K2fly Limited

ABN 69 125 345 502

ANNUAL REPORT

For the Year Ended

30 June 2022

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ABN 69 125 345 502

DIRECTORS
Jenny Cutri, Chair
Neil Canby
James Deacon
Peter Johnson
Brian Miller

JOINT COMPANY SECRETARY
Melissa Chapman
Catherine Grant-Edwards

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Subiaco WA 6008
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Website: www.k2fly.com

SHARE REGISTRY
Advanced Share Registry
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Telephone: 61 8 9389 8033

EXCHANGE
K2fly Limited (**K2fly**) shares are listed on the Australian Securities Exchange (K2F)

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

BANKERS
Bendigo Bank
431 Fitzgerald Street
North Perth WA 6006

AUDITORS
HLB Mann Judd (WA Partnership)
Level 4
130 Stirling Street
Perth WA 6000

Dear Fellow Shareholders

On behalf of K2fly Limited's Board of Directors, I am pleased to present the Company's Annual Report for the 2022 financial year (**FY22**).

Our Vision and Purpose

Governance is critical to the effectiveness and sustainability of natural resource use and conservation, and we are leading and creating a new sector to support Resource Governance.

K2fly is a technology provider of enterprise-level Resource Governance solutions to asset intensive and extractive industries. Our solutions drive towards 'net positive impact' in environmental, social and governance (**ESG**) compliance, disclosure and technical assurance, through platform-based software as a service (**SaaS**) cloud solutions.

Our software and our people contribute to a more sustainable and transparent world, and our mission is to be a trusted partner of choice to enterprise customers in asset-intensive and extractive industries.

We are delighted to work with major mining groups to help them use our software to standardise and embed in their operational processes the business rules which support their desired ESG and technical assurance outcomes. We are particularly proud to be working for The Keeping Place, an Indigenous owned, not-for-profit, social enterprise which offers a secure online cultural heritage and land management system to Traditional Owner groups, using our Heritage Management engine.

Strategy

With the combined knowledge and experience of our well credentialled team of geoscientists, software developers and technical subject-matter experts, and our close customer relationships, we have intimate industry knowledge. We understand our clients' business requirements and challenges, and we identify opportunities to solve them using enterprise-level software.

When we have identified and scoped opportunities, we have a build, buy and partner model to develop solutions and our strategy is to grow them rapidly both in scale and revenue.

Our focus today is on Tier 1 and 2 global mining and resources companies, and we are growing our footprint with our strategy of landing new customers and expanding the number of solutions we sell to them, and the number of business areas we service (geography and commodity types). During FY22, we secured a contract with BHP Iron Ore to roll out our Ground Disturbance Solution across its WA Iron Ore operations in the Pilbara region of Western Australia ($0.6m annual recurring revenue (**ARR**)). We expanded the range of solutions contracted by Rio Tinto, adding the Ground Disturbance Solution for its Western Australian iron ore business to the existing portfolio of solutions, which includes the Heritage Management, Resource Reporting, Natural Resource Governance and Mine Geology solutions.

Our industry knowledge allows us to not only understand but also to capitalise on regulatory changes, including for example the Global Industry Standard on Tailings Management released by the International Council on Mining and Metals (ICMM), and ensure that our solutions facilitate compliance. All 26 members of the ICMM and a number of others have committed to conform to the global standard in a phased approach by 5 August 2023 and 2025. Industry changes such as this are a catalyst for change and offer us the opportunity to help new and existing clients comply with the new requirements, using our Tailing Management Solution which sits within our Natural Resource Governance suite.

The Company has continued growth aspirations and market opportunities, we also remain committed to operating in a financially sustainable manner by growing our ARR from existing and new clients and managing our cost base, while we sustain investment in our products and our service capacity.

Financial Results

FY22 was a highly successful year for K2fly. Revenues grew 44% year-on-year, achieving a record of $10m, with growth a function of winning new clients, growing the range of software and services sold to existing clients, and increased sales prices. Annual recurring revenue (ARR) was $6.0m at 30 June 2022, 76% higher than 30 June 2021.

Pleasingly, although cash used in operating activities was a net outflow of $0.85m during FY22, it was 48% less than the prior year (30 June 2021: $1.64m) and comprised a net outflow of $1.25m for the half year ended 31 December 2021 and a net inflow of $0.4m in the half year ended 30 June 2022.

Capital Raising

In April 2022, the Company successfully completed a placement to raise $6.2m (before costs). The Placement was led by strategic investor, Maptek, a leading international mining software services business. As a result of the Placement, Maptek became a 13.2% shareholder in the Company and Peter Johnson, Chairman of Maptek, was appointed to the Board of K2fly as a non-executive director.

Board, Leadership and K2fly Team

As Chair of K2fly, I am delighted with the growth and increasing maturity of the Company. During FY22, the Company experienced a number of changes including the appointment of Nic Pollock as Chief Executive Officer (CEO) and Sara Amir-Ansari as our inaugural Chief Financial Officer, the expansion of the executive team, the appointment of Peter Johnson to the board and the progressive transition of Brian Miller from Chief Executive Officer to Executive Director and now Non-Executive Director. These organisational changes have been part of our deliberate strategy to establish a stable operational foundation for sustainable growth.

With Pete's industry experience and commercial acumen, he has already proved to be a valuable addition to the Board. He also immediately demonstrated a willingness to roll up his sleeves and impart his experience and knowledge to the senior executive team. I very much welcome Pete to the Board and thank him for the way he has approached his new board position.

The staff and management of K2fly are dedicated to our purpose and vision, and we are grateful for their effort and their determination to help our Company reach its full potential.

I would like to thank my fellow Board members for their tireless efforts to support the Company during its critical growth phase. It is a pleasure to work with you.

Finally, I acknowledge and thank our shareholders for your ongoing support.

Jenny Cutri
Non-Executive Chair

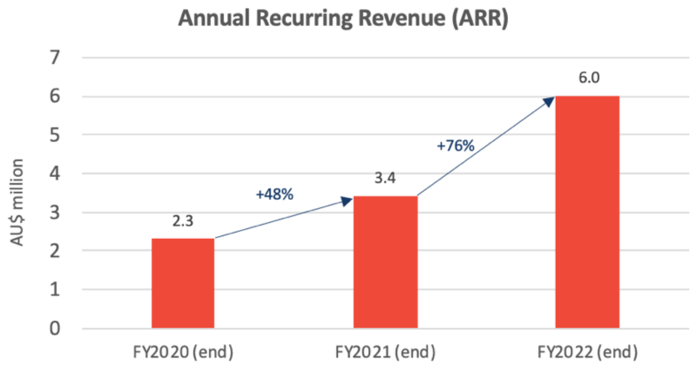
Dear Fellow Shareholders

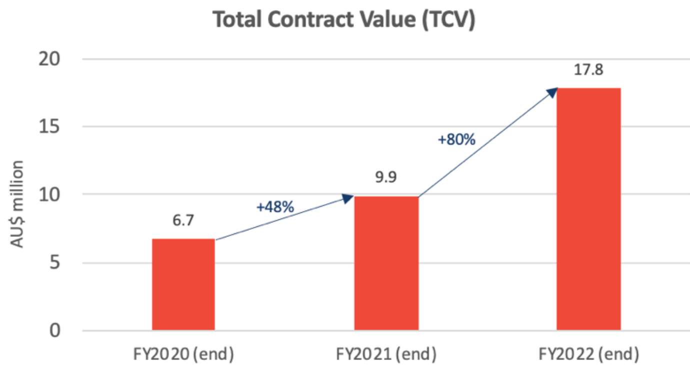
I'm extremely pleased to be able to share with you my first CEO report since being appointed to the position in September 2021, following three years as Chief Commercial Officer. I remain extremely grateful to our founding CEO (Brian Miller) and the Board for offering me this opportunity.

The transition between outgoing CEO and myself has been very smooth and importantly our results have continued our track record of record growth. It has been an exceptional year in the evolution of K2fly.

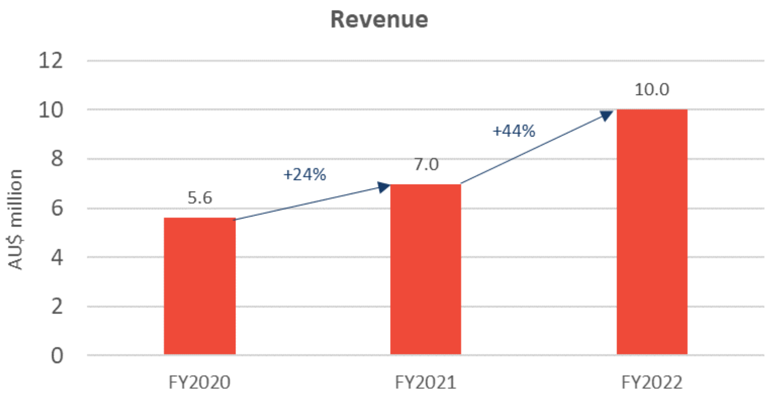
Record Financial Performance

FY22 was characterised by continuing to establish our track record of growth particularly in our key focus areas of Annual Recurring Revenue (ARR) and Total Contract Value (TCV), growing 76% and 80% respectively at the end of FY22 compared to FY21.





With a strong positive cash result in Q4 of FY22, our aim is to become cash flow net positive from operations for the year on the pathway to future profitability . Revenue grew 44% to $10.0m during FY22.



K2fly is increasingly coming closer to becoming financially sustainable after significant investment in its solutions and people. Pleasingly, although cash used in operating activities was a net outflow of $0.85m during FY22, it is 48% less than the prior year (30 June 2021: $1.64m) and breaking this down, comprised a net outflow of $1.25m for the half year ended 31 December 2021 and a net inflow of $0.40m in the half year ended 30 June 2022.

Increase in costs contributed to the loss before interest, tax, depreciation, and amortisation of $4.0m. Cost of sales and employee benefits expense grew by 63% as a result of the investment in management and support overheads and in project delivery capacity in preparation for expected sales, which were secured during the year. Contributing to costs was the recognition of $0.76m for amounts payable because of fraud by a former employee of the Group's South African registered subsidiary. This cost is non-recurring in nature.

Sales

During FY22 our long-term strategy of 'land and expand' continued to deliver for K2fly. We continued to "land" five new customers including major global diversified mining houses like BHP as well as other tier 1 global miners such as Freeport McMoRan (NYSE), Asarco (part of Grupo Mexico), Sibanye Stillwater (NYSE) and Seriti Power in South Africa.

Furthermore, we continued to "expand" our existing clients with additional solutions being adopted by existing customers including South32 and Alcoa, both adopting the K2fly Tailings solution and Rio Tinto expanding their Heritage project as well as beginning a major change program in Iron Ore Division using our Ground Disturbance solution for their entire Pilbara operations.

In terms of demand for software solutions, FY22 heralded the arrival of the critical role ground disturbance plays in mining companies and their ability to maintain their social license to operate. This continues to remain at the top of key challenges for mining company senior executives. We now have the world's two largest mining companies implementing the K2fly ground disturbance solution beginning in the Pilbara of Western Australia. These are new record-breaking license deals for K2fly with considerable opportunity for expansion across their operations. These have contributed to a fivefold increase in the value of our average license sales to AU$347k per annum up from AU$71k in FY21.

Industry Drivers

Despite war in Ukraine, global supply chain shocks and post COVID inflation, the tailwinds of Environmental Social and Governance (ESG) requirements on our customer base remain front and centre to appreciate and manage. It is a rapidly evolving space and K2fly is at the forefrontof providing solutions for some of the most impactful and risk prone ESG issues facing mining companies, particularly with increased focus from regulators and increasingly active shareholders demanding radical transparency.

A recent survey from KPMG identified the Top 10 risks for the mining industry. K2fly solutions help address at least five of those top 10 risks including the number 1 risk of: Environmental Risks, including new regulations.

With the plethora of ESG reporting standards and community expectations being thrust upon our client base, one of the key challenges that we are helping our clients to resolve is ensuring they have robust data that is reliable, well governed and supports their disclosures based on facts and not greenwashing. This forms the basis of the space that we are forming called Resource Governance.

Some of the key regulatory and industry standards we are supporting our clients through now include:

- Changes to Mineral Resource and Reserve disclosures driven by the US SEC called SK-1300. Companies listed on the NYSE are now disclosing based on the new regulations which came into force from 2021 with initial disclosures being made in 2022.
- The new Global Industry Standard on Tailings Management (GISTM) requires that dams and tailings facilities rated as 'high consequence' fully comply with the standard as of August 2023.
- The new WA Aboriginal Cultural Heritage Act 2021.
- Review of JORC (Joint Ore Reserves Committee) followed by Australian listed mining companies, due for industry consultation in late 2022 which we expect will include an increased emphasis on ESG matters as well as requirements for public reporting of mining reconciliation results.

Furthermore, ASIC and other global regulators have announced they will be pursuing those corporations of suspected "Greenwashing" as it warns businesses and fund managers to avoid overhyping their sustainability and climate change credentials.

Strong Resource Governance practices and solutions like those delivered by K2fly are critical for organisations struggling with the challenges of increased transparency requirements.

Operational Achievements

Enhanced Executive Team
During the first half of FY22 we established some key roles within the K2fly executive in order that we can continue to scale the business in line with our growth and profitability plans.

In August 2021 we appointed a Head of Customer Success in recognition of the increasingly large implementations that we are undertaking. Sara Amir-Ansari as the inaugural Chief Financial Officer, was also appointed at the end of October 2021. Sara brings to K2fly the ability to manage our increasingly global and complex financial position and ensures good governance over our financial position and forward planning.

Review of Sales Operations and renewed focus on Americas
In the last quarter of FY22 we reviewed our global sales structure to continue to scale our growth into the future. Based on that review we have restructured our sales teams to a more regional focus, than account focus, with regional heads reporting to the CEO. There are three global markets identified as Australasia (Asia Pacific) the Americas (North and South) and Europe Middle East and Africa (EMEA)

Whilst the Australasian market continues to dominate with 60% of ARR, we believe that the North and South American markets continue to offer K2fly strong growth opportunities. In a world where some mining jurisdictions are prohibited spaces for us to operate it makes sense that K2fly increases its focus on the North and South American markets. To that end we appointed a regional head of Americas sales and a head of Business Development and Marketing for the Australasian and (EMEA) markets.

Industry Forums
The Resource Reserve Reporting Forum (RRRF) is going strong after two years with 13 members representing the largest global mining and consulting houses. A technical paper was produced by a sub-group of forum members and presented by K2fly to the 2021 South African conference on public reporting (SAMCODES).

In March 2022 we launched a new Tailings Governance Forum modelled on the successful RRRF and have held two sessions attended by senior executives of five global mining companies. At the invitation of K2fly, a leading academic researcher from the University of Colorado joined the last forum to lead a discussion on the crisis in availability of tailings engineers and educational options to address this industry wide problem.

It is our intention to launch another similar forum to address common challenges amongst our customers as they pertain to land management and cultural heritage issues.

All forums are conducted on the basis of Chatham House rules and include customers and non-customers with the emphasis on sharing experiences and seeking peer collaboration on how best to implement and address new industry standards and regulations. This provides K2fly very powerful insight into industry challenges and how we might address them with our solutions.

Research and Development

In FY22 K2fly continued to invest heavily into our technology solutions and platforms. In FY22 we invested $2.7m which was a 144% increase over FY21. Key areas of investment included developing the new Resource Governance platform that includes our new Resource Reporting solution, Model Manager, the technical assurance solutions (Ore Blocker and Mine Geology), and the cost of enhancing the functionality of the Natural Resource Governance offerings.

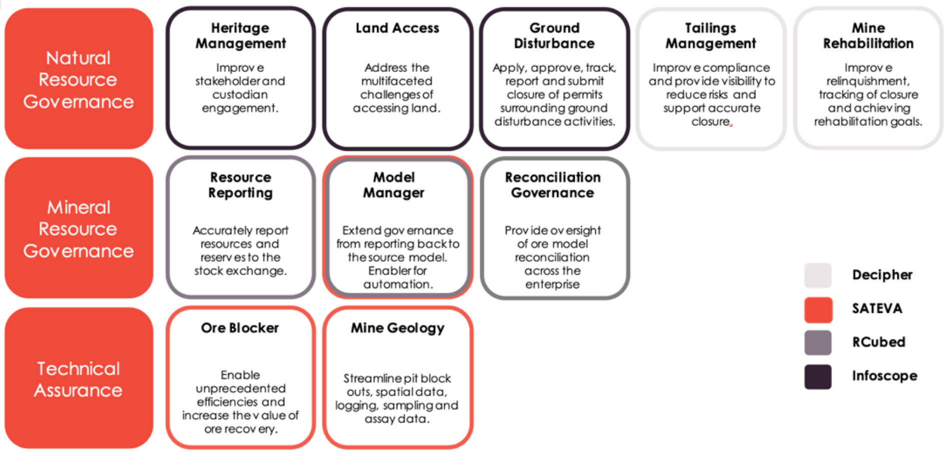
New Resource Governance Platform incorporating Resource Reporting
In late calendar year 2022 K2fly will release our new Resource Governance platform. The first solution from this totally new cloud first platform will be the complete replacement of our successful RCubed solution for K2fly Resource Reporting. With the creation of this new platform, we not only upgrade the technology stack and functionality of our core product, but we also create a Resource Governance platform that can be leveraged similarly across multiple use cases such as Tailings, Rehabilitation, Heritage etc. This will provide our customers and the industry with a step change in its ability to confidently disclose against increasing regulatory and shareholder scrutiny.

Model Manager

At the same time, we will also be launching another complementary solution to the K2fly Resource Reporting Solution in Model Manager to the market. Model Manager allows our customers to load and interrogate block model data over the cloud. Customers can control versions and access their whole portfolio in a single high-performance database. This solution will not only solve significant data management issues, but also provide more seamless workflows and enhanced governance of the Resource Reserve disclosures into the block models. It is agnostic of the mine planning software's that create the block models.

In response to feedback from our shared customers our Resource Reporting solution will be integrated with Maptek Vulcan in the new release.

K2fly Current Solution Footprint



Capital Raising

A capital raising was completed in April 2022, with funds to be used for product development and working capital requirements to deliver our continued growth plans. Raising $6.2m before costs, Maptek, the largest global private mining software group, become a substantial shareholder in K2fly and its Chairman, Peter Johnson, joined our board.

Growth and Strategy for FY23 and Beyond

During the second half of FY22 we undertook an extensive review of our strategies and agreed the following key strategies to go forward with:

- **Product led growth:** Continue to transition to a Product led organisation. K2fly will continue to invest in building industry solutions that are cloud-first and configurable.
- **License sales growth:** Continue to grow our ARR and TCV.
- **Achieve financial sustainability**.
- **Customer Success:** Leverage our initial projects in tier 1 global diversified mining companies to create global standards for these customers and indeed the industry.
- **Attract and retain the right people for our business**.

People and Culture:

Our people are key to the success of K2fly. During the course of FY22 and with a material growth in our business operations we continued to invest in our team in order to address the significantly increased demand. Challenges in the current labour market are well understood and we have been particularly successful at attracting talent. What makes K2fly different is our purpose and how we can address long standing ESG issues in the mining industry to make the industry better and safer for all. We attract very experienced professionals from the big mining houses on that basis.

Following the steady stream of acquisitions in recent years we have continued to invest in our 'One K2fly' cultural program. We are constantly looking at ways to bring our people together, in what has been challenging times of separation caused by COVID, and how we now adapt to a hybrid working culture of office and home. The focus on our people will continue and expand as a key strategic initiative.

I would like to end with a huge thank you to everyone in the K2fly team for what has been a milestone year for our business on so many levels and look forward to continuing this journey together.

Sincerely

Nic Pollock
Chief Executive Officer

Your directors submit their report for the year ended 30 June 2022.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated. Unless otherwise stated, in the three years immediately before the end of the financial year, no director served on the board 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 corporate lawyer and compliance specialist with more than 25 years' experience, having held executive management roles in both public and private sectors, including Head of Compliance for an ASX listed entity and Assistant State Manager – ASX Perth. Jenny is also an accomplished professional Company Director with previous positions in profit and not for profit entities. Jenny holds an LLB, BCom and Graduate Diploma in EMBA from the Melbourne School of Business (formerly Mt Eliza business school). Ms Cutri serves on the Group's remuneration committee.

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. Mr Canby is currently the Managing Director of Sunrise Energy Group, a privately owned Renewable Energy Project Development business working with commercial and industrial companies on decarbonisation of electricity and transport. Until 1 July 2022, Mr Canby served on the Group's remuneration committee. He is chair of the audit and risk committee.

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

Mr Deacon is a veteran of the technology sector with more than 25 years' experience and a proven track record in successful business transformation across a number of industries including utilities, mining, financial services and airlines. He currently provides advisory services to the management teams of global private and public sector organisations and Australian start-ups. 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. Mr Deacon serves on the Group's audit and risk committee and is chair of the remuneration committee.

Peter Johnson BEng(Mech)
Non-Executive Director (since 19 April 2022)

Mr Johnson has over 20 years' experience delivering improvement to the mining industry using technology. He has been heavily involved in the research and development, commercialization and sales of hardware and software technology products relating to geological modelling and mine design, planning, survey and monitoring, production management information and operational mining systems.

Mr Johnson has been responsible for the introduction of several successful technology solutions that are now used globally within the mining industry, including leading the commercialisation of the world's first LiDAR instruments designed specifically for mine measurement. He is the Chairman of Maptek and a Commercial Advisor to PETRA Data Science.

Brian Miller B.Ed (Hons), M.A
Non-Executive Director

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 and experience within the asset intensive sectors.

Mr Miller was chief executive officer of the Group until 31 August 2021 and served as an executive director until 30 June 2022. He serves on the audit and risk committee.

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:

	Number of ordinary shares	Number of options over ordinary shares
Jenny Cutri	770,660	
Neil Canby	1,180,844	
James Deacon	716,111	
Peter Johnson	22,810,245	
Brian Miller	3,149,370	1,916,252

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 the sale of owned software; and the provision of software and integration consulting services and asset management consultancy services.

K2fly is an ASX-listed technology provider of enterprise level Resource Governance solutions for "net positive impact" in Environmental, Social and Governance (ESG) compliance, disclosure and technical assurance to operations of mining and asset intensive industries

K2fly delivers a suite of solutions across three key areas, on a single platform:

- Natural Resource Governance – encompassing Heritage Management, Land Access, Ground Disturbance, Tailings Management and Mine Rehabilitation
- Mineral Resource Governance – comprising Resource Reporting and Model Manager
- Technical Assurance – Ore Blocker and Mine Geology

In addition, K2fly provides asset management consultancy services, primarily to the utilities sector.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 19 April 2022, the Company completed a placement of 34,476,137 fully paid ordinary shares at $0.18 per share to raise $6,205,705 (before costs) (the **Placement**). The Placement was led by strategic investor, Maptek, a leading international mining software services business. As a result of the Placement, Maptek became a 13.2% shareholder in the Company and Mr Johnson, Chairman of Maptek, was appointed to the Board of K2fly. Funds raised from the Placement will be used for product development and working capital requirements.

OPERATIONS REVIEW

Principal Activities

K2fly is a technology provider of enterprise-level Resource Governance solutions for 'net positive impact' 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.

The Group's suite of solutions which span natural resource governance, mineral resource governance and technical assurance address many industry challenges and help manage risk around clients' social license to operate concerning reporting and governance, reputation and disclosure demands.

Headquartered in Subiaco, Western Australia, K2fly's customer base includes multinational Tier-1 and Tier-2 mining clients operating in 62 countries.

Review of Operations

A review of the operations of the Group during the financial year and the results of those operations is contained in the Annual Report.

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 (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

		Meetings of committees	
	Directors' meetings	Audit & risk	Remuneration
Number of meetings held:	16	3	5
Number of meetings attended:			
Jenny Cutri	16		5
Neil Canby	16	3	5
James Deacon	15	3	5
Peter Johnson	3		
Brian Miller	15	3	

All directors were eligible to attend all meetings held except Peter Johnson, who was eligible to attend three directors' meetings.

COMMITTEE MEMBERSHIP

As at the date of this report, the Company had an audit and risk committee and a remuneration committee of the board of directors.
Members acting on the committees of the board during the year were:

Audit and risk	Remuneration
Neil Canby (chair)	James Deacon (chair)
James Deacon	Neil Canby
Brian Miller	Jenny Cutri

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 30 August 2022, the Company received the final report into the forensic review of its South African-registered subsidiary. That investigation concluded that funds had been misappropriated and estimated the liability arising from the fraud to be $755,592. This cost has been recorded in the financial accounts for the year ended 30 June 2022. The matter has been referred to South African police authorities and an insurance claim has been submitted. A contingent asset of $240,000 in relation to the insurance claim has been disclosed in the financial accounts.

The non-compliance has been self-reported to the South African taxing authority and it is the Group's intention to negotiate a payment arrangement to minimise the working capital impact of the debt.

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

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 so not appropriate to disclose. That information has not been presented in this report.

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.

SHARE OPTIONS

Unissued shares

At the date of this report, there were 13,204,341 unissued ordinary shares under option (13,909,951 at the reporting date). Refer to the remuneration report for further details of the options outstanding for Key Management Personnel (**KMP**).

Option holders do not have any right, by virtue of the option to participate in any share issue of the Company or any related body corporate.

Shares issued as a result of the exercise of options

During the financial year, employees and executives exercised rights to acquire 260,106 fully paid ordinary share in the Company at nil exercise price.

PERFORMANCE SHARES

At the date of this report, there are 4,870,148 performance shares on issue, none of which have vested.

During the year, 475,485 performance shares were converted to fully paid ordinary shares. The issue of shares related to the acquisition of Decipher (tailings management solution) from CSBP Limited and Wesfarmers Chemicals, Energy & Fertilisers Limited in February 2021 and was in accordance with the terms of the acquisition agreement.

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.

SHARES

At 30 June 2022 there were 173,189,505 fully paid ordinary shares on issue. At the date of this report, there were 173,895,115 shares on issue.

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. 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.

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

This Deed:

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

The total amount of insurance contract premiums paid was $41,994.

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 6.11 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 2022.

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 k2fly.com.

Signed in accordance with a resolution of the Directors.

Jenny Cutri	Neil Canby
Non-Executive Chair	Non-Executive Director
Perth, 30 September 2022	Perth, 30 September 2022

REMUNERATION REPORT

The Directors of K2fly Limited present the Remuneration Report (the Report) for the Company and its controlled entities for the year ended 30 June 2022. This Report forms part of the Directors' Report and has been audited in accordance with section 300A of the Corporations Act 2001.

The Report details the remuneration arrangements for K2fly's key management personnel (KMP) which comprise non-executive directors (NEDs) and executive directors and senior executives (collectively the executives).

KMP are those persons who, directly or indirectly, have authority and responsibility for planning, directing and controlling the major activities of the Company and Group.

The table below outlines the KMP of the Group and their movements during the year:

Name	Position	Term as KMP
Directors		
Jenny Cutri	Non-Executive Chair	Full financial year
Neil Canby	Non-Executive Director	Full financial year
James Deacon	Non-Executive Director	Full financial year
Peter Johnson	Non-Executive Director	Effective 19 April 2022
Brian Miller[1]	Non-Executive Director from 1 July 2022 Executive Director until 30 June 2022 Chief Executive Officer until 31 August 2021	Full financial year
Senior executives		
Nicholas (Nic) Pollock	Chief Executive Officer	Effective 1 September 2021
Sara Amir-Ansari	Chief Financial Officer	Effective 25 October 2021

[1] Mr Miller stepped down from his executive position on 30 June 2022. From 1 July 2022 and at the date of this report he is a non-executive director of the Company.

Remuneration Governance

Remuneration decision making

The Board is responsible for approving compensation arrangements. The Board considers 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.

The Remuneration Committee (**the Committee**), which comprises three non-executive directors, reviews and recommends to the board the overall strategies in relation to executive remuneration plans and compensation arrangements for the chief executive officer, nominated key personnel and non-executive directors. The composition of the Committee is set out on page 10 of this annual report. The Committee's Charter is available from the Company's website at k2fly.com.

Use of remuneration advisors

During the prior year, the Company engaged BDO Reward (WA) Pty Ltd (**BDO**) 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 remuneration recommendations were provided as an input into decision making only.

Share trading policy

The Company's Securities Trading Policy applies to all directors, officers and staff. The policy prohibits dealing in the Company's securities while in possession of material non-public information relevant to the Group.

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.

Executive Incentive Scheme

The purpose of K2fly's remuneration and reward system is to provide executives with a competitive remuneration comprising fixed and variable pay components. Fixed remuneration is linked to market rates for the role and is remitted in cash. Variable pay components which comprise incentives, which increase total remuneration as a reward for successful performance; and retention-based pay, which recognises the value of business knowledge and continuity, are remitted through the use of options and cash.

For those eligible to participate in the EIOP, total fixed remuneration (**TFR**) determines the potential size of the individual's variable remuneration.

The amount of variable remuneration that may be earned is linked to key performance indicators (**KPI**) which comprise corporate and individual performance metrics. These metrics are agreed with individuals at the commencement of the financial year. For the financial year ending 30 June 2022, the corporate performance metrics were determined by the Remuneration Committee. Corporate performance metrics are linked to operational and sustainability objectives (including targets associated with revenue, annual recurring revenue, and net operating cashflow).

Remuneration structure

In accordance with best practice corporate governance, the structure of the executive and that of non-executive directors' remuneration is separate and distinct.

Executive Employment Agreements

The remuneration and other terms of employment for executive KMPs are formalised in employment agreements. Remuneration consists of fixed remuneration and variable remuneration.

Mr Miller stepped down from his role as chief executive officer with effect from 31 August 2021. He remained engaged by the Company as an executive director on a part-time basis until 1 July 2022, at which time he became a non-executive director. Mr Miller's annual TFR was reduced by 20% between 1 September 2021 and 1 April 2022 to reflect his full-time equivalent working hours (0.8). Between 1 April and 30 June 2022, Mr Miller's annual TFR was reduced by 40% to reflect his full-time equivalent working hours (0.6).

Mr Pollock was appointed chief executive officer from 1 September 2021.

Ms Amir-Ansari was appointed chief financial officer from 25 October 2021.

Fixed remuneration

The major provisions of the agreements related to the remuneration of executives are set out below.

Executive	TFR per annum	Term	Notice period
Brian Miller	From 1 July to 31 August 2022 - $273,568 From 1 September to 31 March 2022 - $220,000 From 1 April to 30 June 2022 - $165,000	On-going[1]	3 months
Nic Pollock	$323,568	On-going	6 months
Sara Amir-Ansari	$293,568	On-going	1 month

[1] Mr Miller resigned from his executive position with effect from 30 June 2022. From 1 July 2022 he was engaged under a consultancy agreement with TFR of $60,000 p.a. based on one day of work per week, and a term of 12 months.

Variable remuneration

Executives' entitlement to variable remuneration for the financial year ended 30 June 2022, is set out below.

Executive	Number of ZEP Options (unquoted options with nil exercise price)
Brian Miller	335,000
Nic Pollock	927,562
Sara Amir-Ansari	464,816

ZEP Options shall vest and become exercisable when the vesting conditions (including remaining employed by the Company) 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.

For details of share-based payments recognised in respect of options issued to the executives, refer to note 6.3.

Director fees

Mr Miller was entitled to receive director fees of $12,000 per annum during FY22.

Non-Executive Director remuneration

Fixed cash remuneration

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 (or their nominees) were each issued 150,000 ZEP Options (unlisted options with nil exercise price) expiring on 29 November 2023 in lieu of cash remuneration. There were no vesting conditions attached to the options.

For details of share-based payments recognised in respect of options issued to Non-Executive Directors, refer to note 6.3.

Options

Granted as Compensation

The following table summarises remuneration options granted to Key Management Personnel during the year ended 30 June 2022. All options were ZEP Options granted on 29 November 2021 and were valued at $0.25 per option at the grant date.

Recipient	Series	Number Issued	Value of Options at Grant Date[1]	Status	Expiry Date
Brian Miller	30-1	67,000	$5,444	Unvested	30/06/2025
	30-2	67,000	$5,444	Unvested	30/06/2026
	30-3	201,000	$16,331	Unvested	30/06/2027
Jenny Cutri	29	150,000	$37,500	Vested	29/11/2023
Neil Canby	29	150,000	$37,500	Vested	29/11/2023
James Deacon	29	150,000	$37,500	Vested	29/11/2023
Nic Pollock	31	215,712	$53,928	Unvested	31/08/2025
	32-1	142,370	$12,457	Unvested	30/09/2025
	32-2	142,370	$12,457	Unvested	30/06/2026
	32-3	427,110	$37,372	Unvested	30/06/2027
Sara Amir-Ansari	31	73,392	$18,348	Unvested	31/08/2025
	32-1	78,285	$10,030	Unvested	30/09/2025
	32-2	78,285	$10,030	Unvested	30/06/2026
	32-3	234,854	$30,091	Unvested	30/06/2027

[1] Value reflects the number of options estimated to vest based on FY22 KPI performance.

Remuneration of Key Management Personnel

	Short-term employee benefits $			Post-employment benefits – superannuation ($)	Share-based payments – options ($)	Total ($)	% Equity based
30 June 2022	**Salary and fees**	**Cash bonus**	**Other**				
Brian Miller	248,975	-		19,578	72,892	341,445	21%
Jenny Cutri	56,000	-		-	37,500	93,500	40%
Neil Canby	48,500	-		-	37,500	86,000	44%
James Deacon	49,750	-		-	37,500	87,250	43%
Peter Johnson	6,818	-		682	-	7,500	-
Nic Pollock[1]	250,000	14,932	3,072	22,205	110,689	400,898	28%
Sara Amir-Ansari[2]	178,269	-	17,071	17,827	30,034	243,201	12%
Total	**838,312**	**14,932**	**20,143**	**60,292**	**326,115**	**1,259,794**	**26%**

[1] Mr Pollock became a KMP on 1 September 2021. The cash bonus was remitted after Mr Pollock became a KMP but relates to the financial year ending 30 June 2021, at which time he was not a KMP.

[2] Ms Amir-Ansari became a KMP on 25 October 2021.

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

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

Other information

Shares held by Key Management Personnel*

30 June 2022	Opening balance of shares	Shares issued on exercise of options	Purchases	Net change – other[1]	Closing balance of shares
Brian Miller	2,963,985	-	104,000	-	3,067,985
Jenny Cutri	620,660	-	-	-	620,660
Neil Canby	964,844	-	66,000	-	1,030,844
James Deacon	566,111	-	-	-	566,111
Peter Johnson	-	-	-	22,810,245	22,810,245
Nic Pollock	-	-	-	227,735	227,735
Sara Amir-Ansari	-	-	222,222	-	222,222
Total	**5,115,600**	**-**	**392,222**	**23,037,980**	**28,545,802**

* Includes shares held directly, indirectly and beneficially by KMP.

[1] Shares held on the date that the individual became a KMP.

Options held by Key Management Personnel*

30 June 2022	Opening balance of options	Granted#	Exercised#	Lapsed#	Net change other[1]	Closing balance of options
Brian Miller	1,988,178	335,000	-	(325,541)[2]		1,997,637
Jenny Cutri	-	150,000	-			150,000
Neil Canby	-	150,000	-			150,000
James Deacon	-	150,000	-			150,000
Peter Johnson	-	-	-			-
Nic Pollock	-	927,562	-		1,151,529	2,079,091
Sara Amir-Ansari	-	464,816	-			464,816
Total	**1,988,178**	**2,177,378**	**-**	**(325,541)**	**1,151,529**	**4,991,544**

* Includes shares held directly, indirectly and beneficially by KMP.

Movements in remuneration-related securities held by KMP.

[1] Options held on the date that the individual became a KMP.

[2] Value of lapsed options was nil.

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 2022.

Company Performance and Shareholder Wealth

The earnings of the Group for the four years to 30 June 2022 are summarised below:

	2022	2021	2020	2019	**2018**
Revenue	10,017,475	6,954,942	5,601,481	3,787,826	2,523,151
Loss after income tax	(4,621,080)	(2,962,795)	(3,330,987)	(1,938,528)	(5,410,273)

The share price and earnings per share of the Group for the four years to 30 June 2022 are summarised below:

	2022	2021	2020	2019	**2018**
Share price at year end ($)	$0.150	$0.310	$0.200	$0.155	$0.248
Basic earnings/(loss) per share (cents)	(3.17)	(2.81)	(4.08)	(2.94)	(9.55)

Voting at Company's 2021 Annual General Meeting

The Company's remuneration report for the 2021 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 2022, 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	**D I Buckley**
30 September 2022	**Partner**

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 $	2021 $
Revenue	3.1	10,017,475	6,954,942
Cost of sales		(5,343,312)	(3,272,257)
Gross profit		**4,674,163**	**3,682,685**
Other income	3.1	1,149,359	117,268
Administration expense		(762,343)	(493,288)
Amortisation expense	5.3	(1,139,831)	(361,772)
Compliance & regulatory expense		(154,227)	(155,428)
Consultancy expense		(1,120,461)	(593,356)
Depreciation plant and equipment	5.1	(55,123)	(34,253)
Depreciation right of use assets	5.2	(163,271)	(81,876)
Directors' fees		(173,068)	(120,000)
Employee benefit expense	3.3	(5,438,373)	(3,353,244)
Public relations & marketing expense		(414,376)	(380,679)
Share-based payments expense	6.3	(650,409)	(557,830)
Finance expense		(100,114)	(17,736)
Stamp duty		-	(288,000)
Acquisition expenses		-	(134,653)
Foreign exchange		(133,605)	(39,820)
Other expenses	3.4	(1,014,580)	(150,813)
Loss before income tax expense		(5,496,259)	(2,962,795)
Income tax benefit	3.5	875,179	-
Loss for the year		**(4,621,080)**	**(2,962,795)**
Other comprehensive income/(loss), net of income tax:			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign subsidiaries		22,799	(1,904)
Income tax relating to these items		-	-
Other comprehensive income/(loss) for the year, net of tax		**22,799**	**(1,904)**
Total comprehensive loss for the year		**(4,598,281)**	**(2,964,699)**
Basic and diluted loss per share (cents per share)	3.6	(3.17)	(2.81)

The accompanying notes form part of the financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

	Notes	2022 $	2021 $
Assets			
Current assets			
Cash and cash equivalents	4.1	8,270,720	6,906,331
Trade and other receivables	4.3	1,929,942	2,164,674
Total current assets		**10,200,662**	**9,071,005**
Non-current assets			
Restricted cash	4.2	153,559	125,175
Plant and Equipment	5.1	112,656	60,704
Right of use assets	5.2	491,961	70,899
Intangible assets	5.3	7,214,366	5,655,144
Goodwill	5.4	7,342,817	7,342,817
Other financial assets		844	844
Deferred tax asset	3.5	900,902	-
Total non-current assets		**16,217,105**	**13,255,583**
Total assets		**26,417,767**	**22,326,588**
Liabilities			
Current liabilities			
Trade and other payables	4.4	1,912,317	1,670,427
Provisions and other liabilities	5.6	2,695,410	2,232,552
Interest-bearing lease liabilities	5.7	175,378	49,172
Contract liabilities	4.5	4,250,828	2,059,890
Current tax liability	3.5	220,840	-
Total current liabilities		**9,254,773**	**6,012,041**
Non-current liabilities			
Provisions and other liabilities	5.6	1,729,630	3,030,653
Interest-bearing lease liabilities	5.7	335,632	36,667
Deferred tax liabilities	3.5	1,056,277	1,256,475
Total non-current liabilities		**3,121,539**	**4,323,795**
Total liabilities		**12,376,312**	**10,335,836**
Net assets		**14,041,455**	**11,990,752**
Equity			
Issued capital	6.1	36,864,295	30,865,720
Reserves	6.2	2,651,465	1,978,257
Accumulated losses		(25,474,305)	(20,853,225)
Total equity		**14,041,455**	**11,990,752**

The accompanying notes form part of the financial statements

CONSOLIDATED STATEMENT OF STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2022

	Issued capital	Performance rights reserve	Option reserve	FCTR reserve	Asset revaluation reserve	Accumulated losses	Total equity
	$	$	$	$	$	$	$
Balance at 1 July 2021	**30,865,720**	**199,100**	**1,758,818**	**20,219**	**120**	**(20,853,225)**	**11,990,752**
Loss for the year	-	-	-	-	-	(4,621,080)	(4,621,080)
Exchange differences on translation of foreign subsidiaries	-	-	-	22,799	-	-	22,799
Total comprehensive loss for the year	-	-	-	22,799	-	(4,621,080)	(4,598,281)
Issue of shares – placement	6,205,705	-	-	-	-	-	6,205,705
Conversion of performance shares	155,660	-	-	-	-	-	155,660
Share issue costs	(362,790)	-	-	-	-	-	(362,790)
Share-based payments – options	-	-	650,409	-	-	-	650,409
Balance as at 30 June 2022	**36,864,295**	**199,100**	**2,409,227**	**43,018**	**120**	**(25,474,305)**	**14,041,455**

The accompanying notes form part of the financial statements

CONSOLIDATED STATEMENT OF STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2022

	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 2022

	Notes	2022 $ Inflows / (Outflows)	2021 $ Inflows / (Outflows)
Cash flows from operating activities			
Receipts from customers		12,561,420	7,126,977
Payments to suppliers and employees		(13,581,890)	(8,788,211)
Government grants received		199,485	115,527
Interest received		2,878	1,448
Interest paid		-	-
Income tax paid		-	8,789
Movement of cash from non-restricted to restricted		(28,384)	(105,175)
Net cash (used in) operating activities	4.1	**(846,491)**	**(1,640,645)**
Cash flows from investing activities			
Proceeds from sale of plant and equipment		(1,568)	-
Payments for plant and equipment		(110,011)	(34,387)
Intangible asset (internally generated)	5.3	(2,699,053)	(1,110,143)
Investment in subsidiaries (Sateva)		(171,988)	(2,511,836)
Investment in subsidiaries (Decipher)		-	(5,509)
Payments for vendor incentive remuneration		(350,000)	(550,000)
Investment in subsidiaries acquisition costs		-	(134,653)
Cash acquired on acquisition of subsidiary (Sateva)		-	2,685,996
Net cash (used in) investing activities		**(3,332,620)**	**(1,660,532)**
Cash flows from financing activities			
Proceeds from the issue of shares		6,205,705	7,250,000
Payments for share issue costs		(362,790)	(472,648)
Proceeds from exercise of options		-	648,000
Proceeds from issue of options		-	23
Repayment of lease liabilities		(188,970)	(84,544)
Net cash provided by financing activities		**5,653,945**	**7,340,831**
Net increase in cash held		1,474,834	4,039,654
Cash at beginning of the year		6,906,331	2,919,788
Effects of exchange rate fluctuations on cash held		(110,445)	(53,111)
Cash and cash equivalents at the end of the year	4.1	**8,270,720**	**6,906,331**

The accompanying notes form part of the financial statements

SECTION - 1 ABOUT THIS REPORT

Corporate information

The consolidated financial statements of K2fly Limited and its subsidiaries (collectively, the Group) for the year ended 30 June 2022 were authorised for issue in accordance with a resolution of the directors on 30 September 2022. K2fly Limited (the Company or K2fly) is a limited company incorporated and domiciled in Australia and whose shares are publicly traded.

The Group is principally engaged in the provision of enterprise-level resource governance solutions in environmental, social and governance (ESG) compliance, disclosure and technical assurance to mining and asset intensive industries.

Information on the Group's structure is provided in note 6.5. Information on other related party relationships of the Group is provided in note 6.10.

Basis of preparation

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with the Australian Accounting Standards results in compliance with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Group is a for-profit entity for financial reporting purposes under the Australian Accounting Standards.

The financial statements have been prepared on an historical cost basis. Historical cost is based on the fair values of the consideration given in exchange for goods and services.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Refer note 6.10 for details of the group structure.

The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

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.

For the year ended 30 June 2022, the Group incurred a net loss of $4,621,080 (30 June 2022: $2,962,795) and experienced net cash outflows from operating activities of $846,491 (30 June 2021: $1,640,645).

At 30 June 2022, the Group had cash and cash equivalents of $8,270,720 (30 June 2021: $6,906,331), had a net working capital surplus of $945,889 (30 June 2021: $3,058,964), which includes $4,250,828 of deferred revenue (30 June 2021: $2,059,890) and non-cash performance shares of $827,792 (see note 5.6). The working capital position at 30 June 2022 has been adversely impacted by the recognition of $755,592 for amounts payable to the South African taxing authority. The loss was incurred due to fraud by a former employee of the Group's South African registered subsidiary. The Company has notified its insurer of its intention to make a claim and it is the Company's intention to negotiate a payment arrangement with the taxing authority to minimise the working capital impact of the loss.

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 or reducing costs, and if necessary, raising further capital.

The Directors have prepared the financial statements on a going concern basis as they are satisfied that the Group will be able to fund its planned activities and operations. In forming this view, consideration was given to:

- performance tracking and monitoring disciplines, including regular review of management accounts and cash flow forecasts;
- cost management and control processes;
- recent sales growth and the sales pipeline;
- the portfolio of existing contracts which deliver annual recurring revenues; and
- the demonstrated ability to raise capital though the equity market.

New and amended accounting standards and interpretations

The Group has adopted all new and amended Australian Accounting Standards and Interpretations which were required to be applied from 1 July 2021.

- Amendments to existing standards effective and adopted from 1 July 2021 but not relevant or significant to the Group:
- AASB2020-8 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2
- AASB2021-3 Amendments to Australian Accounting Standards – Covid 19 – Related Rent Concession beyond 30 June 2021

New standards and amendments to standards that have been issued but not yet effective or early adopted by the Group:

- Amendments to AASB 101 Classification of Liabilities as Current or Non-current
- Amendments to AASB 3 Reference to the Conceptual Framework
- Amendments to AASB 116 Property, Plant and Equipment – Proceeds Before Intended Use
- Amendments to AASB 137 Onerous Contracts – Cost of Fulfilling Contract

New and amending, and not yet effective, standards and interpretations do not have a material effect on the Group's accounting policies.

Key judgements and estimates

In the application of the Group's accounting policies, management is required to make 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 relevant factors. 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.

Revenue

For contracts which include software and services to be delivered, determining whether those promised services are considered distinct performance obligations that should be accounted for separately rather than together requires significant judgement. In determining the treatment, consideration is given to the nature of the services and terms of the contract.

For services which are provided on a fixed price basis, determination of which performance obligations have been achieved, and where relevant, the proportion of the total project which has been delivered requires significant judgement. Estimates are applied having regard for current information including knowledge of the project plan, estimated progress against that plan and estimated remaining scope of work.

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 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 5.4.

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 options with an exercise price of nil is calculated using a probability-based valuation methodology and with reference to the share price at grant date. The fair value of other unlisted options is determined in reference to the prevailing share price on date of grant or by using a Black-Scholes model (refer to note 6.3).

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.

Provisions for deferred consideration

Management estimates the value of provisions for deferred consideration by making assumptions about the achievement of performance metrics. Management bases its assumptions on historical performance, current information and plans. The estimated value of the provision may vary from the actual amount payable.

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 options under its leases to extend the term of the lease. 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).

Goods and services tax (GST)
Amounts shown in the financial statements are net of consumption taxes such as GST and value added tax, with the exception of trade receivables and payables.

The net amount of GST recoverable from, or payable to, the taxation authority is included in receivables or payables in the statement of financial position, and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Non-recoverable GST is either recognised as part of the cost of an asset or expensed as incurred.

Comparatives
Comparative information is for the financial year ended 30 June 2021.

Certain prior year amounts have been reclassified in the statement of profit or loss, the statement of financial position and the statement of cash flows for consistency with current year presentation. This change in classification does not affect the previously reported result for the year.

SECTION - 2 SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue

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.

The amount of revenue recognised is the amount allocated to the satisfied performance obligation. If a contract has multiple performance obligations, the transaction price is allocated to each performance obligation identified in the contract on a relative stand-alone selling price basis. The principles applied for each of the main types of contracts with customer are described in more detail below.

Licenses

The Group predominantly sells the right to access its own software to customers as a service, which can be hosted 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. Licence fees are generally charged annually in advance and revenue is recognised over time.

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 as performance obligations are achieved. For these contracts where a material upfront fee is charged, judgement is applied to determine the proportion of the total project which has been delivered and revenue is recognised accordingly.

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.

(b) 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

The Company and its wholly owned Australian resident subsidiaries have formed a tax-consolidated group. 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.

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 capitalised, 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.

(c) 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 the Company.

(d) 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.

(e) 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.

(f) 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.

(g) 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.

(h) 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.

(i) 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 the development of a new software or new functionality for an existing software (or from the development phase of an internal project) is recognised 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.

(j) 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 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.

(k) 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.

(l) 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.

(m) 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 The Company (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 3.6.

(n) 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.

(o) Business combinations

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.

(p) 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.

SECTION - 3 Operating Performance

3.1 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: Operating Segments* (Refer note 3.2).

	2022	2021
(a) Revenue	**$**	**$**
At a point in time		
Consulting and implementation revenue (provided on a fixed price basis)	1,913,966	908,051
Sales of third-party software (provided via a perpetual license)	32,301	18,700
	1,946,267	926,751
Over time		
Consulting and implementation revenue (provided on a time and material basis)	3,536,391	3,223,452
Hosting services revenue	95,595	193,773
Sales of own software (provided as a service)	4,439,222	2,610,966
	8,071,208	6,028,191
Total revenue	**10,017,475**	**6,954,942**
(b) Other income		
Revaluation of provisions	939,434	-
Interest income	2,878	1,448
Government grants received	199,485	115,527
Other	7,562	293
Other income	**1,149,359**	**117,268**

Revenue is recognised when or as each performance obligation is satisfied at the amount of the transaction price allocated to that performance obligation. A performance obligation may be satisfied at a point in time or over time.

K2fly has utilised the practical expedient available under paragraph 121(a) of AASB 15 Revenue from Contracts with Customers relating to transactions with an expected duration of 12 months or less, which, for accounting purposes, applies to all of the Company's transactions with customers.

Certain provisions for deferred consideration were revalued during the period to reflect management's current estimate of amounts receivable under those agreements. (Refer to note 4.5.)

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 2022 (2021: $ nil).

3.2 Segment reporting

In accordance with *AASB 8: Operating Segments,* the Group is required to present segment information. For management purposes, the Group is organised into a single segment. The chief decision makers, the board of directors and the executive management team, review consolidated financial statements when assessing performance and taking strategic decisions.

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. The Group's revenues included revenues from two key clients which contributed:

- $2,052,359 or 20.5% (2021: $1,591,995 or 23%)
- $2,045,279 or 20.4% (2021: $1,114,889 or 16%)

3.3 Employee benefits expense

	2022 $	2021 $
Wages and salaries	3,965,131	2,596,241
Superannuation	307,836	204,199
Payroll tax	565,128	196,046
Fringe benefits tax	23,149	13,426
Training	43,643	6,417
Provisions – leave entitlements	(14,144)	166,072
Recruitment and relocation costs	536,445	167,869
Other	11,185	2,974
	5,438,373	3,353,244

3.4 Other expenses

	2022 $	2021 $
Cost of loss – South Africa (a)	755,592	-
Occupancy	144,086	73,067
Travel expenses	96,902	17,736
Research	18,000	58,655
	1,014,580	150,813

(a) In February 2022, the Group became aware of discrepancies between employee tax obligations recorded in its South African-registered subsidiary's accounts and the records of the local taxing authority. An external advisor was appointed to undertake a forensic review of the matter. The investigation, which was completed in August 2022, concluded that funds had been misappropriated and estimated the liability to be $755,592. The matter has been referred to South African police authorities and the Group's insurer has been notified of its intention to submit a claim. The non-compliance has been self-reported to the South African taxing authority, and it is the Group's intention to negotiate a payment arrangement to minimise the working capital impact of the debt.

3.5 Income tax expense

	2022 $	2021 $
Income tax expense		
The major components of tax expense are:		
Current tax expense / (income)	225,921	-
Deferred tax benefit	(1,101,100)	-
	(875,179)	-

	2022 $	2021 $
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:		
Accounting loss before tax	(5,496,259)	(2,962,795)
Income tax benefit calculated at 25.0% (2021: 26.0%)	(1,374,065)	(770,327)
Non-deductible expenses	519,330	352,181
Non-assessable income	(220,910)	(25,487)
Recognition of tax losses not previously recognised	-	(30,708)
R&D refundable rebate	-	-
Unused tax losses and tax utilised as deferred tax assets	235,394	659,792
Other deferred tax assets and tax liabilities not recognised	(213,300)	(159,928)
Effect of tax rates of subsidiaries in different jurisdictions	(34,359)	3,685
Income tax in different jurisdictions not recognised	212,731	(29,209)
Income tax benefit	(875,179)	-
Deferred assets comprise:		
Losses available for offset against future taxable income	3,666,103	2,385,082
Depreciating assets	1,127,526	1,191,127
Blackhole expenditure	6,268	13,466
Accrued expenses	11,250	-
Employee entitlements	197,886	188,346
Deferred gains and losses on foreign exchange contracts	6,910	4,056
Investments	1,166	1,166
Lease liabilities	128,804	4,183
Other	4,893	137,035
Deferred tax assets not recognised	(4,249,904)	(3,924,461)
	900,902	-
Deferred tax liabilities comprise:		
Right of use assets	(123,803)	-
Business combinations	(1,056,277)	(1,256,475)
Deferred tax liabilities not recognised	123,803	-
	(1,056,277)	(1,256,475)

	2022 $	2021 $
Other deferred tax assets not recognised		
Income tax not recognised directly in equity:		
Share issue costs	(116,217)	3,765
Deferred tax assets not recognised	116,217	(3,765)
	-	-
Net deferred tax asset/(liability)	(155,375)	(1,256,475)
Current tax asset/(liability)		
Income tax in jurisdictions outside Australia	(220,840)	-

The Group has tax losses arising in Australia of $13,547,356 (2021: $9,318,436) 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 assets and liabilities have been recognised in relation to the acquisitions business combinations. Refer to note 5.5.

3.6 Loss per share

	2022	2021
Basic loss per share (cents per shares)	(3.17)	(2.81)
Loss		
Loss used in the calculation of basic loss per share ($)	(4,621,080)	(2,962,795)
Weighted average number of shares		
Weighted average number of ordinary shares (number of shares)	145,567,113	105,267,006

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

SECTION - 4 Operating Capital

4.1 Cash and cash equivalents

	2022	2021
	$	$
Cash at bank and on hand	8,270,720	6,906,331
	8,270,720	6,906,331

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:

	2022	2021
	$	$
Cash and cash equivalents	8,270,720	6,906,331
Reconciliation of profit for the year to net cash flows from operating activities		
Net loss for the year	(4,621,080)	(2,962,795)
Non-cash items and other adjustments:		
Amortisation	1,139,831	361,772
Depreciation plant and equipment	55,123	34,253
Depreciation leased assets	163,271	81,876
Share-based payments	650,409	557,830
Employment provisions	(14,144)	166,072
Loss on disposal	6,201	-
Acquisition expenses (investing activity)	-	134,653
Interest expense	70,487	-
Foreign exchange	133,605	39,821
Movements in working capital:		
Changes in trade and other receivables	234,732	(730,355)
Changes in restricted cash	(28,384)	(105,175)
Changes in provisions	(194,191)	(118,667)
Changes in contract assets	-	-
Changes in contract liabilities	2,190,938	640,914
Changes in tax assets	(875,179)	
Changes in trade and other payables	241,890	259,156
Net cash used in operating activities	(846,491)	(1,640,645)

Non-cash investing and financing activities

	2022 $	2021 $
Acquisition of right of use assets	586,503	56,122

Changes in liabilities arising from financing activities

	2022 $	2021 $
Opening balance	85,839	100,201
Acquisition of right of use assets	586,503	56,122
Interest expense	30,318	9,705
Repayments of principal	(188,970)	(84,544)
Foreign exchange	(2,680)	4,355
Closing balance	511,010	85,839

4.2 Restricted cash

	2022 $	2021 $
Bank guarantees	153,559	125,175

4.3 Trade and other receivables

	2022 $	2021 $
Trade receivables	1,761,202	1,927,292
Prepayments	158,679	193,063
Deposits	9,527	43,760
Other	534	559
	1,929,942	2,164,674

All receivables 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.

Receivables ageing

	2022 $	2021 $
Current	1,152,806	893,024
30 – 60 Days	152,555	294,765
60 – 90 Days	82,416	532,894
90+ Days	373,425	206,609
Total	1,761,202	1,927,292

4.4 Trade and other payables

	2022 $	2021 $
Current		
Accounts payable	381,134	353,454
Accrued expenses	601,592	656,778
Sateva deferred consideration payable	101,525	118,667
Other payable	307,182	193,464
Employee liabilities	520,884	348,064
	1,912,317	1,670,427

Trade payables 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.

4.5 Contract liabilities

	2022 $	2021 $
Deferred revenue	4,250,828	2,059,890

Movements:	2022 $	2021 $
Opening balance	2,059,890	1,344,058
Deferred during the year	6,771,898	2,976,280
Acquired as part of Decipher acquisition	-	74,918
Released to profit or loss	(4,580,960)	(2,335,366)
Closing balance	4,250,828	2,059,890

Deferred revenue is the aggregate 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 3.1) to which these contracts liabilities will be recognised in the next financial year is as follows:

	2022 $	2021 $
Hosting services revenue	-	51,815
Sales of own software (software as a service)	3,658,799	2,008,075
Consulting and implementation revenue (provided on a fixed price basis)	592,029	-
	4,250,828	2,059,890

SECTION - 5 Invested Capital

5.1 Plant and equipment

2022	Electronic Equipment $	Leasehold improvements $	Office equipment $	Total $
Cost at 30 June 2022	205,927	2,939	27,263	236,129
Accumulated depreciation	(103,625)	(2,939)	(16,909)	(123,473)
	102,302	-	10,354	112,656
Reconciliation				
Opening balance	57,032	-	3,672	60,704
Additions	99,733	-	14,031	113,764
Depreciation	(48,067)	-	(7,056)	(55,123)
Disposals	(325)	-	222	(103)
Foreign exchange	(6,071)	-	(515)	(6,586)
Closing balance at 30 June 2022	102,302	-	10,354	112,656

2021	Electronic Equipment $	Leasehold improvements $	Office equipment $	Total $
Cost at 30 June 2021	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 at 30 June 2021	57,032	-	3,672	60,704

5.2 Right of use assets

	2022 $	2021 $
Right of use assets		
Cost	739,035	229,959
Accumulated depreciation	(247,074)	(159,060)
	491,961	70,899
Balance as at beginning of year	70,899	94,006
Assets acquired	586,503	46,971
Depreciation	(163,271)	(81,876)
Foreign exchange	(2,170)	11,798
Balance at end of year	491,961	70,899

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.

5.3 Intangible assets

	2022 $	2021 $
Software at cost	8,821,581	6,110,343
Software - accumulated amortisation	(1,607,215)	(455,199)
Total intangible assets	7,214,366	5,655,144

	2022 $	2021 $
Movements:		
Carrying amount at the beginning of the year	5,655,144	337,773
Acquired as part of Sateva acquisition (a)	-	565,000
Acquired as part of Decipher acquisition (b)	-	4,004,000
Internally generated intangible assets (c)	2,699,053	1,110,143
Amortisation	(1,139,831)	(361,772)
Carrying amount at the end of the year	7,214,366	5,655,144

(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.

(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 5.5).

(c) Expenditure in relation to development of the Group's own IP to enhance its current Software as a Service (**SaaS**) product suite includes:
   - new product development and enhancement within the technical assurance solutions, Model Manager and Ore Blocker;
   - the Tailings Governance Solution;
   - upgrading the Resource Reporting solution to improve ease of use and reduce support complexity; and
   - enhancement of the Ground Disturbance, Heritage Management and Land Access solutions.

5.4 Goodwill

	2022	**2021**
	$	**$**
Goodwill	7,342,817	7,342,817

	2022	**2021**
	$	**$**
Movements:		
Carrying amount at the beginning of the year:	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 year	7,342,817	7,342,817

The Group has recognised goodwill on the acquisitions of Infoscope, Sateva and Decipher (refer note 5.5).

During the year ended 30 June 2022, the Group conducted an impairment assessment in relation to goodwill. The recoverable amount was determined at the cash generating unit level, which is the Group's software and services operations, and was based on a value-in-use calculation. The pre-tax discount rate adopted was 19.2% based on the assumptions considered reasonable by the external advisors engaged in August 2021 to conduct an impairment assessment in relation to goodwill, adjusted for changes in interest rates (2021: 29.2%). 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 base case budget (extrapolated over a four-year period at a 27% cumulative annual growth rate in revenue to provide a total five-year forecast model). The assumptions are considered reasonable and supportable and were derived with due consideration to actual performance indicators, recent growth rates, 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 30% against management's estimates at 30 June 2022;
- adjustment of terminal value amount to nil;
- increase in the post-tax discount rate to 54%; and
- increase of 60% in overhead costs.

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

5.5 Business combinations

Decipher

On 31 March 2021, the Company completed the acquisition of the assets held by CSBP and WesCEF used in the operation of 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 K2fly's technical assurance suite of software solutions. The objectives of the acquisition including expansion of the software portfolio to better meet the needs of clients, and exposure to future potential cash flows.

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	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**

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 5.3).

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 on the basis that there are available tax losses within the Australia-resident tax consolidated group.

At the reporting date, an impairment assessment of the intangible assets was undertaken. It was determined that no impairment is required. (Refer note 5.4.)

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 5.6 for details.

5.6 Provisions and other liabilities

	2022 $	2021 $
Current		
Employee leave provisions	542,902	473,863
RCubed Milestone Incentives (a)	19,571	450,000
Sateva deferred consideration (b)	597,650	471,600
Decipher performance shares (c)	827,792	837,089
Provision for South African payroll tax (fraud loss)	707,495	-
	2,695,410	2,232,552
Non-Current		
Employee leave provisions	37,857	123,103
RCubed Milestone Incentives (a)	-	100,000
Sateva deferred consideration (b)	1,210,099	2,250,000
Decipher performance shares (c)	481,674	557,550
	1,729,630	3,030,653
Total Current and Non-Current	**4,425,040**	**5,263,205**

(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) a final milestone payment of $19,571 is due. Milestone payments totaling $1,000,000 have been remitted since acquisition.

(b) In accordance with the terms of the Sateva acquisition, the Company will pay additional performance-based consideration to the seller. Deferred consideration is calculated at 18% of the invoiced amounts relating to product and product consulting sales 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. The consideration is payable until 30 June 2024.

At 30 June 2022, the Company revalued the deferred consideration to reflect current expectations and reduced the carrying value of the provision by $759,006. During the year, deferred consideration of $154,844 was earned by the seller.

(c) In accordance with the terms of the Decipher acquisition (refer note 5.5), 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. 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. During the year, 475,485 shares valued at $155,660 were converted.

5.7 Interest bearing lease liabilities

	2022 $	2021 $
Current		
Lease liability	175,378	49,172
	175,378	49,172
Non-Current		
Lease liability	335,632	36,667
	335,632	36,667
Total Current and Non-Current	511,010	85,839

The Group has a premises lease for its head office in Perth which has a four-year initial term and a five-year option to renew, and a commercial lease to rent office space at its South African branch. The South African lease has a fixed term of three years with a renewal option of a further 12 months following the initial term.

SECTION - 6 Other items

6.1 Issued capital

	2022 $	2021 $
Issued capital	40,723,084	34,361,719
Share issue costs	(3,858,789)	(3,495,999)
	36,864,295	30,865,720

	2022		2021	
Movements:	**Number**	**$**	**Number**	**$**
Opening balance	137,977,777	30,865,720	91,546,781	18,189,874
Shares issued – placement (a)	34,476,137	6,205,705	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 (b)	-	-	11,366,691	3,410,007
Shares issued to advisors			43,860	15,000
Shares issued – exercise of options (c)	260,106	-	4,386,642	648,000
Shares issued – conversion of performance rights	475,485	155,660	-	-
Share issue costs	-	(362,790)	-	(430,948)
Share based payments – share issue costs	-	-	-	(216,235)
Closing balance	173,189,505	36,864,295	137,977,777	30,865,720

(a) On 19 April 2022, the Company completed a placement of 34,476,137 fully paid ordinary shares at $0.18 per share to raise cash funds of $6,205,705 (before costs) (**Placement**). The Placement was led by strategic investor, Maptek, who became a 13.2% shareholder in the Company. Funds raised from the Placement will be used for K2fly's product development and working capital requirements.

(b) On 31 March 2021, the Company issued 11,366,691 shares in respect to the acquisition of Decipher (refer note 5.5).

(c) During the year ended 30 June 2022 the following shares were issued upon the exercise of unlisted options:

- On 6 July 2021 and 11 November 2021, a total of 119,261 shares were issued upon the exercise of 119,261 unlisted options with a nil exercise price, expiring 25 November 2021 (**Series 13**) by employees of the Company (issued under the Company's EIOP)
- On 21 March 2022, 140,845 shares were issued on the exercise of 140,845 unlisted options with a nil exercise price each expiring on or before 3 May 2022 (subject to vesting conditions) by an employee. The options were issued pursuant to the Sateva Acquisition agreement in exchange for ongoing services to the Company (**Series 20**)
- On 11 May 2022 475,485 share were issued on conversion of 475,485 Decipher Performance Shares, which were issued in accordance with the terms of that transaction (refer note 5.5).

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.

6.2 Reserves

Nature and purpose of reserves

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

Foreign currency translation reserve
The foreign currency translation reserve is used to record differences arising on the translation of accounts when the Australian dollar is not the functional currency of the subsidiary.

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 6.4 for further details of these plans.

	2022 **$**	**2021** **$**
Performance rights reserve	199,100	199,100
Option reserve (a)	2,409,227	1,758,818
Foreign currency translation reserve (b)	43,018	20,219
Asset revaluation reserve	120	120
	2,651,465	1,978,257
(a) Movements in option reserve		
Carrying amount at the beginning of the period	1,758,818	999,753
Share-based payments expense – options (recorded through profit or loss)	650,409	542,830
Share-based payments expense – options (recorded through equity in share issue costs)	-	216,235
Carrying amount at the end of the period	2,409,227	1,758,818

6.3 Share-based payment expense

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

	2022 $	2021 $
Shares issued to advisor	-	15,000
Unlisted options issued to advisors	-	16,495
Unlisted options issued to directors, employees and consultants	650,409	526,335
	650,409	557,830

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

	2022 $	2021 $
Options issued to advisor	-	216,235

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**).

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.

Series	**Recipient[1]**	**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	67,000	$0.25	16%	Non-Market[1]	Not Vested	2,665
Series 30-2	Executive Director	67,000	$0.25	16%	Non-Market[2]	Not Vested	2,665
Series 30-3	Executive Director	201,000	$0.25	16%	Non-Market[2]	Not Vested	7,994
Series 31	Employees	893,370	$0.25	100%	Non-Market[2]	Not Vested	223,343
Series 32-1	Employees	483,921	$0.25	43%	Non-Market[2]	Not Vested	51,548
Series 32-2	Employees	483,921	$0.25	43%	Non-Market[2]	Not Vested	51,548
Series 32-3	Employees	1,451,764	$0.25	43%	Non-Market[2]	Not Vested	154,645
		4,097,976					606,908

[1] All employees were participants in the EIOP.
[2] 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:

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
		83,333					$25,833

6.4 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	07/07/2017	07/07/2020	$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	nil	$0.215	25/11/2019
Series 14	25/11/2019	25/11/2021	nil	$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	nil	$0.360	16/09/2020
Series 20	27/10/2020	03/05/2022	nil	$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	nil	$0.335	27/11/2020
Series 23	27/11/2020	27/11/2022	nil	$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	nil	$0.335	27/05/2022
Series 27*	27/11/2020	27/11/2024	$0.497	$0.148	27/11/2023
Series 28	1/11/2021	31/10/2023	nil	$0.130	1/11/2021
Series 29	29/11/2021	29/11/2023	nil	$0.250	29/11/2021
Series 30-1	29/11/2021	30/06/2025	nil	$0.250	30/06/2022
Series 30-2	29/11/2021	30/06/2026	nil	$0.250	30/06/2023
Series 30-3	29/11/2021	30/06/2027	nil	$0.250	30/06/2023
Series 31*	29/11/2021	31/08/2025	nil	$0.250	31/08/2022
Series 32-1*	29/11/2021	30/09/2025	nil	$0.250	30/09/2022
Series 32-2*	29/11/2021	30/06/2026	nil	$0.250	30/06/2023
Series 32-3*	29/11/2021	30/06/2027	nil	$0.250	30/06/2024

*Issued under the Company's EIOP.

There has been no material 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 2022 is detailed as follows:

	Opening balance 1 July 2021	**Granted**	**Exercised**	**Lapsed / Expired**	**Closing balance 30 June 2022**	**Vested / Unvested**
Series 10	639,019	-	-	-	639,019	Vested
Series 11*	1,278,179	-	-	-	1,278,179	Vested
Series 12	750,000	-	-	-	750,000	Vested
Series 15	683,280	-	-	-	683,280	Unvested
Series 16*	119,261	-	(119,261)	-	-	Vested
Series 17*	1,401,600	-	-	(297,840)	1,103,760	Unvested
Series 18	1,912,500	-	-	-	1,912,500	Vested
Series 20	140,845	-	(140,845)	-	-	Vested
Series 21	200,000	-	-	-	200,000	Vested
Series 23	406,926	-	-	(325,541)	81,385	Vested
Series 24	258,953	-	-	-	258,953	Unvested
Series 25	2,265,625	-	-	-	2,265,625	Vested
Series 26*	946,878	-	-	(701,828)	245,050	Unvested
Series 27*	395,236	-	-	(84,345)	310,891	Unvested
Series 28	-	83,333	-	-	83,333	Vested
Series 29	-	450,000	-	-	450,000	Vested
Series 30-1	-	67,000	-	-	67,000	Unvested
Series 30-2	-	67,000	-	-	67,000	Unvested
Series 30-3	-	201,000	-	-	201,000	Unvested
Series 31*	-	893,370	-	-	893,370	Unvested
Series 32-1*	-	483,921	-	-	483,921	Unvested
Series 32-2*	-	483,921	-	-	483,921	Unvested
Series 32-3*	-	1,451,764	-	-	1,451,764	Unvested
	11,398,302	4,181,309	(260,106)	(1,409,554)	13,909,951	

*Issued under the Company's EIOP.

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

	2022		**2021**	
	Number	**Weighted average exercise price $**	**Number**	**Weighted average exercise price $**
Opening balance	11,398,302	$0.28	11,822,411	$0.23
Granted	4,181,309	nil	5,147,796	$0.24
Exercised	(260,106)	nil	(4,386,642)	$0.15
Lapsed / expired	(1,409,554)	$0.66	(1,185,263)	$0.10
Outstanding at the end of the year	13,909,951	$0.22	11,398,302	$0.28
Exercisable at the end of year	7,660,041	$0.32	5,388,231	$0.36

A total of 260,106 unlisted options were exercised during the year for nil consideration (2021: 4,386,642 for $648,000).

Unlisted options outstanding at 30 June 2022 had a weighted average exercise price of $0.22 (2021: $0.28) and a weighted average remaining contractual life of 697 days (2021: 739 days).

The weighted average fair value of options granted during the year was $0.25 (2021: $0.14).

6.5 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	2022 Percentage owned	2021 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%	100%
Sateva Development Pty Ltd	Australia	100%	100%
K2fly (UK) Limited	United Kingdom	100%	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.

6.6 Parent entity disclosures

	2022 $	2021 $
Statement of financial position		
Assets		
Current assets	8,496,202	6,897,541
Non-current assets	13,579,968	8,982,324
Total assets	22,076,170	15,879,864
Liabilities		
Current liabilities	4,375,481	2,829,834
Non-current liabilities	5,227,932	1,576,354
Total liabilities	9,603,128	4,406,187
Equity		
Issued capital	36,708,653	30,865,738
Share-based payment reserve	2,608,326	1,957,917
Accumulated losses	(26,843,937)	(21,349,978)
Total equity	12,473,042	11,473,677
Statement of comprehensive income		
Loss for the year	(5,493,959)	(3,481,774)
Other comprehensive income	-	-
Total comprehensive loss	(5,493,959)	(3,481,774)

Guarantees

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 2022, as detailed at note 6.8

Commitments

Commitments of the parent entity are the same as those of the Group at 30 June 2022, as detailed at note 6.7.

6.7 Commitments

The Company had no commitments at 30 June 2022 (30 June 2021: nil).

6.8 Contingent assets and liabilities

Contingent assets

The Group has submitted an insurance claim in relation to the fraud identified in its South African subsidiary. As at the date of this report, that claim is in progress. The Group has a contingent asset of $240,000 in relation to insurance proceeds receivable.

There have been no other changes in contingent liabilities or contingent assets since the last annual reporting period (30 June 2021: nil).

6.9 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 the prior year. 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 as well as the sale of third party intellectual property rights 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 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

	2022 $	2021 $
Cash	8,270,720	6,906,331
Trade and other receivables	1,929,942	2,164,674
Investments at fair value through other comprehensive income	844	844
Trade and other payables	1,912,317	1,670,427
Interest-bearing liabilities	511,010	85,839
Other liabilities – deferred consideration	3,136,787	4,666,239

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 Group is exposed to market risk, credit risk, liquidity risk and foreign exchange risk.

The board of directors oversees the management of these risks, supported by an audit and risk committee. 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

Interest rate risk is the risk that the Group's financial position will fluctuate due to changes in market interest rates. The Group's exposure to the risk of changes in market interest rates, which is not material, relates primarily to financial instruments with floating interest rates including cash and short-term deposits.

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 Company, it also arises from receivables due from subsidiaries. The Group has adopted the practice of only dealing with credit worthy counterparties, generally Tier-1 mining companies, 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.

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 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 routinely 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 2022:

	Current	Non-Current	
	0-1 years	1-5 years	5+ years
	$	$	$
Trade and other payables	1,912,317	-	-
Interest-bearing liabilities (at rates between 6.18% and 8% p.a.)	200,120	357,910	-

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

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

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 2022:

	At amortised cost	Fair value through profit or loss	Fair value through other comprehensive income
	$	$	$
Financial Assets			
Trade and other receivables	1,929,942	-	-
Other financial assets	-	-	844
Total Assets	1,929,942	-	844
Financial Liabilities			
Trade and other payables	1,912,317	-	-
Interest-bearing liabilities	511,010	-	-
Other liabilities – deferred consideration	-	3,136,787	-
	2,423,327	3,136,787	-

Set out below is a comparison of the carrying amount and fair values of financial instruments as at 30 June 2022:

	Carrying Value	Fair Value
	$	$
Financial Assets		
Trade and other receivables	1,929,942	1,929,942
Other financial assets	844	844
Total Assets	1,930,786	1,930,786
Financial Liabilities		
Trade and other payables	1,912,317	1,912,317
Interest-bearing liabilities	511,010	511,010
Other liabilities – deferred consideration	3,136,787	3,136,787
Total Liabilities	5,560,114	5,560,114

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	-	-
Other liabilities – deferred consideration	-	4,666,239	
	1,756,266	4,666,239	-

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
Other liabilities – deferred consideration	4,666,239	4,666,239
Total Liabilities	6,422,505	6,422,505

6.10 Related party disclosures

Remuneration of KMP

	2022 $	2021 $
Short-term employee benefits	873,387	394,932
Post-employment employee benefits	60,292	25,243
Share-based payment	326,115	237,731
	1,259,794	657,906

	2022 $	2021 $
Payables and accruals:		
Brian Miller	-	44,238
Neil Canby	7,425	3,300
James Deacon	12,750	12,888
Jenny Cutri	-	6,000

There are no other transactions with KMP during the year ended 30 June 2022.

6.11 Auditor's remuneration

	2022 $	2021 $
Audit or review of financial statements	73,943	49,169
Taxation compliance	18,250	21,250
	92,193	70,419

6.12 Significant events after balance date

On 30 August 2022, the Company received the final report into the forensic review of its South African-registered subsidiary. That investigation concluded that funds had been misappropriated and estimated the liability arising from the fraud to be $755,592. This cost has been recorded in the financial accounts for the year ended 30 June 2022.

The matter has been referred to South African police authorities and an insurance claim has been submitted. A contingent asset of $240,000 in relation to the insurance claim has been disclosed in the financial accounts for the year ended 30 June 2022.

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 2022 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 2022.

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

Jenny Cutri	Neil Canby
Non-Executive Chair	Non-Executive Director
Perth, 30 September 2022	Perth, 30 September 2022

HLB MANN JUDD
ADVISORY AND ACCOUNTING

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 2022, 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 2022 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.

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Key Audit Matter	How our audit addressed the key audit matter
Recoverable amount of goodwill Note 5.4 of the financial report	
The carrying amount of goodwill of $7,342,817 recognised on acquisition of Infoscope Pty Ltd ($731,543), Sateva Pty Ltd ($4,430,642) and Decipher ($2,180,632), 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 Decipher Note 5.5 of the financial report	
During the year the Group finalised the acquisition accounting for the acquisition of 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, capped at 5,345,633 shares. 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 business 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.

Fraud identified in subsidiary Note 3.4 of the financial report	
A fraud event which K2fly first identified and disclosed to the ASX on 28 February 2022 and further updated on 8 March 2022, has now been fully assessed. The confirmed fraud event occurred in the Company's South African registered subsidiary (Subsidiary) by a former employee. An independent accounting firm was appointed as an external advisor to conduct a forensic review of the Subsidiary's tax compliance and to investigate discrepancies between the records of the South African taxing authority and the Subsidiary. The Company confirmed the value of misappropriated funds is estimated to be $755,592 (before any potential proceeds from insurance). It is due to its nature that this is considered a key audit matter.	Our audit procedures included but were not limited to: – We obtained the final report by the independent accounting firm, being management's expert, and reviewed procedures performed; – We made an assessment of management's expert's expertise on the matter; – We ensured that all liabilities identified by the investigation were recognised in the general ledger; – We considered AASB 108 *Accounting Polies, Changes in Accounting Estimates and Errors* in determining whether a prior period error should have been recognised: and – We discussed with management what internal controls are now in place to prevent a similar occurrence in the future.

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 2022, 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 the directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of K2Fly Limited for the year ended 30 June 2022 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

Perth, Western Australia
30 September 2022

Buckley

D I Buckley
Partner

HOLDINGS AS AT 21 SEPTEMBER 2022

ORDINARY SHARES

Number of securities held	Fully paid ordinary shares	Number of holders	% of total issued capital
1 to 1,000	6,369	104	0.00%
1,001 to 5,000	796,718	349	0.46%
5,001 to 10,000	1,049,136	131	0.60%
10,001 to 100,000	14,364,874	374	8.26%
100,001 and over	157,678,018	148	90.68%
Total	**173,895,115**	**1,106**	**100.00%**

ASX escrowed shares		**Nil**	
Number of holders of less than a marketable parcel		**329**	**0.20%**
Percentage of the 20 largest holders			**71.10%**

TOP 20 SHAREHOLDERS

Rank	Name	Units	% of Units
1	MAPTEK PTY LTD	22,810,245	13.12
2	**GROUP # 29957**	**17,771,019**	**10.22**
.	CITICORP NOMINEES PTY LIMITED	17,771,019	10.22
3	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	14,536,336	8.36
4	UBS NOMINEES PTY LTD	13,456,113	7.74
5	CSBP LIMITED	11,842,176	6.81
6	MR NICHOLAS JOHN AXAM	6,460,416	3.72
7	**GROUP # 1524287**	**6,330,204**	**3.64**
.	MARK FORSTER + LEONIE FORSTER <THE M FORSTER FAMILY A/C>	1,491,894	0.86
.	MARK FORSTER	2,021,408	1.16
.	MARK FORSTER + LEONIE FORSTER <THE FORSTER SUPER FUND A/C>	2,816,902	1.62
8	**GROUP # 1166440**	**5,111,057**	**2.94**
.	MRS NARELLE FAY	896,000	0.52
.	MRS NARELLE FAY	4,215,057	2.42
9	**GROUP # 36516**	**4,853,398**	**2.79**
.	BNP PARIBAS NOMS PTY LTD <DRP>	95,250	0.05
.	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	4,758,148	2.74
10	KALGOORLIE MINE MANAGEMENT PTY LTD	3,800,000	2.19
11	**GROUP # 11856**	**3,149,370**	**1.81**
.	MR BRIAN PETER MILLER	2,3000	0.01
.	DR ROSLYN JANE CARBON	371,229	0.21
.	MR BRIAN PETER MILLER	753,154	0.43
.	MR BRIAN PETER MILLER	2,001,987	1.15
12	**GROUP # 37237**	**2,281,646**	**1.31**
.	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	2,281,646	1.31

Rank	Name	Units	% of Units
13	JETOSEA PTY LTD	2,013,889	1.16
14	JAYLEAF HOLDINGS PTY LTD <THE POLLOCK INVESTMENT A/C>	1,750,000	1.01
15	KISMAR PTY LTD <THE M KISIRWANI FAM A/C>	1,459,678	0.84
16	MR PAUL JAMES MADDEN	1,401,665	0.81
17	**GROUP # 1176150**	**1,223,585**	**0.7**
.	B2B HOLDINGS PTY LIMITED	34,125	0.02
.	GREGORY J WOOD & ASSOCIATES PTY LTD	76,900	0.04
.	GREGORY J WOOD & ASSOCIATES PTY LTD <THE G J WOOD FAMILY A/C>	552,560	0.32
.	K S CAPITAL PTY LIMITED	560,000	0.32
18	**GROUP # 1321162**	**1,180,844**	**0.68**
.	MR NEIL WILLIAM CANBY <NEIL CANBY FAMILY A/C>	89,219	0.05
.	MR NEIL WILLIAM CANBY <NEIL CANBY FAMILY A/C>	1,091,625	0.63
19	**GROUP # 1205150**	**1,147,000**	**0.66**
.	MRS CARLENE JOY GEBHARDT	50,000	0.03
.	MR SCOTT DAVID GEBHARDT	60,000	0.03
.	MR PETER LANCELOT GEBHARDT + MRS CARLENE JOY GEBHARDT <PETARD S/F A/C>	1,037,000	0.6
20	THE RAINBOW MACHINE PTY LIMITED	1,057,000	0.61
	Totals: Top 20 holders of K2F ORDINARY FULLY PAID	**123,635,641**	**71.10**

Substantial Shareholders

The Group has been notified of the following substantial shareholdings:	**Number**	**%**
Maptek Pty Ltd	22,810,245	13.20%
CSBP Limited	11,366,691	6.58%
Regal Funds Management Pty Ltd	16,808,916	9.71%
Tribeca Investment Partners Pty Ltd	17,667,380	10.23%
Mitsubishi UFJ Financial Group, Inc	10,300,000	5.96%
Colonial First State Investments Limited	10,300,000	5.96%
First Sentier Investors (Australia) IM Ltd	10,300,000	5.96%
Comet Asia Holdings II Pte. Ltd., Comet Asia Holdings I Pte. Ltd., KKR Asia III Fund Investments Pte. Ltd. And KKR Asian Fund III L.P	10,300,000	5.96%

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.