

Appendix 4D

K2FLY LIMITED

ABN 69 125 345 502

Half-Year Report – 31 December 2023

RESULTS FOR ANNOUNCEMENT TO THE MARKET

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

	Half-Year Ended 31/12/23 \$A	Half-Year Ended 31/12/22 \$A	Amount change \$A	Percentage change %
Revenue from ordinary activities	6,787,614	5,445,564	1,342,050	25
(Loss) from ordinary activities after tax attributable to members	(2,808,681)	(1,993,798)	(814,883)	41
Net (loss) for the period attributable to members	(2,808,681)	(1,993,798)	(814,883)	41

Comment

The Company's growth trajectory continued in H1FY24. With revenues growing 25%, cost of sales increased by 16% to \$3.6m (H1FY23 \$3.1m) due to the growing client base, inflationary pressures, and growth in the overall service capacity of the business. In a highly inflationary environment, cost management is a strong focus of the Company. Other costs grew by 20% to \$6.2m (H1FY23 \$5.2m) as a result of, among other things, the reallocation of roles which had previously been focussed on capital projects and investments in the software development function to support the implementation of K2fly's product release process which drives predictability, development efficiencies and scalability.

Capital expenditure on internal development costs during H1FY24 declined by 59% to \$0.6m (H1FY23 \$1.5m) primarily as a result of the conclusion of the project to develop the Company's new Resource Disclosure solution to replace its legacy RCubed solution.

Overall, the Group reported a loss after tax for H1FY24 of \$2.8m, which included \$0.2m of non-cash share-based payment expenses for options issued to staff and directors and \$0.8m of non-cash amortisation expenses, which included amortisation of acquired assets.

Dividends (distributions)

There are no dividend or distribution reinvestment plans in operation and there have been no dividend or distribution payments during the half-year ended 31 December 2023.

Net tangible asset per ordinary security	31 Dec 2023	31 Dec 2022
Net tangible assets	(4,469,923)	(2,954,475)
Number of shares on issue at reporting date	185,509,504	174,149,647
Net tangible asset per ordinary security	(2.41 cents)	(1.69 cents)

Control Gained or Lost over Entities

Not Applicable

Associates and joint ventures

Not Applicable

Audit / Review Status

This Appendix 4D and the attached interim financial statements are based on accounts which have been subjected to review by the Group's auditor, HLB Mann Judd WA Partnership (**HLB**). The accounts are not subject to dispute or qualification.


	Current period	Previous corresponding period
Basic (loss) per share in cents	(1.59) cents	(1.15) cents

Independent Auditor's Review Report

The Independent Auditor's Review Report can be found on page 5 of the attached financial report for the Half Year ended 31 December 2023.



Pauline Vamos
Non-Executive Chair
15 February 2024



Neil Canby
Non-Executive Director
15 February 2024

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

Half-Year Report

For the Half-Year Ended
31 December 2023



Prepared by

K2fly Limited

ABN 69 125 345 502

CONTENTS



CORPORATE DIRECTORY	1
DIRECTORS' REPORT	2
AUDITOR'S INDEPENDENCE DECLARATION	5
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	6
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	7
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	8
CONDENSED STATEMENT OF CASH FLOWS	10
NOTES TO THE FINANCIAL STATEMENTS	11
DIRECTORS' DECLARATION	24
INDEPENDENT AUDITOR'S REVIEW REPORT	25

CORPORATE DIRECTORY

ABN 69 125 345 502

DIRECTORS

Pauline Vamos, Chair

Neil Canby

Peter Johnson

Brian Miller

JOINT COMPANY SECRETARY

Melissa Chapman

Catherine Grant-Edwards

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

Level 4

502 Hay Street

Subiaco WA 6008

Telephone: 61 8 6333 1833

Website: www.k2fly.com

SHARE REGISTRY

Advanced Share Registry

110 Stirling Highway

Nedlands WA 6009

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

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of K2fly Limited (**K2fly**) (the **Company**) and the entities it controls (the **Group**) for the half-year ended 31 December 2023 (**H1FY24**). In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

DIRECTORS

The following persons were directors of K2fly during the whole of the half-year and up to the date of this report:

Ms Pauline Vamos

Mr Neil Canby

Mr Peter Johnson

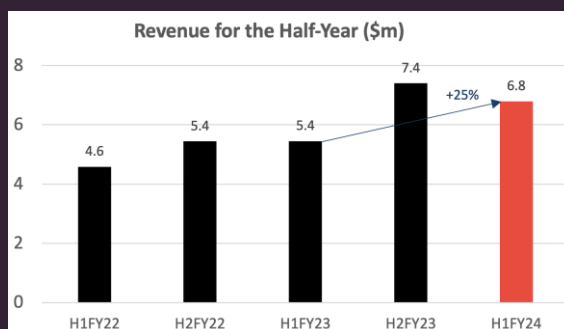
Mr Brian Miller

REVIEW OF OPERATIONS

The Group reported revenue of \$6.8m for H1FY24, which represented 25% growth compared to revenue for the half-year ended 31 December 2022 (**H1FY23**) (\$5.4m).

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

- heritage management;
- land access;
- ground disturbance;
- tailings management;
- mine rehabilitation;
- resource disclosure;
- model manager;
- mine reconciliation;
- ore blocker; and
- mine geology.



The Group also offers consulting and adjacent services.

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

DIRECTORS' REPORT

Delivery of the Group's growth strategy, which is focussed on tier-1 and tier-2 global mining companies, is proving to be successful as evidenced by the growth during H1FY24 in ARR, which grew by 16% to \$8.0m as at 31 December 2023 compared to the prior comparable period end, despite some disruption in the sales function which was resolved by the appointment of a new sales leader in October 2023.

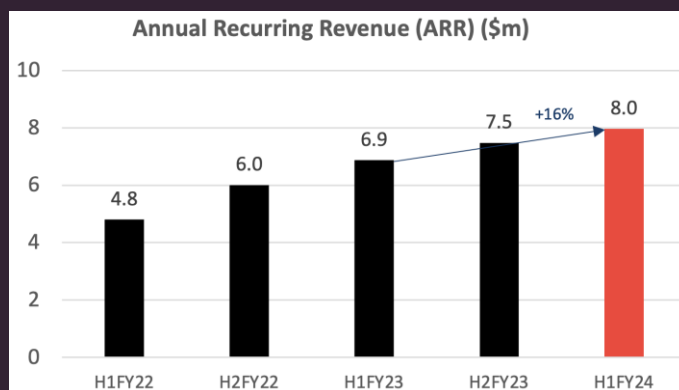


Figure 1: ARR by half-year

ARR growth during H1FY24 has been achieved as a result of the benefit of new client contract wins in the prior period and through the sale of new solutions to existing clients (e.g. the sale of the ground disturbance solution to Roy Hill, an existing client of K2fly's model manager, ore blocker and mine geology solutions), and the expansion of existing solutions within existing clients (e.g. expansion of the land access solution by Imerys).

With its current focus on mining, K2fly's operating environment is characterised by strong industry fundamentals and tailwinds in Environmental, Social and Governance (**ESG**), including as a result of anticipated regulatory changes such as amendments to The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (**JORC Code**), which is a professional code of practice that sets minimum standards for public reporting of minerals exploration results, mineral resources and ore reserves. Key operational risks facing K2fly include the duration of the sales cycle, which is a function of the complexity of the underlying business processes and the importance of the solutions to our clients' operations, and access to labour which K2fly manages through its global staffing model.

During H1FY24 the Company completed the development of its new Resource Disclosure solution to replace the legacy RCubed solution. The solution anticipates expected amendments to the JORC Code and is being implemented for three clients. The programme of migration of existing clients has also commenced.

The Company's growth trajectory continued in H1FY24. With revenues growing 25%, cost of sales increased by 16% to \$3.6m (H1FY23 \$3.1m) due to the growing client base, inflationary pressures, and growth in the overall service capacity of the business. In a highly inflationary environment, cost management is a strong focus of the Company. Other costs grew by 20% to \$6.2m (H1FY23 \$5.2m) as a result of, among other things, the reallocation of roles which had previously been focussed on capital projects and investments in the software development function to support the implementation of K2fly's product release process which drives predictability, development efficiencies and scalability.

Capital expenditure on internal development costs during H1FY24 declined by 59% to \$0.6m (H1FY23 \$1.5m) primarily as a result of the conclusion of the Resource Disclosure development project.

Overall, the Group reported a loss after tax for H1FY24 of \$2.8m, which included \$0.2m of non-cash share-based payment expenses for options issued to staff and directors and \$0.8m of non-cash amortisation expenses, which included amortisation of acquired assets.

At 31 December 2023, the Group had cash reserves of \$2.5m (30 June 2023: \$4.4m) and access to a working capital facility with an undrawn balance of \$2.0m.

DIRECTORS' REPORT

In November 2023, the Company announced the initiation of a strategic review to identify and evaluate alternatives to realise the full potential of the Company and maximise shareholder value. The terms of the review are broad and include assessment of strategic investment, merger and acquisition opportunities, partnerships and other potential corporate activity. The review is underway; there is no guarantee that it will result in any specific transactional outcome.

CHANGES IN STATE OF AFFAIRS

In the opinion of the directors there were no significant changes in the state of affairs of the Group that occurred during the half year ended 31 December 2023 other than those included in this Directors' Report.

SIGNIFICANT EVENTS AFTER BALANCE DATE

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

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 5 of the half-year report.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the Directors



Pauline Vamos
Non-Executive Chair
Sydney, 15 February 2024



Neil Canby
Non-Executive Director
Perth, 15 February 2024

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of K2fly Limited for the half-year ended 31 December 2023, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) any applicable code of professional conduct in relation to the review.



Perth, Western Australia
15 February 2024

B G McVeigh
Partner

hlb.com.au

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

Level 4, 130 Stirling Street, Perth WA 6000 / PO Box 8124 Perth BC WA 6849

T: +61 (0)8 9227 7500 **E:** mailbox@hlbwa.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2023



	Notes	Consolidated 31 December 2023 \$	Consolidated 31 December 2022 \$
Revenue	2.1	6,787,614	5,445,564
Cost of sales		(3,624,825)	(3,119,006)
Gross profit		3,162,789	2,326,558
Other income	2.1	78,868	57,074
Administration expense		(561,456)	(455,146)
Amortisation expense	4.3	(824,547)	(720,108)
Compliance & regulatory expense		(82,605)	(57,142)
Consultancy expense		(611,950)	(462,583)
Depreciation plant and equipment	4.1	(56,450)	(34,115)
Depreciation right of use assets	4.2	(80,797)	(175,731)
Directors' fees		(157,804)	(138,302)
Employee benefit expense	2.2	(3,273,963)	(2,391,484)
Public relations & marketing expense		(137,355)	(260,767)
Share-based payments expense	5.3	(185,160)	(291,386)
Finance expense		(37,294)	(13,749)
Revaluation of provisions	2.3	158,517	642,855
Foreign exchange		(59,406)	(30,345)
Other expenses		(138,004)	(144,802)
Loss before income tax expense / benefit		(2,806,617)	(2,149,173)
Income tax (expense) / benefit		(2,064)	155,375
Loss for the period		(2,808,681)	(1,993,798)
Other comprehensive income, net of income tax:			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign subsidiaries		(1,761)	58,396
Income tax relating to these items		-	-
Other comprehensive (loss)/ income for the period, net of tax		(1,761)	58,396
Total comprehensive loss for the period		(2,810,442)	(1,935,402)
Basic and diluted loss per share (cents per share)	2.4	(1.59)	(1.15)

The accompanying notes form part of the financial statements



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023



	Notes	Consolidated 31 December 2023 \$	Consolidated 30 June 2023 \$
Assets			
Current assets			
Cash and cash equivalents	3.1	2,523,178	4,440,403
Trade and other receivables	3.3	1,773,239	1,883,267
Total current assets		4,296,417	6,323,670
Non-current assets			
Restricted cash	3.2	155,443	154,448
Plant and equipment	4.1	109,619	147,890
Right of use assets	4.2	131,034	211,831
Intangible assets	4.3	8,234,205	8,444,567
Goodwill	4.4	7,342,817	7,342,817
Contract Assets		147,078	-
Other financial assets		844	844
Deferred tax assets		501,420	616,468
Total non-current assets		16,622,460	16,918,865
Total assets		20,918,877	23,242,535
Liabilities			
Current liabilities			
Trade and other payables	3.4	2,910,842	2,877,179
Provisions and other liabilities	4.5	1,434,690	1,520,995
Interest-bearing lease liabilities	4.6	149,311	149,311
Contract liabilities	3.5	4,447,066	4,696,569
Current tax liability		28,315	29,105
Total current liabilities		8,970,224	9,273,159
Non-current liabilities			
Provisions and other liabilities	4.5	227,292	414,208
Interest-bearing lease liabilities	4.6	112,842	186,319
Deferred tax liabilities		501,420	616,468
Total non-current liabilities		841,554	1,216,995
Total liabilities		9,811,778	10,490,154
Net assets		11,107,099	12,752,381
Equity			
Issued capital	5.1	38,151,801	37,171,801
Reserves	5.2	3,344,444	3,161,045
Accumulated losses		(30,389,146)	(27,580,465)
Total equity		11,107,099	12,752,381

The accompanying notes form part of the financial statements



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2023



Consolidated	Issued capital	Performance rights reserve	Option reserve	FCTR reserve	Asset revaluation reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2023	37,171,801	199,100	2,805,888	155,937	120	(27,580,465)	12,752,381
Loss for the period	-	-	-	-	-	(2,808,681)	(2,808,681)
Exchange differences on translation of foreign subsidiaries	-	-	-	(1,761)	-	-	(1,761)
Total comprehensive loss for the period	-	-	-	(1,761)	-	(2,808,681)	(2,810,442)
Shares issued – Placement	1,000,000	-	-	-	-	-	1,000,000
Share issue costs	(20,000)	-	-	-	-	-	(20,000)
Share-based payments – options	-	-	185,160	-	-	-	185,160
Balance as at 31 December 2023	38,151,801	199,100	2,991,048	154,176	120	(30,389,146)	11,107,099

The accompanying notes form part of the financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2023



Consolidated	Issued capital	Performance rights reserve	Option reserve	FCTR reserve	Asset revaluation reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2022	36,864,295	199,100	2,409,227	43,018	120	(25,474,305)	14,041,455
Loss for the period	-	-	-	-	-	(1,993,798)	(1,993,798)
Exchange differences on translation of foreign subsidiaries	-	-	-	58,396	-	-	58,396
Total comprehensive loss for the period	-	-	-	58,396	-	(1,993,798)	(1,935,402)
Forfeited options	-	-	(109,256)	-	-	109,256	-
Share-based payments – options	-	-	291,386	-	-	-	291,386
Balance as at 31 December 2022	36,864,295	199,100	2,591,357	101,414	120	(27,358,847)	12,397,439

The accompanying notes form part of the financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2023



	Notes	Consolidated 31 December 2023 \$ Inflows / (Outflows)	Consolidated 31 December 2022 \$ Inflows / (Outflows)
Cash flows from operating activities			
Receipts from customers		6,675,642	5,075,025
Payments to suppliers and employees		(8,407,666)	(6,629,020)
Government grants & incentives received		36,600	31,100
Interest received		14,294	16,148
Interest paid		(9,010)	-
Income tax paid		(2,854)	-
Movement of cash from non-restricted to restricted		(994)	(218)
Net cash (used in) operating activities		(1,693,988)	(1,506,965)
Cash flows from investing activities			
Payments for plant and equipment		(18,176)	(19,519)
Intangible asset	4.3	(614,185)	(1,514,808)
Acquisition costs		(254,274)	-
Investment in subsidiaries (RCubed)		-	(19,580)
Payments for vendor incentive remuneration		(198,956)	(101,525)
Net cash (used in) investing activities		(1,085,591)	(1,655,432)
Cash flows from financing activities			
Proceeds from the issue of shares		1,000,000	-
Payments for share issue costs		(20,000)	-
Repayment of lease liabilities		(73,477)	(108,117)
Net cash provided by/(used in) financing activities		906,523	(108,117)
Net decrease in cash held		(1,873,056)	(3,270,514)
Cash at beginning of the period		4,440,403	8,270,720
Effects of exchange rate fluctuations on cash held		(44,169)	(5,448)
Cash and cash equivalents at the end of the period	3.1	2,523,178	4,994,758

The accompanying notes form part of the financial statements

SECTION - 1 ABOUT THIS REPORT

Statement of Compliance

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2023 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2023 and any public announcements made by K2fly during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2023 annual financial report for the financial year ended 30 June 2023. The accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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 half-year ended 31 December 2023, the Group incurred a net loss of \$2,808,681 (31 December 2022: \$1,993,798) and experienced net cash outflows from operating activities of \$1,693,988 (31 December 2022: \$1,506,965).

At 31 December 2023, the Group had cash and cash equivalents of \$2,523,178 (30 June 2023: \$4,440,403), had a net working capital deficit of \$4,673,807 (30 June 2023: deficit of \$2,949,489), which includes \$4,447,066 of deferred revenue (30 June 2023: \$4,696,569) and non-cash performance shares liability of \$415,434 (30 June 2023: \$308,227).

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 or drawing down on the working capital facility established on 31 May 2023 which has a facility limit of \$2,000,000, a fixed rate of interest (6.77% p.a.) and a 24-month term. Under the terms of the facility agreement, payment is due on expiry of the term or earlier at the Company's discretion; the Company has the option to pay or capitalise accrued interest.

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;
- the terms of the working capital facility;
- the progress of the strategic review (refer ASX announcement dated 2 November 2023) and
- the demonstrated ability to raise capital through the equity market.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

New and amended accounting standards and interpretations

New and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to the Group and effective for the half-year reporting period beginning on or after 1 July 2023 have been reviewed and applied. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amended Standards.

New and revised Accounting Standards and Interpretations on issue but not yet effective are not expected to have a material impact on the reported financial performance or position of the Group.

SECTION - 2 Operating Performance

2.1 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*.

	31 December 2023	31 December 2022
	\$	\$
(a) Revenue		
At a point in time		
Consulting and implementation revenue (provided on a fixed price basis)	1,401,488	863,103
Sales of third-party software	59,297	15,300
	<u>1,460,785</u>	<u>878,403</u>
Over time		
Consulting and implementation revenue (provided on a time and material basis)	1,731,259	1,686,351
Hosting services revenue	15,642	1,200
Sales software (provided as a service)	3,579,928	2,879,610
	<u>5,326,829</u>	<u>4,567,161</u>
Total revenue	<u>6,787,614</u>	<u>5,445,564</u>
(b) Other income		
Interest income	14,294	16,150
Government grants received	36,600	31,100
Other	27,974	9,824
Other income	<u>78,868</u>	<u>57,074</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

2.2 Employee benefits expense

	31 December 2023	31 December 2022
	\$	\$
Wages and salaries	2,628,918	1,883,798
Superannuation	227,637	170,340
Payroll tax	255,877	242,748
Fringe benefits tax	13,449	(21,852)
Training	18,328	31,841
Provisions – leave entitlements	(9,244)	(36,588)
Recruitment and relocation costs	138,998	121,197
Employee benefits expense	3,273,963	2,391,484

2.3 Revaluation of provisions

	31 December 2023	31 December 2022
	\$	\$
Sateva deferred consideration	41,992	642,855
Decipher performance shares	116,525	-
Revaluation of provisions	158,517	642,855

Provisions for deferred and contingent consideration were revalued during the period to reflect management's current estimate of amounts to be remitted under those agreements.

2.4 Loss per share

	31 December 2023	31 December 2022
Basic loss per share (cents per shares)	(1.59)	(1.15)
Loss		
Loss used in the calculation of basic loss per share (\$)	(2,808,681)	(1,993,798)
Weighted average number of shares		
Weighted average number of ordinary shares (number of shares)	176,373,267	173,373,652

Basic loss per share is calculated as the loss for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

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

SECTION - 3 Operating Capital

3.1 Cash and cash equivalents

	31 December 2023	30 June 2023
	\$	\$
Cash at bank and on hand	2,523,178	4,440,403
	2,523,178	4,440,403

Cash comprises cash at bank and in hand. 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.

3.2 Restricted cash

	31 December 2023	30 June 2023
	\$	\$
Bank guarantees	155,443	154,448
	155,443	154,448

3.3 Trade and other receivables

	31 December 2023	30 June 2023
	\$	\$
Trade receivables	1,445,565	1,788,308
Prepayments	324,551	84,992
Deposits	3,123	8,993
Other	-	974
Trade and other receivables	1,773,239	1,883,267

3.4 Trade and other payables

	31 December 2023	30 June 2023
	\$	\$
Current		
Accounts payable	641,165	518,952
Accrued expenses	495,436	504,366
Sateva deferred consideration payable	104,098	176,345
Other payable	106,986	338,247
Employee liabilities	1,563,157	1,339,269
Trade and other payables	2,910,842	2,877,179

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

3.5 Contract liabilities

	31 December 2023	30 June 2023
	\$	\$
Deferred revenue	4,447,066	4,696,569
<i>Movements:</i>		
	31 December 2023	30 June 2023
	\$	\$
Opening balance	4,696,569	4,250,828
Deferred during the year	3,705,944	7,279,962
Released to profit or loss	(3,955,447)	(6,834,221)
Closing balance	4,447,066	4,696,569

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 2.1) to which these contracts liabilities will be recognised in the next financial year is as follows:

	31 December 2023	30 June 2023
	\$	\$
Sales of own software (software as a service)	4,447,066	4,425,574
Consulting and implementation revenue (provided on a fixed price basis)	-	270,995
Deferred revenue	4,447,066	4,696,569

SECTION - 4 Invested Capital

4.1 Plant and equipment

	Electronic Equipment	Leasehold improvements	Office equipment	Total
	\$	\$	\$	\$
Cost at 31 December 2023	270,675	2,939	163,103	436,717
Accumulated depreciation	(191,658)	(2,939)	(132,501)	(327,098)
Plant and equipment	79,017	-	30,602	109,619
Reconciliation				
Opening balance	91,982	-	55,908	147,890
Additions	18,043	-	-	18,043
Depreciation	(31,144)	-	(25,306)	(56,450)
Foreign exchange	136	-	-	136
Closing balance at 31 December 2023	79,017	-	30,602	109,619

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2023



	30 June 2023			
	Electronic Equipment \$	Leasehold improvements \$	Office equipment \$	Total \$
Cost at 30 June 2023	252,515	2,939	163,087	418,541
Accumulated depreciation	(160,533)	(2,939)	(107,179)	(270,651)
Plant and equipment	91,982	-	55,908	147,890
Reconciliation				
Opening balance	102,302	-	10,354	112,656
Additions	52,711	-	136,381	189,092
Depreciation	(60,763)	-	(90,900)	(151,663)
Foreign exchange	(2,268)	-	73	(2,195)
Closing balance at 30 June 2023	91,982	-	55,908	147,890

4.2 Right of use assets

	31 December 2023 \$	30 June 2023 \$
Cost	505,121	641,997
Accumulated depreciation	(374,087)	(430,166)
Right of use assets	131,034	211,831
Reconciliation		
Balance as at beginning of period	211,831	491,961
Assets acquired and adjustments	-	(81,384)
Depreciation	(80,797)	(197,117)
Foreign exchange	-	(1,629)
Balance at end of period	131,034	211,831

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

4.3 Intangible assets

	31 December 2023			30 June 2023		
	Acquired Software	Internally generated software	Total	Acquired Software	Internally generated software	Total
	\$	\$		\$	\$	
Cost at 31 December	5,012,385	7,143,659	12,156,044	5,012,385	6,529,475	11,541,860
Accumulated depreciation	(2,971,086)	(950,753)	(3,921,839)	(2,467,419)	(629,874)	(3,097,293)
Intangible assets	2,041,299	6,192,906	8,234,205	2,544,966	5,899,601	8,444,567
Reconciliation						
Opening balance	2,544,966	5,899,601	8,444,567	3,545,005	3,669,361	7,214,366
Additions (a)	-	614,185	614,185	-	2,720,279	2,720,279
Amortisation	(503,667)	(320,880)	(824,547)	(1,000,039)	(490,039)	(1,490,078)
Closing balance at 31 December	2,041,299	6,192,906	8,234,205	2,544,966	5,899,601	8,444,567

Capitalised costs relating to intangible assets

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

- new product development within the Sateva suite of technical assurance solutions, Model Manager and Ore Blocker, including integration with Maptek Vulcan.
- the Tailings Governance Solution.
- development of the recently launched Resource Governance Platform, which includes an upgrade to replace the existing Rcubed Mineral Inventory Governance and Reporting solution.
- the ground disturbance, heritage and land management solutions.

Impairment

Goodwill and other intangible assets are reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment losses recognised for goodwill are not subsequently reversed.

During the half-year ended 31 December 2023, the Group conducted an impairment assessment in relation to goodwill and other intangible assets. 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 cash generating unit encompasses goodwill of \$7,342,817 (refer note 4.4) and other intangible assets of \$8,234,205. The pre-tax discount rate adopted was 22.05% 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. The value-in-use was based upon forecast cashflows over a five-year period with a final terminal value. The five-year forecast used as the basis for the value-in-use model was based on the 18-month forecast (extrapolated over a three and a half-year period at a 29% 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 planned activity, actual performance

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2023



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 and cost of sales of up to 59% against management's estimates at 31 December 2023;
- adjustment of terminal value amount to nil;
- increase in the pre-tax discount rate to 119%; and
- increase of 188% in overhead costs.

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

4.4 Goodwill

	31 December 2023 \$	30 June 2023 \$
Infoscope	731,543	731,543
Sateva	4,430,642	4,430,642
Decipher	2,180,632	2,180,632
	7,342,817	7,342,817

4.5 Provisions and other liabilities

	31 December 2023 \$	30 June 2023 \$
Current		
Employee leave provisions	594,530	619,346
Sateva deferred consideration	424,726	593,422
Decipher performance shares	415,434	308,227
Current provisions and other liabilities	1,434,690	1,520,995
Non-Current		
Employee leave provisions	42,618	26,973
Decipher performance shares	129,674	332,235
Provision for make good	55,000	55,000
Non-current provisions and other liabilities	227,292	414,208
Total Current and Non-Current	1,661,982	1,935,203

4.6 Interest bearing lease liabilities

	31 December 2023 \$	30 June 2023 \$
Current		
Lease liability	149,311	149,311
Non-Current		
Lease liability	112,842	186,319
Total Current and Non-Current	262,153	335,630



SECTION - 5 Other items

5.1 Issues of Equity Securities

	31 December 2023 \$	30 June 2023 \$
Issued capital	42,030,590	41,030,590
Share issue costs	(3,878,789)	(3,858,789)
Total issued capital	38,151,801	37,171,801

	31 December 2023		30 June 2023	
	Number	\$	Number	\$
<i>Movements:</i>				
Opening balance	175,314,801	37,171,801	173,189,505	36,864,295
Shares issued – placement	10,000,000	1,000,000	-	-
Shares issued – exercise of options	194,703	-	1,185,973	-
Shares issued – conversion of performance rights	-	-	939,323	307,506
Share issue costs	-	(20,000)	-	-
Closing balance	185,509,504	38,151,801	175,314,801	37,171,801

Issues of options

During the half-year, the Company issued 5,351,479 share options over ordinary shares with a nil exercise price to employees under its employee incentive option plan (**EIOP**) and to directors.

The fair value of options issued was calculated using a probability-based valuation methodology with reference to the share price at grant date.

Recipient	Series	Number issued	Value per option	Percent expected to vest	Condition	Status	Expiry	Total Value \$
Non-executive Directors	36	412,500	\$0.11	100%	Non-market ²	Vested	13-Dec-25	45,375
Employees ¹	37	2,134,287	\$0.11	100%	Non-market ²	Unvested	31-Aug-27	234,772
Employees ¹	38-1	643,439	\$0.11	70%	Non-market ²	Unvested	30-Sep-27	51,492
Employees ¹	38-2	643,439	\$0.11	70%	Non-market ²	Unvested	30-Jun-28	51,493
Employees ¹	38-3	1,930,314	\$0.11	70%	Non-market ²	Unvested	30-Jun-29	154,477
		5,763,979						537,609

¹ Options were issued to employees participating in the EIOP.

² Options shall vest and become exercisable when any vesting conditions (including remaining employed by the Company at 31 August 2024) have been satisfied or waived by the board. The number of options that are capable of vesting is based on the achievement of Company and individual performance targets in respect of the year ending 30 June 2024, as determined by the board.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

5.2 Reserves

Nature and purpose of reserves

	31 December 2023	30 June 2023
	\$	\$
Performance rights reserve	199,100	199,100
Option reserve (a)	2,991,048	2,805,888
Foreign currency translation reserve	154,176	155,937
Asset revaluation reserve	120	120
	<u>3,344,444</u>	<u>3,161,045</u>
(a) Movements in option reserve		
Carrying amount at the beginning of the period	2,805,888	2,409,227
Share-based payments expense – options (recorded through profit or loss)	185,160	505,919
Options Exercised	-	-
Forfeited options	-	(109,258)
Carrying amount at the end of the period	<u>2,991,048</u>	<u>2,805,888</u>

5.3 Share-based payment expense

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

	31 December 2023	31 December 2022
	\$	\$
Unlisted options issued to directors and employees	<u>185,160</u>	<u>291,386</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

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

	31 December 2023		30 June 2023	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Opening balance	10,846,198	\$0.15	13,909,951	\$0.22
Granted	5,763,979	Nil	6,107,977	Nil
Exercised	(194,703)	Nil	(1,185,973)	Nil
Lapsed / expired	(3,614,239)	\$0.12	(7,985,757)	\$0.20
Outstanding at the end of the period	12,801,235	\$0.10	10,846,198	\$0.15
Exercisable at the end of period	5,694,734	\$0.17	5,528,053	\$0.25

A total of 194,703 unlisted options were exercised during the period for nil consideration (2023: 1,185,973 for nil consideration).

Unlisted options outstanding at 31 December 2023 had a weighted average exercise price of \$0.12 (30 June 2023: \$0.15) and a weighted average remaining contractual life of 1,036 days (30 June 2023: 875 days).

The weighted average fair value of options granted during the period was \$0.11 (30 June 2023: \$0.17).

5.4 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.

		31 December 2023	30 June 2023
	Country of Incorporation	Percentage owned	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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

5.5 Financial instruments

Fair value measurement – 31 December 2023

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the Group as at 31 December 2023:

	At amortised cost \$	Fair value through profit or loss \$	Fair value through other comprehensive income \$
Financial Assets			
Trade and other receivables	1,773,239	-	-
Other financial assets	-	-	844
Total Assets	1,773,239	-	844
Financial Liabilities			
Trade and other payables	2,910,842	-	-
Interest-bearing liabilities	262,153	-	-
Other liabilities	-	969,834	-
Total Liabilities	3,172,995	969,834	-

Set out below is a comparison of the carrying amount and fair values of financial instruments as at 31 December 2023:

	Carrying Value \$	Fair Value \$
Financial Assets		
Trade and other receivables	1,773,239	1,773,239
Other financial assets	844	844
Total Assets	1,774,083	1,774,083
Financial Liabilities		
Trade and other payables	2,910,842	2,910,842
Interest-bearing liabilities	262,153	262,153
Other liabilities	969,834	969,834
Total Liabilities	4,142,829	4,385,359

On 31 May 2023, the Company established a working capital facility. The facility has a limit of \$2,000,000, a rate of interest fixed at 6.77% p.a. and a 24-month term. Under the terms of the facility agreement, payment is due on expiry of the term or earlier at the Company's discretion; the Company has the option to pay or capitalise accrued interest. At 30 June 2023, the undrawn balance of the facility is \$2,000,000.

5.6 Related party disclosures

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

Following receipt of shareholder approval at the annual general meeting held on 13 December 2023, the following unlisted options with nil exercise price expiring on 13 December 2025 were issued to directors or their related parties:

- 137,500 options issued to Mr Neil William Canby <Neil Canby Family A/C>;
- 137,500 options issued to Dr Roslyn Jane Carbon, a related party of Mr Brian Miller; and
- 137,500 options issued to Mr Peter Johnson.

5.7 Significant events after balance date

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

DIRECTORS' DECLARATION



The directors declare that:

- a. in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- b. in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group.

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

On behalf of the Directors

Pauline Vamos
Non-Executive Chair
Perth, 15 February 2024

Neil Canby
Non-Executive Director
Perth, 15 February 2024

INDEPENDENT AUDITOR'S REVIEW REPORT

To the Members of K2fly Limited

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

We have reviewed the half-year financial report of K2fly Limited ("the Company") and its controlled entities ("the Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2023, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes, and the directors' declaration, for the Group comprising the Company and the entities it controlled at the half-year end or from time to time during the half-year.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of K2fly Limited does not comply with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2023 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

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

Responsibility of the Directors for the Financial Report

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

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

Level 4, 130 Stirling Street, Perth WA 6000 / PO Box 8124 Perth BC WA 6849

T: +61 (0)8 9227 7500 **E:** mailbox@hlbwa.com.au

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Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2023 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

Independence

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



HLB Mann Judd
Chartered Accountants

Perth, Western Australia
15 February 2024



B G McVeigh
Partner