

Appendix 4D

K2FLY LIMITED

ABN 69 125 345 502

Half-Year Report – 31 December 2021

RESULTS FOR ANNOUNCEMENT TO THE MARKET

(This information should be read in conjunction with the last annual report and any announcements to the market by K2fly Limited during the period)

	Half-Year Ended 31/12/21 \$A	Half-Year Ended 31/12/20 \$A	Amount change \$A	Percentage change %
Revenue from ordinary activities	4,576,634	3,412,994	1,163,640	34%
(Loss) from ordinary activities after tax attributable to members	(1,717,586)	(1,067,666)	(649,920)	61%
Net (loss) for the half year attributable to members	(1,717,586)	(1,067,666)	(649,920)	61%

Comment

K2fly reported revenues of \$4.5m for the half year ended 31 December 2021 (**H1FY22**), which represented 34% growth compared to the result for the half-year ended 31 December 2020 (**H1FY21**) (\$3.4m).

In response to recent growth, including through acquisition, and to establish a stable foundation for expected future growth, during H1FY22 the Group invested in staff to meet the contracted and expected demand for new projects, expansion of existing projects, and in its management function. As a result of these sales and investments, the K2fly reported cost of sales of \$2.5m, 55% higher than the H1FY21 cost of \$1.6m. Employee benefits expense H1FY22, which included \$0.3m of recruitment costs, increased to \$2.7m (H1FY21 - \$1.5m) and consultancy expenses increased to \$0.4m (H1FY21 \$0.2m). These costs of labour and project resourcing, and talent sourcing, has been impacted by global labour market constraints, as well as the need to recruit and train staff in advance of project commencement.

Overall, the Group reported a loss after tax for H1FY22 of \$1.7m, which included \$0.3m of non-cash share-based payment expenses for options issued to staff and advisors (refer note 14), \$0.5m of non-cash amortisation expenses, which included amortisation assets acquired in the prior financial year, and a \$1.1m benefit from the recognition of a one-off deferred tax asset to offset a related and previously recognised deferred tax liability (both non-cash) associated with the acquisition accounting of Decipher.

Dividends (distributions)

There are no dividend or distribution reinvestment plans in operation and there have been no dividend or distribution payments during the half-year ended 31 December 2021.

Net tangible asset per ordinary security	31 Dec 2021	31 Dec 2020
Net tangible assets	(3,207,702)	(2,637,152)
Number of shares on issue at reporting date	138,097,038	100,787,377
Net tangible asset per ordinary security	(2.32 cents)	(2.62 cents)

Control Gained or Lost over Entities

Not Applicable

Associates and joint ventures

Not Applicable

Audit / Review Status

This Appendix 4D and the attached interim financial statements are based on accounts which have been subjected to review by the Group's auditor.

The Group recently became aware of discrepancies between its records in relation to employee tax obligations in South Africa and the records of the local taxing authority. As disclosed, the Group has appointed an external advisor to investigate the matter and that investigation is ongoing. As a result of the ongoing nature of the investigation, the auditor qualified their review opinion on the basis that they do not have sufficient audit evidence to form a view on the completeness of the Group's liabilities and as such cannot determine whether any adjustments are likely.

A contingent liability of \$323,500 has been disclosed. (Refer note 17 - contingent liabilities).

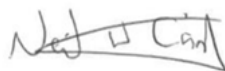
	Current period	Previous corresponding period
Basic (loss) per share in cents	(1.24) cents	(1.12) cents

Independent Auditor's Review Report

The Independent Auditor's Review Report can be found on page 8 of the attached financial report for the Half Year ended 31 December 2021.



Jenny Cutri
Non-Executive Chair
28 February 2022



Neil Canby
Non-Executive Director
28 February 2022

The information required by listing rule 4.2A is contained in both this Appendix 4D and the attached half-year report. This half-yearly reporting information should be read in conjunction with the most recent annual financial report of the company.



K2fly Limited

ABN 69 125 345 502

Financial Report
For the Half-Year Ended
31 December 2021

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DIRECTORS

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

JOINT COMPANY SECRETARIES

Melissa Chapman
Catherine Grant-Edwards

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

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502 Hay Street
Subiaco WA 6008
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SHARE REGISTRY

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Telephone: (08) 9389 8033
Facsimile: (08) 6370 4203

AUDITORS

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

AUSTRALIAN SECURITIES EXCHANGE

K2fly Limited's Shares (**K2F**) are listed on the Australian Securities Exchange

DIRECTORS' REPORT

The directors submit their half-year report on K2fly Limited (**K2fly**) (the **Company**) and its controlled entities (the **Group**) for the half-year ended 31 December 2021 (**H1FY22**). In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

The names of the Directors of the Company in office during and since the end of the half-year are:

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

Directors were in office from the beginning of the financial period until the date of this report.

REVIEW OF OPERATIONS

The Group reported revenues of \$4.5m for H1FY22, which represented 34% growth compared to the result for the half-year ended 31 December 2020 (**H1FY21**) (\$3.4m).

Revenues are generated on the sales and implementation of K2fly's suite of software as a service (SaaS) resource governance solutions for:

- community & heritage;
- land access & monitoring;
- ground disturbance;
- dams & tailings;
- rehabilitation & closure;
- resource inventory & reconciliation;
- block model management & governance;
- automated ore blocking; and
- mine geology data management.

The Group also offers consulting and adjacent services.

The Group charges an annual licence fee for its SaaS products, which is typically billed annually in advance. This metric is reported as annual recurring revenue (**ARR**). The Group accounts for SaaS licence sales in accordance with AASB 15 *Revenues from Contracts with Customers*, which requires that the invoiced sales are recognised over the 12-month term of the licence. Unearned income, i.e., amounts which have been billed but not yet earned for accounting purposes, is reported in the condensed statement of financial position under contract liabilities.

The Group also tracks and reports its total contract value (**TCV**), which is the aggregate of its contract liabilities (i.e., billed but "unearned" revenue), future licence fees which can be billed over the remaining term contract and contracted but unbilled one-off implementation fees.

Delivery of the Group's growth strategy, which is focussed on tier-1 and tier-2 global mining companies, is proving to be successful as evidenced by the growth during H1FY22 in TCV, which grew by 67% to \$16.6m, and ARR, which grew by 41% to \$4.8m.

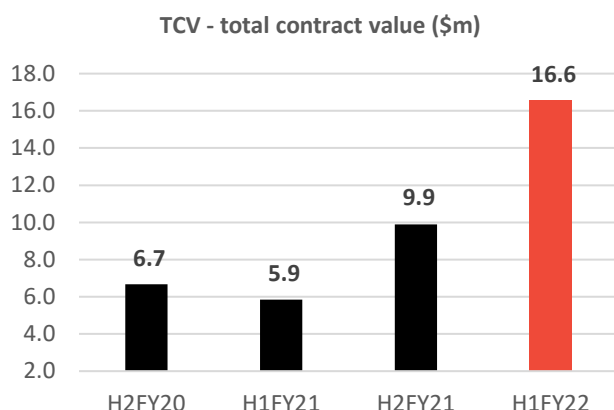


Figure 1: TVC by half-year (\$m)

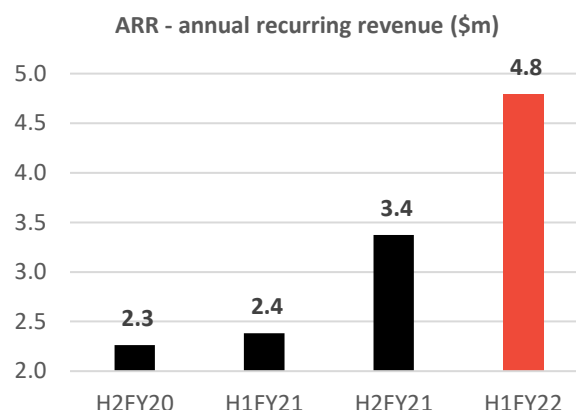


Figure 2: ARR by half-year (\$m)

Major contracts announced during H1FY22 include:

- five-year contract with Alcoa USA Corp for the dams and tailings solution, across seven sites;
- five-year extension of the mineral resource governance agreement with Newmont Corporation;
- five-year contract with Sibanye Stillwater for the tailings solution across 38 facilities, which was bundled with a geospatial intelligence solution from a third party;
- five-year contract with Rio Tinto for the ground disturbance solution; and
- three-year extension of the mineral resource agreement with Glencore Canada Corporation.

During the period, the accounting for the acquisition of the assets comprising “Decipher for Mining” (**Decipher**) from CSBP Limited (**CSBP**) and Wesfarmers Chemicals, Energy & Fertilisers Limited (**WesCEF**) which was completed on 31 March 2021, was finalised. As the Company has available carried forward losses, on finalisation of the accounting a deferred tax asset was recognised to offset the deferred tax liability in respect of the intangible assets acquired (which was recorded at June 2021). H1FY22 is the first full reporting period which includes the revenues and costs from the acquired dams and tailings and rehabilitation solutions.

In response to recent growth, including through acquisition, and to establish a stable foundation for expected future growth, during H1FY22 the Group invested in staff to meet the contracted and expected demand for new projects, expansion of existing projects, and in its management function. As a result of these sales and investments, the Group reported cost of sales of \$2.5m, 55% higher than the H1FY21 cost of \$1.6m. Employee benefits expense, which included \$0.3m of recruitment costs, increased to \$2.7m (H1FY21 - \$1.5m) and consultancy expenses increased to \$0.4m (H1FY21 \$0.2m). These costs of labour and project resourcing, and talent sourcing, has been impacted by global labour market constraints, as well as the need to recruit and train staff in advance of project commencement.

Overall, the Group reported a loss after tax for H1FY22 of \$1.7m, which included \$0.3m of non-cash share-based payment expenses for options issued to staff and advisors (refer note 14), \$0.5m of non-cash amortisation expenses, which included amortisation of the Decipher acquired assets, and a \$1.1m benefit from the recognition of a one-off deferred tax asset to offset a related and previously recognised deferred tax liability (both non-cash) associated with the acquisition accounting of Decipher.

At 31 December 2021, the Group had cash reserves of \$3.6m (30 June 2021: \$6.9m) and un-invoiced, contracted implementation revenue in excess of \$1.2m.

CORPORATE

Annual General Meeting

The Company’s Annual General Meeting (**AGM**) was held on 29 November 2021, where all resolutions put to shareholders were passed. For more information, refer to the Notice of AGM and Results available via the Company’s website at www.k2fly.com.

DIRECTORS' REPORT

Shares

During the period, the Company issued the following shares:

- 6 July 2021 – Issue of 55,431 shares upon the exercise of unlisted options; and
- 11 November 2021 – Issue of 63,830 shares upon the exercise of unlisted options.

Unlisted Options

During the period, unlisted options transactions were:

- 7 October 2021 – lapsing of 938,807 unlisted options expiring 27 November 2022 which did not vest.
- 3 November 2021 – issue of 83,333 unlisted options with a nil exercise price expiring 31 October 2023.
- 23 December 2021 – issue of 785,000 unlisted options to directors as approved by shareholders at the Company's AGM, all of which had a nil exercise price:
 - 450,000 unlisted options exercisable on or before 29 November 2023 (no vesting conditions);
 - 67,000 unlisted options exercisable on or before 30 June 2025 (subject to vesting conditions);
 - 67,000 unlisted options exercisable on or before 30 June 2026 (subject to vesting conditions); and
 - 201,000 unlisted options exercisable on or before 30 June 2027 (subject to vesting conditions);
- 23 December 2021 – issue of 3,312,976 unlisted options to employees under its shareholder approved Employee Incentive Options Plan (EIO), all of which had a nil exercise price:
 - 893,370 unlisted options exercisable on or before 31 August 2025 (subject to vesting conditions);
 - 483,921 unlisted options exercisable on or before 30 September 2025 (subject to vesting conditions);
 - 483,921 unlisted options exercisable on or before 30 June 2026 (subject to vesting conditions); and
 - 1,451,764 unlisted options exercisable on or before 30 June 2027 (subject to vesting conditions).

SIGNIFICANT EVENTS AFTER BALANCE DATE

There has been no additional matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the *Corporations Act 2001* requires our auditors, HLB Mann Judd, to provide the Directors of the Company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 5 and forms part of this Directors' report for the half-year ended 31 December 2021.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s.306(3) of the *Corporations Act 2001*.



Jenny Cutri
Non-Executive Chair
Perth, 28 February 2022



Neil Canby
Non-Executive Director
Perth, 28 February 2022

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of K2Fly Limited for the half-year ended 31 December 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 review; and
- b) any applicable code of professional conduct in relation to the review.

Perth, Western Australia
28 February 2022


D I Buckley
Partner

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

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

	Notes	Consolidated 31 December 2021 \$	Consolidated 31 December 2020 \$
Revenue	3	4,576,634	3,412,994
Cost of sales		(2,481,153)	(1,602,675)
Gross profit		2,095,481	1,810,319
Other income	4	127,328	116,451
Administration expense		(188,384)	(117,772)
Computer expenses		(222,764)	(100,159)
Compliance & regulatory expense		(79,256)	(65,872)
Consultancy expense		(426,990)	(228,861)
Amortisation expense	7	(526,643)	(74,786)
Depreciation plant and equipment		(24,666)	(18,129)
Depreciation right of use assets		(69,935)	(33,733)
Directors' fees		(77,250)	(60,000)
Employee benefits expense	5	(2,737,328)	(1,496,717)
Loss on sale of fixed assets		(6,201)	-
Occupancy expense		(78,029)	(41,888)
Public relation & marketing expense		(176,316)	(190,424)
Research costs		(18,000)	(58,655)
Share-based payments expense	14	(315,511)	(369,146)
Travel expense		(12,799)	(6,275)
Finance expense		(13,099)	(7,715)
Acquisition costs		-	(85,520)
Foreign exchange		(68,322)	(38,784)
Loss before income tax expense		(2,818,684)	(1,067,666)
Income tax benefit		1,101,100	-
Loss for the period		(1,717,584)	(1,067,666)
Other comprehensive income, net of income tax			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign subsidiaries		(15,747)	(5,921)
Other comprehensive (loss) for the period, net of tax		(15,747)	(5,921)
Total comprehensive loss for the period		(1,733,331)	(1,073,587)
Basic and diluted loss per share (cents)		(1.24)	(1.12)

The accompanying notes form part of the financial statements.

CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Note	Consolidated 31 December 2021 \$	Consolidated 30 June 2021 \$
ASSETS			
Current Assets			
Cash and cash equivalents		3,601,925	6,906,331
Trade and other receivables		1,951,694	2,164,674
Total Current Assets		5,553,619	9,071,005
Non-Current Assets			
Restricted cash		153,296	125,175
Property, plant and equipment		103,757	60,704
Right of use assets	6	583,403	70,899
Intangible assets	7	6,437,817	5,655,144
Goodwill	8	7,342,817	7,342,817
Other financial assets		845	844
Deferred tax asset		1,021,021	-
Total Non-Current Assets		15,642,956	13,255,583
Total Assets		21,196,575	22,326,588
LIABILITIES			
Current Liabilities			
Trade and other payables	9	1,431,239	1,670,427
Provisions and other liabilities	10	2,431,653	2,232,552
Interest-bearing lease liabilities	6	185,238	49,172
Contract liabilities	11	2,540,077	2,059,890
Total Current Liabilities		6,588,207	6,012,041
Non-Current Liabilities			
Provisions and other liabilities	10	2,443,417	3,030,653
Interest-bearing lease liabilities	6	415,623	36,667
Deferred tax liabilities		1,176,396	1,256,475
Total Non-Current Liabilities		4,035,436	4,323,795
Total Liabilities		10,623,643	10,335,836
Net Assets		10,572,932	11,990,752
EQUITY			
Issued capital	12	30,865,720	30,865,720
Reserves	13	2,278,021	1,978,257
Accumulated losses		(22,570,809)	(20,853,225)
Total Equity		10,572,932	11,990,752

The accompanying notes form part of the financial statements.

CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

Consolidated	Issued capital	Performance rights reserve	Option reserve	FCTR reserve	Asset revaluation reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$	\$	\$
Balance as at 1 July 2021	30,865,720	199,100	1,758,818	20,219	120	(20,853,225)	11,990,752
Loss for the period	-	-	-	-	-	(1,717,584)	(1,717,584)
Exchange differences on translation of foreign subsidiaries	-	-	-	(15,747)	-	-	(15,747)
Total comprehensive loss for the period	-	-	-	(15,747)	-	(1,717,584)	(1,733,331)
Share-based payments – options	-	-	315,511	-	-	-	315,511
Balance as at 31 December 2021	30,865,720	199,100	2,074,329	4,472	120	(22,570,809)	10,572,932
Balance as at 1 July 2020	18,189,874	199,100	999,753	22,123	120	(17,890,430)	1,520,540
Loss for the period	-	-	-	-	-	(1,067,666)	(1,067,666)
Exchange differences on translation of foreign subsidiaries	-	-	-	(5,921)	-	-	(5,921)
Total comprehensive loss for the period	-	-	-	(5,921)	-	(1,067,666)	(1,073,587)
Issue of shares – Sateva acquisition (note 15)	2,000,000	-	-	-	-	-	2,000,000
Issue of shares – Exercise of options	648,000	-	-	-	-	-	648,000
Share issue costs	(3,521)	-	-	-	-	-	(3,521)
Share-based payments – shares	15,000	-	-	-	-	-	15,000
Share-based payments – options	-	-	354,146	-	-	-	354,146
Balance as at 31 December 2020	20,849,353	199,100	1,353,899	16,202	120	(18,958,096)	3,460,578

The accompanying notes form part of the financial statements.

CONDENSED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

	Note	Consolidated 31 December 2021 \$	Consolidated 31 December 2020 \$
Cash flows from operating activities			
Receipts from customers		5,387,888	3,664,828
Payments to suppliers and employees		(6,743,107)	(4,243,299)
Government grants received		124,635	115,527
Interest received		1,631	1,070
Movement in cash from restricted to non-restricted		(28,121)	-
Income tax refund		-	38,694
Net cash (used in) operating activities		(1,257,074)	(423,180)
Cash flows from investing activities			
Payments for plant and equipment		(71,722)	(21,412)
Proceeds from sale of plant and equipment		334	-
Intangible asset (internally generated)		(1,309,316)	-
Investment in subsidiaries (K2fly Rcubed)		(350,000)	(550,000)
Investment in subsidiaries (Sateva)		-	(2,511,836)
Investment in subsidiaries acquisition costs		-	(85,520)
Cash acquired on acquisition of accounting subsidiary		-	2,685,996
Payment of Sateva commission		(146,914)	-
Net cash (used in) investing activities		(1,877,618)	(482,772)
Cash flows from financing activities			
Payments for share issue costs		-	(3,521)
Proceeds from exercise of options	12	-	648,000
Repayment of lease liabilities		(80,184)	(35,298)
Net cash (used in)/provided by financing activities		(80,184)	609,181
Net increase/(decrease) in cash held		(3,214,875)	(296,771)
Cash at beginning of the period		6,906,331	2,919,788
Effects of exchange rate fluctuations on cash held		(89,531)	(62,352)
Cash and cash equivalents at the end of the period		3,601,925	2,560,665

The accompanying notes form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The half-year financial report is a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half year report does not include notes of the type normally included in an annual financial report. It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2021 and any public announcements made by the Company during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001* and the ASX Listing Rules.

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

(b) Basis of preparation

The condensed consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments to fair value. Cost is based on the fair value of the consideration given in exchange for assets.

The Company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted.

(c) Going concern

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

The Directors are of the opinion that the Group is a going concern, notwithstanding that the Group:

- incurred a loss for the period ended 31 December 2021 of \$1,717,584 (31 December 2020: \$1,067,666 loss);
- had cash and cash equivalents of \$3,601,925 at 31 December 2021 (30 June 2021: \$6,906,331);
- had a net working capital deficit of \$1,034,588 (30 June 2021: \$3,058,964 surplus), which includes deferred revenue of \$2,540,077 (30 June 2021: \$2,059,890) and a provision for non-cash performance shares of \$976,894 (refer note 10); and
- a net cash outflow from operating activities amounting to \$1,257,074 (31 December 2020: \$423,180).

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

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;
- the trajectory of sales growth and the sales pipeline;
- the portfolio of existing contracts which deliver annual recurring revenues;
- 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

(d) Adoption of new and revised standards

New and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to the Group and effective for the half-year reporting periods beginning on or after 1 July 2021 have been reviewed and applied. There is no material impact on the amounts or disclosures included in this half-year financial report.

(e) Significant accounting judgement and key estimates

The preparation of the half-year financial report requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Except as described below, in preparing this half-year financial report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2021.

In the half-year ended 31 December 2021, management's significant judgements were:

- assessing whether indicators of impairment existed in relation to intangible assets;
- assessing the estimated value of provisions including for deferred consideration and performance shares (note 10);
- recognising deferred tax liabilities for all taxable temporary differences between the carrying amount and tax bases;
- recognising deferred tax assets for temporary differences between the carrying amount and tax bases, when carried forward losses are available;
- the fair value of unlisted options (other than ZEP Options) in reference to the prevailing share price on date of grant or by using a Black-Scholes model (note 14); and
- the fair value of ZEP Options using a probability-based valuation methodology with reference to the share price at grant date to issue the ZEP Options (note 14).

2. SEGMENT NOTE

The Group has adopted AASB 8 *Operating Segments* which requires operating segments to be identified on the basis of internal reports about components of the Group that are reviewed by the board and executive management team (the chief operating decision makers) in order to allocate resources to the segment and assess its performance. The chief operating decision makers review internal reports prepared as consolidated financial statements and strategic decisions of the Group are determined upon analysis of these internal reports.

During the half year, the Group operated predominantly in one business and geographical segment, the technology sector in Australia, and identifies revenue streams from consulting, sale of own software and sale of third party software within that segment.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

3. REVENUE

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

	31 December 2021	31 December 2020
	\$	\$
At a point in time		
Consulting and implementation services revenue	744,564	626,839
Sales of third-party software (provided via a perpetual license)	17,000	3,400
	761,564	630,239
Over time		
Consulting and implementation services revenue (provided on a time and material basis)	1,850,825	1,617,142
Hosting services revenue	74,250	36,335
Sales of own software (provided as a service)	1,889,995	1,129,278
	3,815,070	2,782,755
	4,576,634	3,412,994

4. OTHER INCOME

	31 December 2021	31 December 2020
	\$	\$
Interest income	1,631	1,070
Grant	124,635	115,527
Gain on sale of fixed asset	334	-
Other	728	(146)
	127,328	116,451

5. EMPLOYEE BENEFITS EXPENSE

	31 December 2021	31 December 2020
	\$	\$
Wages & salaries	1,941,344	1,171,232
Superannuation	163,593	94,067
Payroll tax	288,465	71,697
Fringe benefits tax	1,149	9,706
Training	20,689	6,324
Provision for employee entitlements	3,540	71,735
Recruitment	307,377	69,050
Other	11,171	2,906
	2,737,328	1,496,717

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

6. RIGHT OF USE ASSETS

During the reporting period, the Company entered into a five-year premises lease agreement. As a result, a right of use asset and related current and non-current interest-bearing lease liabilities were recognised.

7. INTANGIBLE ASSETS

	31 December 2021 \$	30 June 2021 \$
Software at cost	7,393,034	6,110,343
Software - accumulated amortisation	(955,217)	(455,199)
Total Intangible Assets	6,437,817	5,655,144
Movements:		
Carrying amount at the beginning of the period	5,655,144	337,773
Acquired as part of Sateva acquisition	-	565,000
Acquired as part of Decipher acquisition	-	4,004,000
Internally generated intangible assets	1,309,316	1,110,143
Amortisation	(526,643)	(361,772)
Carrying amount at the end of the period	6,437,817	5,655,144

Details are set out below.

Sateva intangible asset

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.

Decipher intangible asset

On 31 March 2021, the Company completed the acquisition of the assets held by CSBP and WesCEF used in the operation of 'Decipher for 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 (refer note 15).

Internally generated intangible assets

Expenditure in relation to development of the Company's own intellectual property to enhance its current software as a service (**SaaS**) product suite, including investment in:

- new product development within the Sateva suite of technical assurance solutions, Model Manager and Ore Blocker.
- the Tailings Governance Solution.
- upgrading the RCubed Mineral Inventory Governance and Reporting solution to improve ease of use and support requirements.
- the development of a land management solution which utilises Infoscope and Decipher for Mining.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

8. GOODWILL

	31 December 2021 \$	30 June 2021 \$
Infoscope	731,543	731,543
Sateva	4,430,642	4,430,642
Decipher	2,180,632	2,180,632
	<u>7,342,817</u>	<u>7,342,817</u>
Movements:		
Carrying amount at the beginning of the period	7,342,817	731,543
Acquired as part of Sateva acquisition	-	4,430,642
Acquired as part of Decipher acquisition	-	2,180,632
Carrying amount at the end of the period	<u>7,342,817</u>	<u>7,342,817</u>

Goodwill was recognised in relation to the acquisition of Infoscope, Sateva (refer note 31 of the annual report for the financial year ended 30 June 2021), and Decipher acquisitions (refer note 15).

9. TRADE AND OTHER PAYABLES

	31 December 2021 \$	30 June 2021 \$
Current		
Accounts payable	373,894	353,454
Accrued expenses	535,238	656,778
Sateva deferred consideration payable	10,829	118,667
Other payables	89,035	193,464
Employee liabilities	422,243	348,064
	<u>1,431,239</u>	<u>1,670,427</u>

10. PROVISIONS

	31 December 2021 \$	30 June 2021 \$
Current		
Employee leave provisions	485,970	473,863
RCubed milestone incentives	200,000	450,000
Sateva deferred consideration	768,789	471,600
Decipher performance shares	976,894	837,089
	<u>2,431,653</u>	<u>2,232,552</u>
Non-Current		
Employee leave provisions	111,936	123,103
RCubed acquisition milestone incentives	-	100,000
Sateva deferred consideration	1,913,736	2,250,000
Decipher performance shares	417,745	557,550
	<u>2,443,417</u>	<u>3,030,653</u>
Total Current and Non-Current	<u>4,875,070</u>	<u>5,263,205</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

Decipher acquisition

In accordance with the terms of the Decipher acquisition (refer to note 15), 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 during the 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. The Company recognised an initial provision of \$1,394,639 in respect to the Performance Shares.

11. CONTRACT LIABILITIES

	31 December 2021 \$	30 June 2021 \$
Deferred revenue	2,540,077	2,059,890
<i>Movements:</i>		
Opening balance	2,059,890	1,344,058
Deferred during the year	2,324,645	2,976,280
Acquired as part of Decipher acquisition	-	74,918
Released to the statement of profit or loss	(1,844,458)	(2,335,366)
Closing balance	2,540,077	2,059,890

Deferred revenue relates to the performance obligations from existing contracts that have been invoiced but are unsatisfied or partially satisfied. A break-down of the revenue line items (as reported at note 3) to which these contracts liabilities will be recognised in future periods is as follows:

	6 months to 31 December 2021 \$	Year to 30 June 2021 \$
Hosting services revenue	8,067	51,815
Consulting and implementation services revenue	229,838	-
Sales of third-party software (provided via a perpetual license)	25,500	-
Sales of own software (software as a service)	2,276,672	2,008,075
	2,540,077	2,059,890

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

12. ISSUED CAPITAL

	31 December 2021 \$	30 June 2021 \$
Issued and paid up capital	34,361,719	34,361,719
Share issue costs	(3,495,999)	(3,495,999)
	30,865,720	30,865,720

	6 months to 31 December 2021		Year to 30 June 2021	
Reconciliation	Number	\$	Number	\$
Opening balance	137,977,777	30,865,720	91,546,781	18,189,874
Shares issued – Placement	-	-	25,000,000	7,250,000
Broker Options issued – Placement	-	-	-	22
Shares issued – Sateva acquisition	-	-	5,633,803	2,000,000
Shares issued – Decipher acquisition	-	-	11,366,691	3,410,007
Shares issued to advisors	-	-	43,860	15,000
Shares issued – Exercise of options	-	-	1,794,642	-
Shares issued – Exercise of options	-	-	2,592,000	648,000
Shares issued – Exercise of options	119,261	-	-	-
Share issue costs	-	-	-	(430,948)
Share-based payments – options	-	-	-	(216,235)
Closing balance	138,097,038	30,865,720	137,977,777	30,865,720

During the half year ended 31 December 2021, at various dates in July 2021 and November 2021, a total of 119,261 ordinary shares were issued upon the exercise of 119,261 unlisted options with a nil exercise price each expiring 25 November 2021 (**Series 16**) by employees of the Company (issued under the Company's EIOP).

13. RESERVES

	31 December 2021 \$	30 June 2021 \$
Performance rights reserve	199,100	199,100
Option reserve (a)	2,074,329	1,758,818
Foreign currency translation reserve	4,472	20,219
Asset revaluation reserve	120	120
	2,278,021	1,978,257
	6 month to 31 December 2021 \$	Year to 30 June 2021 \$
(a) <i>Movements in option reserve:</i>		
Carrying amount at the beginning of the period	1,758,818	999,753
Share-based payments expense – options (recorded through profit or loss)	315,511	542,830
Share-based payments expense – options (recorded through equity in share issue costs)	-	216,235
Carrying amount at the end of the period	2,074,329	1,758,818

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

14. SHARE-BASED PAYMENTS EXPENSE

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

	31 December 2021 \$	31 December 2020 \$
Shares issued to advisor	-	15,000
Unlisted options issued to advisors	-	46,496
Unlisted options issued to directors and employees and consultants	315,511	307,650
	<u>315,511</u>	<u>369,146</u>

Unlisted options to directors, employees and consultants

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

- 83,333 unlisted options issued on 3 November 2021 to a consultant of the Company exercisable at \$0 each on or before 31 October 2023 (**Bellatrix Options**) (no vesting conditions) (**Series 28**).
- 785,000 unlisted options issued on 23 December 2021 to directors, as approved by shareholders at the **Company's** Annual General Meeting (**AGM**) with nil exercise price, comprising:
 - 450,000 unlisted options exercisable on or before 29 November 2023 (**ZEP Options**) (no vesting conditions) (**Series 29**);
 - 67,000 unlisted options exercisable on or before 30 June 2025 (**ZEP Options**) (subject to vesting conditions) (**Series 30-1**);
 - 67,000 unlisted options exercisable on or before 30 June 2026 (**ZEP Options**) (subject to vesting conditions) (**Series 30-2**); and
 - 201,000 unlisted options exercisable on or before 30 June 2027 (**ZEP Options**) (subject to vesting conditions) (**Series 30-3**).
- 3,312,976 unlisted options issued on 23 December 2021 to employees under its shareholder approved Employee Incentive Option Plan (**EIOP**) with nil exercise price, comprising:
 - 893,370 unlisted options exercisable on or before 31 August 2025 (**ZEP Options**) (subject to vesting conditions) (**Series 31**);
 - 483,921 unlisted options exercisable on or before 30 September 2025 (**ZEP Options**) (subject to vesting conditions) (**Series 32-1**);
 - 483,921 unlisted options exercisable on or before 30 June 2026 (**ZEP Options**) (subject to vesting conditions) (**Series 32-2**); and
 - 1,451,764 unlisted options exercisable on or before 30 June 2027 (**ZEP Options**) (subject to vesting conditions) (**Series 32-3**).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

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 29	Non-Executive Directors	450,000	\$0.25	100%	Non-Market	Vested	\$112,500
Series 30-1	Executive Director / CEO	67,000	\$0.25	33%	Non-Market ¹	Not Vested	\$5,444
Series 30-2	Executive Director / CEO	67,000	\$0.25	33%	Non-Market ¹	Not Vested	\$5,444
Series 30-3	Executive Director / CEO	201,000	\$0.25	33%	Non-Market ¹	Not Vested	\$16,331
Series 31	Employees (EIO participants)	893,370	\$0.25	100%	Non-Market ¹	Not Vested	\$223,343
Series 32-1	Employees (EIO participants)	483,921	\$0.25	45%	Non-Market ¹	Not Vested	\$54,775
Series 32-2	Employees (EIO participants)	483,921	\$0.25	45%	Non-Market ¹	Not Vested	\$54,775
Series 32-3	Employees (EIO participants)	1,451,764	\$0.25	45%	Non-Market ¹	Not Vested	\$164,325
		<u>4,097,976</u>					<u>\$636,937</u>

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) 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 2022, as determined by the Board.

Fair Value of Bellatrix Options

The fair value of Bellatrix 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 28	Bellatrix Options	83,333	\$0.31	100%	Non-Market	Vested	\$25,833
		<u>83,333</u>					<u>\$25,833</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

15. BUSINESS COMBINATION

Decipher

On 31 March 2021, the Company completed the acquisition of the assets held by CSBP and WesCEF used in the operation of '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 strengthens the Group'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 *Business Combinations*. The Company completed a comprehensive analysis of the assets and liabilities acquired, as well as a purchase price allocation during the current period, which produced the fair values reported below.

	\$
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	2,180,632
Net cash outflow arising on acquisition	
Cash paid	5,509
Less: net cash acquired	-
Net cash outflow	5,509

The final allocation was consistent with the provisional amounts previously disclosed.

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 (refer note 7).

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 the Group and Decipher which cannot be recognised as an intangible asset, and the deferred tax liability on the intangible asset acquired.

As the acquisition accounting has been finalised, a deferred tax asset, which offsets the previously recorded deferred tax liability, has been recognised.

At the reporting date, an impairment assessment of the intangible assets was undertaken. It was determined that no impairment is required.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

Deferred consideration

On an annual basis, performance shares issued will convert to a number of fully paid ordinary shares equivalent in value to 22% of the annual revenues attributable to the Decipher business, over a four-year period following completion of the acquisition. 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. Each tranche of shares issued on conversion of the performance shares will be subject to voluntary escrow for 12 months. Refer to note 10 for details.

16. KEY MANAGEMENT PERSONNEL

Key Management Personnel (KMP)

Remuneration arrangements of key management personnel are disclosed in the annual financial report.

On 23 July 2021, the Company announced the appointment of Mr Nic Pollock as Chief Executive Officer (**CEO**) on an ongoing basis with effect from 1 September 2021. Under the terms of the agreement, Mr Pollock is entitled to remuneration of \$300,000 per annum plus statutory superannuation and participation in the Company's EIOP.

On 2 September 2021, the Company announced the appointment of Ms Sara Amir-Ansari as Chief Financial Officer (**CFO**) on an ongoing basis with effect from 25 October 2021. Under the terms of the agreement, Ms Amir-Ansari is entitled to remuneration of \$270,000 per annum plus statutory superannuation and participation in the Company's EIOP.

Unlisted Options issued to directors or director related entities

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

- 335,000 ZEP Options were issued to Dr Roslyn Jane Carbon, spouse of Mr Brian Miller;
- 150,000 ZEP Options were issued to M Cavanagh and T Cavanagh <ECMC Family Trust>, a family trust associated with Ms Jenny Cutri;
- 150,000 ZEP Options were issued to Ms James Deacon; and
- 150,000 ZEP Options were issued to Mr Neil William Canby <Neil Canby Family A/C>.

17. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In February 2022, the Group became aware of discrepancies between its records in relation to employee tax obligations in South Africa and the records of the local taxing authority. An external advisor has been appointed to investigate the matter. Until such time as the investigation has concluded, it is not possible to ascertain whether a possible obligation exists, or the quantum of the exposure. At the reporting date, the value of the amount stated to be owed is \$323,500.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

18. FINANCIAL INSTRUMENTS

Set out below is an overview of financial instrument, other than cash and short-term deposits, held by the Group as at 31 December 2021:

	At amortised cost	Fair value through profit or loss	Fair value through other comprehensive income
	\$	\$	\$
Financial Assets			
Trade and other receivables	1,951,694	-	-
Other Financial assets	-	-	845
Total Assets	1,951,694	-	845
Financial Liabilities			
Trade and other payables	1,431,239	-	-
Interest bearing liabilities	600,861	-	-
	2,032,100	-	-

Set out below is a comparison on the carrying amount and fair values of financial instruments as at 31 December 2021:

	Carrying Value	Fair Value
	\$	\$
Financial Assets		
Trade and other receivables	1,951,694	1,951,694
Other Financial assets	845	845
Total Assets	1,952,539	1,952,539
Financial Liabilities		
Trade and other payables	1,431,239	1,431,239
Interest-bearing liabilities	600,861	600,861
Total Liabilities	2,032,100	2,032,100

19. SIGNIFICANT EVENTS AFTER BALANCE DATE

There has been no matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

DIRECTORS' DECLARATION

The Directors declare that:

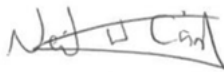
- (a) The financial statements and notes are in accordance with the *Corporations Act 2001* including:
- i. complying with Australian Accounting Standards, the *Corporations Regulations 2001*, professional reporting requirements and other mandatory requirements;
 - ii. giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the period then ended.
- (b) There are reasonable grounds to believe that K2fly Limited will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors made pursuant to s303(5) of the *Corporations Act 2001*.

On behalf of the Directors



Jenny Cutri
Non-Executive Chair
Perth, 28 February 2022



Neil Canby
Non-Executive Director
Perth, 28 February 2022

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of K2Fly Limited

Report on the Half-Year Financial Report*Qualified Conclusion*

We have reviewed the accompanying half-year financial report of K2Fly Limited ("the company") which comprises the condensed statement of financial position as at 31 December 2021, the condensed statement of comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration, for the Group comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Based on our review, which is not an audit, except for the possible effects of the matter in the *Basis for qualified conclusion* paragraph below, we have not become aware of any matter that makes us believe that the half-year financial report of K2Fly Limited does not comply with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for qualified conclusion

As disclosed in Note 17 Contingent liabilities, the Group became aware of discrepancies between its records in relation to employee tax obligations in South Africa and the records of the local taxing authority. An external advisor has recently been appointed to investigate the matter. Due to the ongoing investigation, we have not been able to obtain sufficient appropriate audit evidence to form a view on the completeness of liabilities. Consequently, we were unable to determine whether any adjustments are likely.

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

Responsibility of the directors for the financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

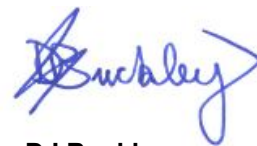
Independence

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



HLB Mann Judd
Chartered Accountants

Perth, Western Australia
28 February 2022



D I Buckley
Partner