of executive roles, and due to a greater reliance on recruitment consultants.
4. Increase in staff since the last quarter, as we continue to recruit in advance of anticipated implementation work. As a number of our software products are unique in the market, we need to bring on resources and train them in preparation for new contracts commencing.

Cash receipts were also negatively affected by Christmas shutdowns in our customer base. The Company has a trade receivables balance of $1.5m as at 31 December 2021, and committed implementation revenue in excess of $1.2m.

Annual General Meeting (AGM): The Company held AGM on 29 November 2021 passing all resolutions. The Results of Meeting can be viewed here.

Payments to related parties and their associates: In accordance with ASX Listing Rule 4.7C.3, payments to related parties of the Company and their associates during the quarter totalled $144k relating to the Executive Director salary, Non-Executive Director fees and payments to director-related entities for consulting services. This amount is included at Item 6.1 of the Appendix 4C. Refer to the Remuneration Report in the 2021 Annual Report for further details on director remuneration.

Operating expenditure: Cash outflows related to ongoing operating expenditures to run business operations and deliver K2fly's platform of 9 solutions to clients which include the key items of: R&D, product manufacturing and operating costs, advertising and marketing, staff costs and administration and corporate costs. Net Cash from Operating Activities outflow was AU$1.2m (Section 1.9, Appendix 4C). Gross expenditure in the December quarter amounted to cash outflows of $4.0m (Section 1.2, Appendix 4C).

Net cash outflow from investing activities: Outflows relate to investment in software development to enhance the current suite of solutions ($562k), milestone payments related to the RCubed acquisition and deferred performance-based consideration in respect to the Sateva acquisition ($228k), and capital purchases to run business operations ($20k).

Announcement released with authority of K2fly Board.

For further information, please contact:
Brian Miller, Executive Director, K2fly Limited. T: +61 422 227 489. E: brian@k2fly.com
Glen Zurcher, Investor Relations. T: +61 420 249 299. E: glen@viriair.com

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About K2fly

K2fly Limited (ASX: K2F) is an ASX listed technology provider of enterprise-level ***'net positive impact'*** solutions in Environmental, Social and Governance (ESG) compliance, disclosure and technical assurance, to operations of mining and asset intensive industries through its platform-based SaaS cloud solutions.

Our solutions address many industry challenges and help manage risk around clients' social license to operate concerning reporting & governance, reputation and disclosure demands.

Product & service offering: We deliver a suite of solutions across three key areas on a single platform:

- Natural Resource Governance
- Mineral Resource Governance
- Technical Assurance

Customers: Spanning all continents, our customer base includes multinational tier-1 and tier-2 mining clients operating in 54 countries.

Strategy: Through acquisition, development, and partnerships, K2fly have assembled a unique platform that generates high margin SaaS recurring revenues, being rolled out globally. Our strategy is to 'land and expand' our offering with clients over time whereby additional solutions are rolled out to support central operational management and efficiency gains.

K2fly works closely with peak industry bodies, regulators, and our own industry advisory groups on ESG topics that are driven by rapidly changing regulations, community and investor expectations to build fit for purpose industry solutions that adhere to recognised codes and standards.

Strategic alliances: K2fly has strategic alliances with global technology companies such as Esri (USA), SAP (Germany), Hitachi-ABB (Japan), Descartes Labs (USA) and Cyient (UK).

Platform

Area	Solution	Related Acquisition
Natural Resource Governance	Community & Heritage	Infoscope
	Land Access & Monitoring	Infoscope
	Ground Disturbance	Infoscope
	Dams & Tailings	Decipher
	Rehabilitation & Closure	Decipher
Mineral Resource Governance	Resource Inventory & Reconciliation	RCubed
	Block Model Management & Governance	RCubed, Sateva
Technical Assurance	Automated Ore Blocking	Sateva
	Mine Geology Data Management	Sateva

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

K2fly Limited

ABN	**Quarter ended ("current quarter")**
69 125 345 502	31 December 2021

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (6 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	2,668	5,388
1.2	Payments for		
	(a) research and development	(18)	(18)
	(b) product manufacturing and operating costs	(1,283)	(2,274)
	(c) advertising and marketing	(117)	(176)
	(d) leased assets	-	-
	(e) staff costs	(1,949)	(3,129)
	(f) administration and corporate costs	(605)	(1,226)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	1	2
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (cash restricted to non-restricted)	-	(28)
1.8	Other (R&D refund)	125	125
1.9	**Net cash from / (used in) operating activities**	**(1,178)**	**(1,336)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	(228)	(497)
	(c) property, plant and equipment	(20)	(72)
	(d) investments	-	-
	(e) intellectual property	(562)	(1,309)

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (6 months) $A'000**
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other	-	-
2.6	**Net cash from / (used in) investing activities**	**(810)**	**(1,878)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	**Net cash from / (used in) financing activities**	**-**	**-**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	5,665	6,906
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,178)	(1,336)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(810)	(1,878)

Consolidated statement of cash flows		Current quarter $A'000	Year to date (6 months) $A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	(75)	(90)
4.6	**Cash and cash equivalents at end of period**	**3,602**	**3,602**

5.	**Reconciliation of cash and cash equivalents** at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	**Current quarter $A'000**	**Previous quarter $A'000**
5.1	Bank balances	3,602	5,665
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**3,602**	**5,665**

6.	**Payments to related parties of the entity and their associates**	**Current quarter $A'000**
6.1	Aggregate amount of payments to related parties and their associates included in item 1	115
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

Payments included in item 6.1 relates to payment of director fees and executive director salary ($115k).

7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	**Total financing facilities**	-	-
7.5	**Unused financing facilities available at quarter end**		-
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,178)
8.2	Other (software development) (item 2.1e)	(562)*
8.3	Total relevant outgoings (item 8.1 + item 8.2)	(1,740)
8.4	Cash and cash equivalents at quarter end (item 4.6)	3,602
8.5	Unused finance facilities available at quarter end (item 7.5)	-
8.6	Total available funding (item 8.4 + item 8.5)	3,602
	* The Company considers it appropriate to include cash outflows related to the development of IP activities. Whilst this is not a permanent component of the Company's cost structure, the Company is currently incurring costs in relation to its product development (refer ASX announcement dated 19 April 2021)	
8.7	**Estimated quarters of funding available (item 8.4 divided by item 8.1)**	2.07

Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.

The cash runway calculation does not take into account the timing of cash inflows throughout the annual billing cycle from licence and SaaS fees which are billed annually in advance (aligned with contract anniversary dates).

8.8 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Date: .27 January 2022...

Authorised by: . By the Board...
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.